

BUSINESS FOR QCE



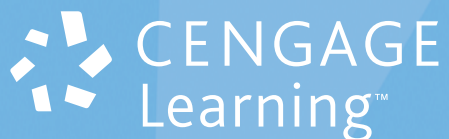
Written to the
new QCAA Business
General Senior Syllabus



UNITS 1 & 2 CREATION & GROWTH



Sally Adams • Berenice Furlong • Melissa Larsson • Amy Thompson



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BUSINESS FOR QCE



Written to the
new QCAA Business
General Senior Syllabus



UNITS 1 & 2 CREATION & GROWTH

Sally Adams • Berenice Furlong • Melissa Larsson • Amy Thompson

Business for QCE Units 1 & 2: Creation and Growth

1st Edition

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ABOUT THIS SERIES

This brand-new series has been created to comprehensively cover the new senior QCAA Business General Senior Syllabus implemented at Units 1 & 2 in 2019 and Units 3 & 4 in 2020. *Business for QCE* explicitly addresses the syllabus and unit objectives using the inquiry approach valued in the syllabus, with integration of the underpinning factors throughout.

Written by a highly experienced and respected author team, the series provides a strong foundation in the fundamentals of business with extensive explanations of concepts and theories, and follows the progression of the business life cycle from seed to post-maturity stage. Through an engaging 21st-century approach to teaching and learning, students will develop skills in examining business data and information through a range of analytical tools and visual representations. Learning in Business integrates an inquiry approach with authentic case studies, and the series includes a range of authentic and contemporary case studies that increase in depth and scope.

Student book

Infographic

Visually engaging infographics provide an overview of each topic

Concept map

Scaffolds the information contained within the chapter

The collage displays four key components of the student book:

- Unit 1 Business creation:** An infographic titled 'Business creation' showing statistics like '611 new businesses', '10 251 businesses', and '414 694 small businesses'. It also lists 'TOP THREE QUEENSLAND SMALL BUSINESS INDUSTRIES'.
- Chapter 5 - THE VIABILITY OF IDEAS:** A concept map titled 'THE VIABILITY OF IDEAS' showing the relationship between 'The viability of business ideas', 'The viability of business ideas', and 'The viability of business ideas'.
- Gaining insight:** A section featuring a case study on 'Caring for Catering' and a 'FOCUS QUESTION: How do you ensure production and quality of tasks in competitive markets?'.
- Inquiry activities:** A section titled 'INQUIRY' featuring a 'Strategic planning tool' and a 'Probationary periods' section.

Gaining insight

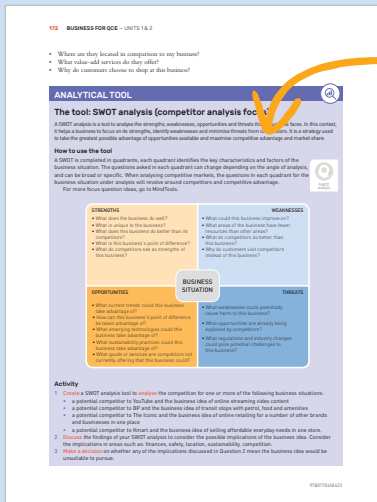
Provide a range of contemporary and authentic case studies and industry insights

Key terms

Clear definitions of key terms throughout each chapter and in a complete glossary

Inquiry activities

Provide students with short inquiries to complete, and require students to carry out research and present data



Analytical tools

Analytical tools are explained and applied in practical tasks, with links to templates

Case studies

Complete case studies of local and national businesses at the conclusion of each topic



Questions

A range of graded questions to ensure a steady development of knowledge and understanding

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NelsonNet is your protected portal to the premium digital resources for Nelson textbooks located at www.nelsonnet.com.au. Once your registration is complete, you will have access to comprehensive digital resources that supplement and complement each chapter, including:

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- chapter summaries
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ABOUT THE AUTHORS

Sally Adams

Sally is a dynamic and professional educator with significant experience within the business education area. She has taught Business Management, Economics and Legal Studies, along with junior business subjects, in Queensland and Victoria for more than 20 years, and currently lives in Brisbane. Sally has a long history of work with the Queensland Curriculum and Assessment Authority (QCAA), including as District Review Panel Chair for Business Management. She has been actively involved in the development of the new Business General Senior Syllabus as a member of the Expert Writing Team. Before becoming a teacher, Sally worked in marketing, and she has a Masters of Business Administration. She is a passionate advocate for business education, a member of the Business Educators' Association of Queensland (BEAQ) and a regular presenter at professional development sessions.

Berenice Furlong

Berenice is a leader in business education in Queensland. She is an experienced senior teacher who has taught Business Management, Accounting, Legal Studies, Economics, BCT, English and a range of junior business subjects for more than 20 years. Berenice is a classroom teacher who understands the needs of frontline educators. She is a dedicated teacher who has made a significant contribution to the lives of young people. Berenice has held positions of responsibility with the Queensland Curriculum and Assessment Authority (QCAA) as a member of the Expert Writing Team for the Business General Senior Syllabus, and as Queensland State Panel Chair for Business Management. She is a member of the Business Educators' Association of Queensland (BEAQ) and has held positions on the executive committee, including Vice President. Berenice has presented professional development sessions to Queensland teachers to provide support and guidance and to develop the skills and curriculum understanding of other teachers in delivering quality programs for students.

Melissa Larsson

Melissa has taught across the business curriculum in Queensland for more than 10 years, with proficiency in teaching Business Management, Accounting, Certificate III Business, and junior business and enterprise subjects. She is a specialist senior teacher and as a Head of House, has comprehensive pastoral experience in working with students and building supportive classroom environments. Melissa was engaged by QCAA to develop the new Business General Senior Syllabus as a member of the Expert Writing Team, and organised and delivered a range of professional development sessions for teachers based on new and past syllabuses. She is passionate about teaching students to think critically and strategically about business practices to inform their own leadership development. Melissa is also Treasurer of the Business Educators' Association of Queensland and has been a State Panel Member for Business Management. Melissa lives in Brisbane and teaches in an independent Catholic school.

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Berenice Furlong

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Melissa Larsson

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Amy Thompson

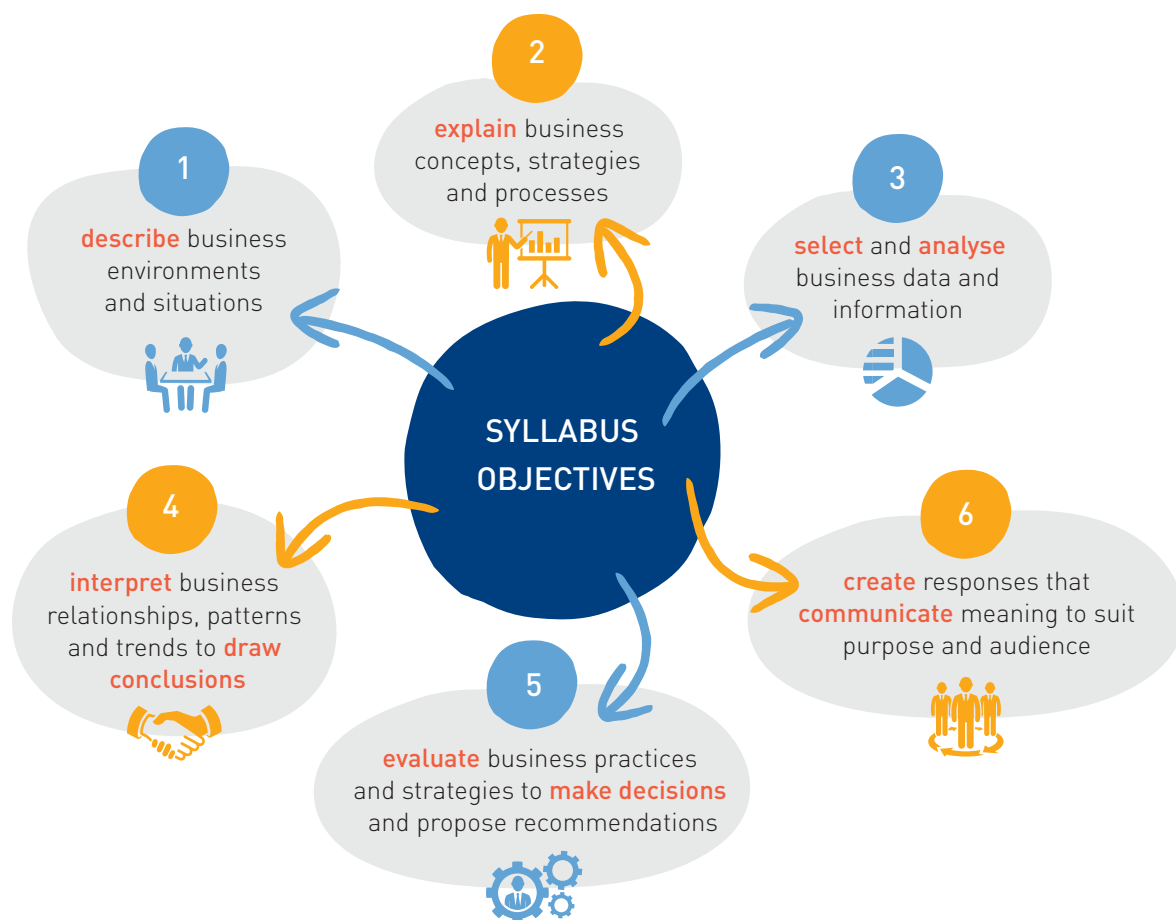
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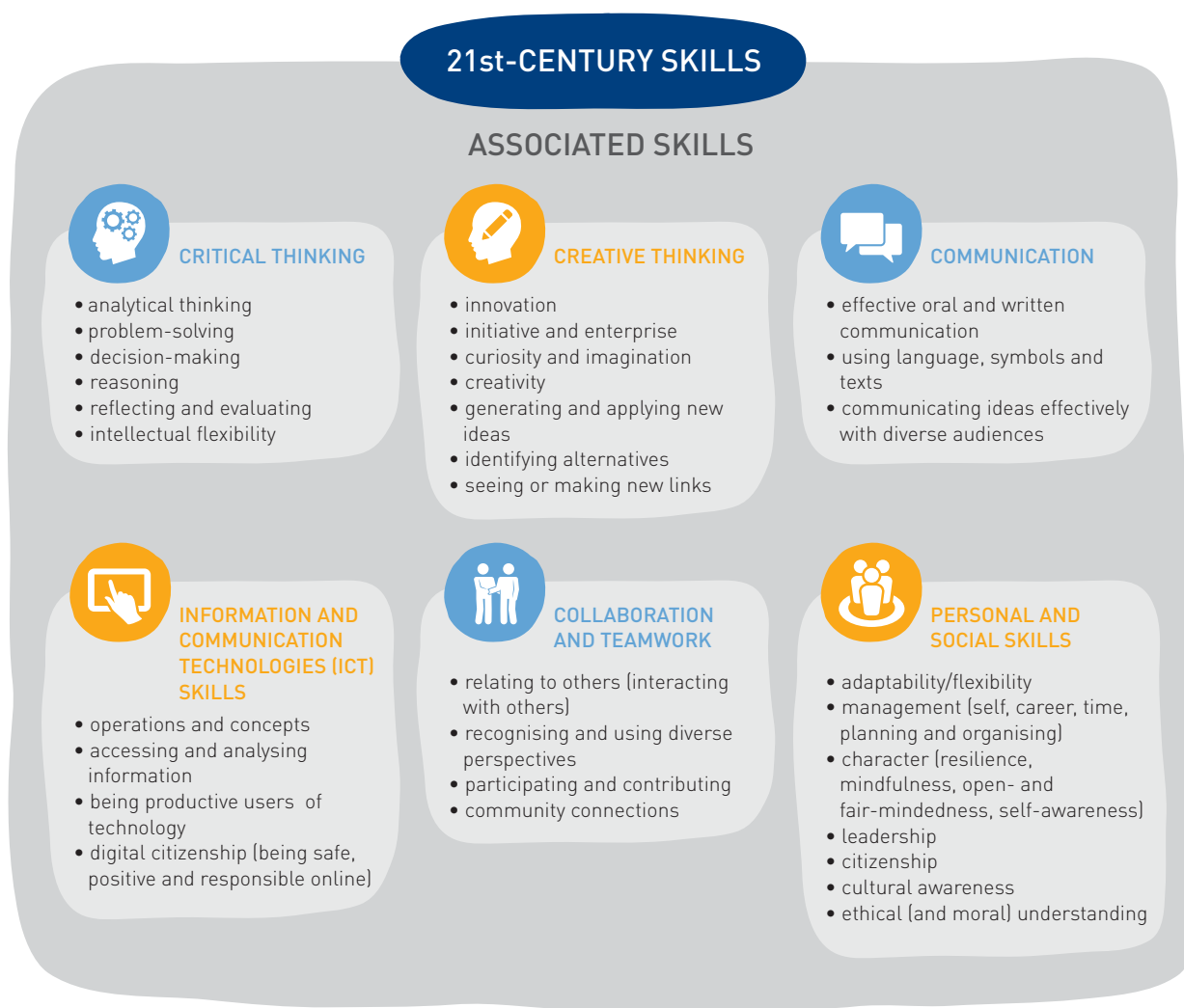
COGNITIONS

In Business, you will develop a deep understanding of the subject matter through using a range of cognitive processes. These cognitions are defined in the syllabus objectives, which allow you to demonstrate skills in retrieval and comprehension of knowledge, analysis and synthesis of information, evaluation and decision-making and the creation of responses to communicate ideas.

By the conclusion of Units 1 and 2, you will be able to:



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ANALYTICAL TOOLS

Analytical tools are used to support the strategic planning that occurs in businesses across all stages of the life cycle. These tools support the selection, organisation and sequencing of business data and information to assist a business to draw conclusions and make decisions about business strategies.

The visual presentation of these tools encourages you to develop comprehensive responses. In Business, the analytical tools are mapped to each unit and topic; by the end of Unit 4, you will be capable of applying the entire range of analytical tools to a range of authentic business situations.

TOPIC	UNIT 1	UNIT 2	UNIT 3	UNIT 4
Topic 1	• SWOT analysis	• SWOT analysis • PESTLE analysis • Break-even analysis	• SWOT analysis • STEEPLE analysis • Cost-benefit analysis	• SWOT analysis • STEEPLE analysis • Porter's five forces
Topic 2	• SWOT analysis • PEST analysis • Break-even analysis	• SWOT analysis • PESTLE analysis • USP analysis • Power interest grid	• SWOT analysis • USP analysis • Power interest grid	• SWOT analysis • Force field analysis • Power interest grid



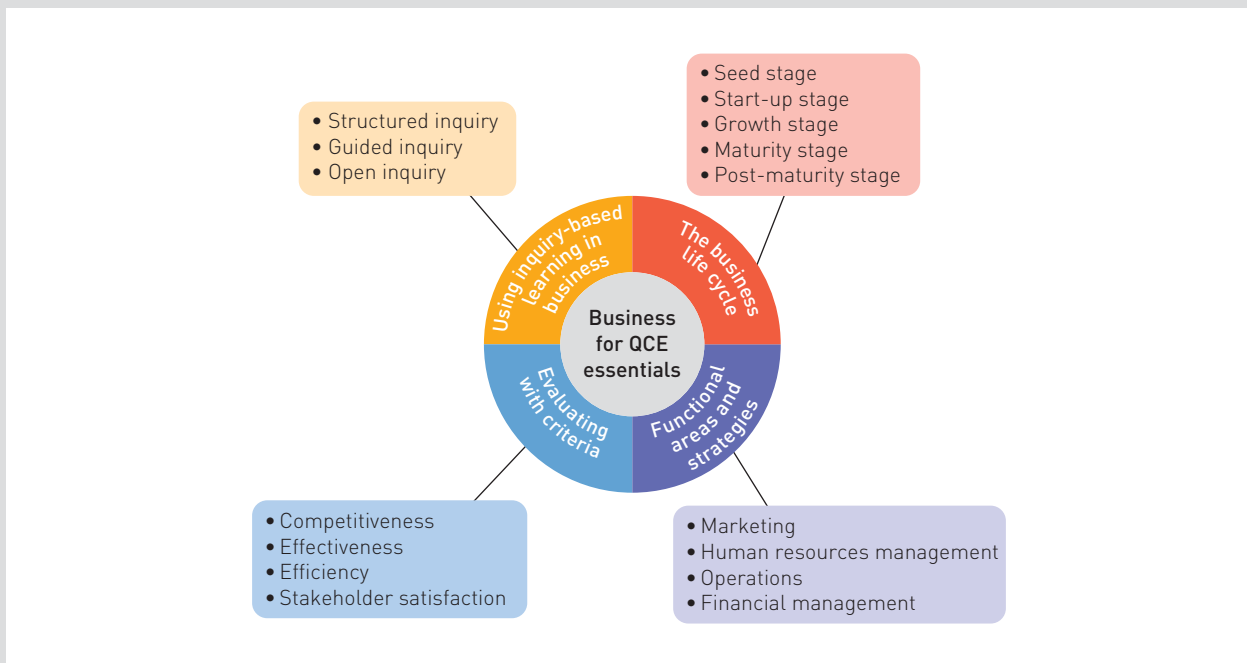
BUSINESS FOR QCE ESSENTIALS

What you will learn

Throughout the study of Business for QCE, the business life cycle, from the seed to the post-maturity stage, will be used to explore and develop skills in examining business data and information. The life cycle provides the context for each of the topics and units studied, and the concepts throughout each chapter, while applicable to many or all stages of the life cycle, will focus and apply the concepts introduced to a particular stage. When evaluating the business practices and strategies used at each stage, four criteria will be used to make judgements, decisions and recommendations.

This chapter will provide you with the opportunity to:

- **Describe** the facts and characteristics of each stage of the business life cycle.
- **Explain** the challenges and strategies of each stage of the business life cycle.
- **Explain** the four criteria used for evaluating business practices and strategies.
- **Explain** the purpose and approaches used for inquiry-based learning.
- **Create** responses to **communicate** the stages of the business life cycle to stakeholders.



GAINING INSIGHT



The GraysOnline.com story

FOCUS QUESTION: How does a business successfully navigate the stages of the business life cycle?

GraysOnline is the largest industrial and commercial online auction business in Australasia, offering a huge range of industrial, consumer and commercial goods, direct from manufacturers and distributors. A business in the post-maturity stage, it is well known as one of Australia's leading e-commerce sites, and is part of the ASX-listed Grays eCommerce Group, which is Australia's largest specialist e-commerce company.

In 1989, Gray Eisdell Timms started a physical auction house based in Lakemba in western Sydney. This was a fairly modest start-up with a minimal up-front investment. However, an evolutionary path was navigated by paying close attention to stakeholders. During the growth stage, GraysOnline was an early mover into e-commerce. It held its first online auction in 2000, disposing of assets from the failed OneTel, and then progressively built its systems and capability over the next decade.

GraysOnline provides full national coverage across Australia and New Zealand. It has main offices in

Sydney, Melbourne, Adelaide, Brisbane, Darwin, Perth, Wagga Wagga, Auckland and Christchurch, covering approximately 60 000 square metres of warehouse space, 120 000 square metres of yard space, and over 38 additional smaller sites and regional depots. Through its international network, GraysOnline can access networks of buyers and sellers in Asia, the Middle East, Africa and Europe.

GraysOnline is a great example of an Australian success story that has evolved through the challenges that each stage of the life cycle, and the changing market, has presented.

Questions

- 1 **Describe** the characteristics of the GraysOnline business.
- 2 **Describe** the opportunity that Gray Eisdell Timms saw during the growth stage of GraysOnline.
- 3 After reading about each stage of the business life cycle, **explain** what stage GraysOnline is currently in.

The screenshot shows the GraysOnline.com website interface. At the top, there's a navigation bar with links like HOME, MY GRAYS, WATCH LIST, ABOUT GRAYS, FINANCE, SELLERS, and HELP. Below this is a search bar and a 'Sign in' button. The main content area is divided into several sections:

- CATEGORIES:** A list of categories including Mining, Construction & Agriculture; Manufacturing & Engineering; Catering, Hospitality & Gyms; Warehousing & Forklifts; Trucks, Marine & Caravans; Cars, Bikes & Accessories; Wine & More; Home, Garden & Appliances; Computers & IT; Audio, TV & Home Theatre; and Jewellery & Watches.
- EZYQUIP HIRE CIVIL, EARTHMOVING & TRANSPORT MARKETPLACE:** A featured section with a large image of construction equipment and a 'VIEW NOW' button.
- Monthly Council Auctions - BID NOW!** A section for council auctions.
- Ezyquip Hire Civil, Earthmoving & Transport:** A section for equipment hire.
- Finance & Repo Vehicle Auctions:** A section for vehicle auctions.
- Unreserved Prime Movers:** A section for prime movers.
- National Construction Sales - BID NOW!** A section for construction sales.
- Your Top Auction Picks:** A section with a list of featured items, including a 1973 Piper Tomahawk & 1963 Cessna 310H, an Unreserved Vehicle Auction, and a Swiftcraft Half Cabin Boat & Trailer (Bolt).
- RECOMMENDATIONS FOR YOU:** A section with four featured items: a 2009 Mercedes Benz ML 63 AMG (4x4) VY164 Automatic Wagon, a 2010 Audi A5 Sportback 2.0 TFSI Quattro Automatic Hatchback 90,193km, a 2011 Subaru Impreza WRX STI SPEC R G3 Automatic Sedan, and a 2008 BMW 3 35i E93 Automatic Convertible.

On the left side of the website, there are links for 'Subscribe to GrayMail', 'Find us on Facebook', 'Quick Links', 'Almost gone: Auctions closing today', 'Industrial sales', 'All Sales', 'Best rated', 'Most popular', 'Finance', 'MyGrays', 'Watch List', 'Manage bidding', 'Manage account', 'View cart', 'GrayMail preferences', and 'Pickup Only Auctions'.

Figure 1.1 GraysOnline has successfully navigated through each stage of the business life cycle.

The business life cycle

Key learnings

You will learn about each of the stages of the business life cycle by examining:

- characteristics
- challenges
- strategies.

The business life cycle is a representation of the series of stages that can be applied to the duration of activity that a business conducts. The five stages of the business life cycle cover the generation of the business idea (the seed stage), start-up, and then growth through to expansion or establishment, and finally, the post-maturity options of steady state, renewal and decline. As soon as the decision to develop an idea into a potential business is made, the business life cycle journey has begun.

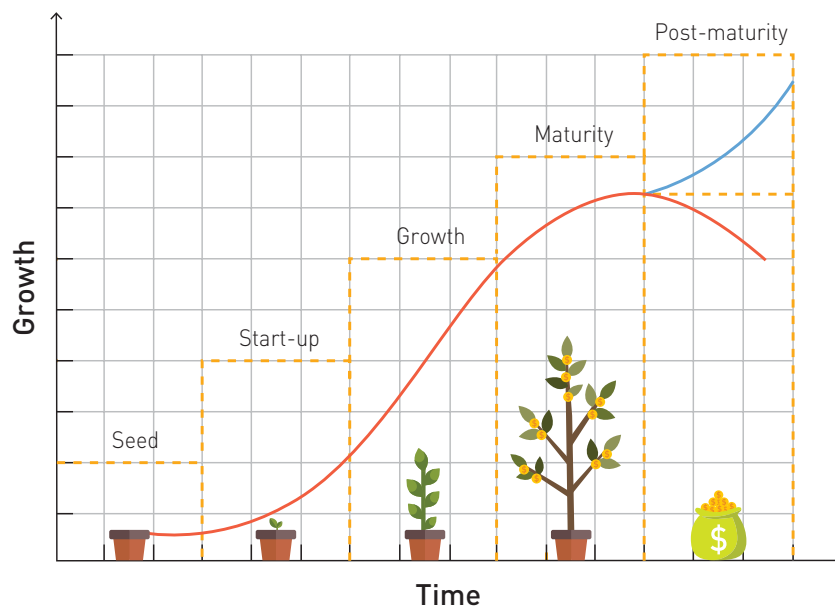


Figure 1.2 The five stages of the business life cycle

During each stage of the business life cycle, different challenges will be encountered. Each challenge may require a **strategy** or response to maintain the growth or position of the business in the market. Not all businesses will experience every stage of the business life cycle or experience each of the challenges in the same way. Nor will every business necessarily experience them in the same chronological order. For example, some businesses may experience rapid growth right after start-up and so move straight into expansion. For many businesses, though, there will be some resemblance of these five stages as the business progresses. When exploring the strategies for each stage or functional area of the business, there will be some strategies that are relevant to businesses at a number of stages in their life cycle and will be revisited a number of times, no matter what stage the business is at, and some strategies that worked for one stage but that may not work in another stage.

Strategy: the means by which a business sets out to achieve its desired goals and/or objectives

a marketing plan to introduce the business idea and reach the target market; and a detailed outline of financial needs, particularly for the first few months while the business develops its model without receiving revenue from sales. The success of a business moving from the seed stage through the business life cycle will rely heavily on the skills of the founders or employees to ensure the key functions of the business are efficiently completed. During this stage a potential business owner may choose to upskill in key areas or consult with professionals. These key areas may include financial administration and management, regulatory licences, intellectual property and human resources management.

The start-up stage

Once the viability of a business idea is established, a clear business plan developed and a legal structure in place, the business moves from the seed stage to start-up. In the start-up stage, the business idea has been developed into products or services that the business is ready to market and sell. During the start-up stage, a business may adjust its idea in response to feedback and to ensure it is effectively meeting the expectations of key stakeholders. During this stage the business is established and commences trading, and employees are hired and trained if needed.

Challenges of the start-up stage

The start-up stage is often referred to as the riskiest stage in the business life cycle, and a business may move from start-up straight to exit if it cannot engage with stakeholders or meet their needs. The business enters the market and seeks to attract and establish a customer base and a presence in the market. This is a challenge that continues throughout the life cycle; during the start-up stage, however, it is critical that customers are attracted and products or services sold to ensure the necessary cash flow to fund the continued operation of the business.

Strategies for the start-up stage

Being able to respond to feedback from stakeholders in an efficient and timely manner is essential in the start-up stage. Being adaptable, and responding to the initial customer base and investors, will ensure the business can continue to attract and retain customers. At this stage of the business, ensuring stakeholder engagement – with suppliers, sources of support and advice and governmental development offices – is essential for the establishment and success of the business.

The growth stage

The growth stage of a business is the movement of a business into either an **established state** or an **expansion state**. This means the business is either growing into new markets or is establishing its presence in the industry. It is during this stage that a business will innovate and refine its products or services for sustained growth or to meet the needs of a market in a new location, demographic or target market. At this stage, it is important that a business revisits its business plan, evaluates its goals



Figure 1.4 During the growth stage, a business may choose to focus on the development of an established state or an expansion state.

Established state: a state in which the business is consistently generating revenue and adding new customers and should be generating a consistent source of income

Expansion state: a state in which the business adopts strategies to move into new markets and distribution channels, either geographically or demographically

and objectives and sets in place new financial and marketing plans to accommodate the new stage. During the growth stage, a business might also develop new ideas or acquire another business as a means to market new products. There may also be the creation of a new organisational structure or new management positions during this stage, and often extra employees are hired.

Challenges of the growth stage

Businesses in this stage often see rapid growth. The challenge is to avoid getting too comfortable in the market or overextending the resources of the business in order to expand. When resources are overextended, cash-flow problems can arise along with issues with creditors and an inability to meet business obligations. It is important that a business does not expand into new markets that are too small to support all the competing businesses, and that it doesn't neglect its current customer base in the pursuit of a new market or a larger market share. The challenge of new competitors is also evident at this stage in the business life cycle. Competition can come from businesses that are already in the new market or from new businesses entering the established market. It is also important at this stage that the founder of the business is able to relinquish control of some areas to reliable staff, who will contribute to the business according to its goals and objectives.

Entrepreneurs or business founders may also find it challenging at this stage to divide their time between the competing demands of an established business and investing in areas that need further development, more efficient practices or maintenance of records.

Strategies for the growth stage

During this stage of the life cycle, the potential of the business will depend heavily on the staff who have been employed and the procedures in place. Ensuring the implementation of quality practices, and a heavy involvement in the recruitment process, will enable the business founder to confidently delegate and distribute responsibility, and thus ensure the effective running of a growing business. Clearly establishing business processes and expectations will ensure all teams are working towards the business's goals and objectives. During this stage, it is also important for the business to invest in research and development and the professional development of staff to ensure it remains competitive in the market.

The maturity stage

After expansion or consistent growth during the establishment state, the business should be at the top of its industry and is considered to have matured. This stage of the business life cycle is generally the longest that a business will experience, and reflects the dominating presence of the business in its market. It may still be experiencing growth, but not at the same rate as during the growth stage, and yearly profits should appear to be fairly stable.

Challenges of the maturity stage

The major challenges faced by a business in the maturity stage are environmental factors and changes in the economy, society or market conditions. Emerging technologies and innovations in the industry can also have an impact on the trajectory of a business in the maturity stage. Strategic decisions need to be made that effectively prepare the business for the increasing competition that comes from being a mature business or from moving into a new market, adding new products and services, or adding or restructuring human resources.

Strategies for the maturity stage

During the maturity stage of the business life cycle, it is important for the business to remain competitive. One of the most effective ways to increase competitiveness is to cut costs. The business may consider outsourcing or adjusting supplier chains during this stage to reduce operational costs and ensure that it is running efficiently in all areas.

The post-maturity stage

The post-maturity stage is a stage in the business life cycle during which the business may head in one of three directions. In this stage a business may be in a steady state, in decline or in renewal. The founders or owners of the business may take strategic decisions to reignite growth through renewal, or plan a possible exit strategy, such as the closure or sale of the business; or the business may enter a state of decline. During the decline state, a business may find itself in **administration** or **receivership**. Some business founders see an opportunity to sell their business and capitalise on the hard work they have invested in building the business while others search for new opportunities and business ventures.

Challenges of the post-maturity stage

If a business chooses an exit option in post-maturity, the challenge of determining its real value in the current marketplace, rather than a reflection of time, energy and emotional investment, can make a sale price hard to arrive at. If the business enters a decline state or the owners choose to close the business, the financial and psychological challenges of a business loss can have a significant impact on founders and owners. For a business in a steady state or decline, a strategic plan for renewal or change management presents a number of financial, human resources and operational challenges. A business must also be able to support the negative cash flow or investment in innovation and renewal required to reignite the growth of the business.

Strategies for the post-maturity stage

There are many business professionals who specialise in strategy, innovation, valuation and business services. Having a transition business plan formulated with the input of professionals and financial advisors is essential. A business in a steady state cannot maintain this state forever, so must invest in research and development or adopt strategies to secure injections of revenue, such as by reducing production or operation costs. If a business is in decline, adopting market research strategies that enable the business to satisfy a previously unmet demand can lead to renewal. Innovation based on current products and services, or the implementation of successful marketing strategies, can also help the renewal of a post-maturity business.

QUESTIONS 1.1



- 1 **Create** a table to **explain** each of the five stages in the business life cycle.
- 2 **Create** a 2–3 minute multimodal presentation to **explain** the challenges of each of the five stages of the business life cycle.
- 3 **Brainstorm** 8–10 businesses that operate in your local region and classify them according to the stages of the business life cycle.

Administration: a process, explained under the *Corporations Act 2001* (Cth), whereby an insolvent company is placed in the hands of an independent person who assesses the options available, and generates the best outcome for all stakeholders including the business owner and creditors. Administration can be initiated voluntarily by the business, or involuntarily, by the creditors who are owed money.

Receivership: a process carried out by an independent and suitably qualified person, known as a receiver, who is appointed by a secured creditor, or sometimes by a court, to take control of some or all of a business's assets

GAINING INSIGHT



The PANDORA story

The PANDORA story is about a company with a distinctive brand and distinctive products that in just a few years has made the exceptional journey from a local Danish jeweller's shop to a world-leading, global jewellery company present in more than 100 countries.



Shutterstock.com/Photo and Vecto

Figure 1.5 PANDORA has made the journey through the life cycle from the seed stage to maturity.

1982–1999: The early years

It all started in 1982. In a small jeweller's shop in modest surroundings in Copenhagen, Denmark, Danish goldsmith Per Enevoldsen and his wife Winnie began the journey of what would one day become PANDORA.

From the beginning, they often travelled to Thailand in search of jewellery for importing. As the demand for their products increased, their focus gradually shifted towards wholesale to clients in Denmark.

In 1987, after several successful years as wholesalers, the retail activities were discontinued and the company moved to larger premises. Meanwhile, the first in-house designer joined the company and PANDORA began to focus on creating its own unique jewellery. In 1989, the company decided to start manufacturing its jewellery in Thailand.

2000–2011: Building an international presence

In 2000, PANDORA's charm bracelet concept was first launched in the Danish market. Consumers embraced the concept, and in the following years, driven by a growing and encouraging demand, the company began to expand internationally, entering new markets such as the United States

in 2003 – today the company's largest market – and Germany and Australia in 2004.

Over the following years, PANDORA rapidly expanded its market presence from a Scandinavian platform to an international marketing and sales platform driven mainly by third party distributors and strong production capabilities in Thailand.

In order to increase production capacity, PANDORA opened a large-scale, six-story fully owned manufacturing facility in Thailand in 2005, which still forms a central part of the current production and infrastructure. In 2008, a second manufacturing facility was opened in the same area, followed by the third and fourth facilities in 2010, further strengthening the unique production setup.

In 2008, Axcel acquired 60 per cent of PANDORA, and two years later, in 2010, PANDORA was listed on the NASDAQ OMX Copenhagen Stock Exchange.

PANDORA today

PANDORA operates and manages a vertically integrated business model from in-house design and production to global marketing and direct distribution in most markets. PANDORA's products are sold in more than 100 countries on six continents through around 7700 points of sale, including more than 2300 concept stores.

PANDORA employs around 23800 people, of whom more than 13200 are located in Thailand, where the company crafts its jewellery.

PANDORA's mission – then and today – is to celebrate women by offering them the opportunity for personal expression through our universe of high-quality and contemporary jewellery at affordable prices. All women have their individual stories to tell – a personal collection of special moments that makes them who they are. That is why we celebrate these moments. That is why we say these moments are unique.

Source: PANDORA Group website, 'The PANDORA story'

Questions

- 1 **Describe** the characteristics of PANDORA at each stage of the business life cycle.
- 2 **Explain** what challenges PANDORA faced at different stages in the life cycle.
- 3 **Explain** the strategies PANDORA used to overcome the challenges presented.
- 4 **Create** a visual representation of the business life cycle to show PANDORA at each stage.

Evaluating with criteria

Key learnings

You will learn about the four criteria (singular: criterion) used to evaluate business strategies and practices (Figure 1.6). They are:

- competitiveness
- effectiveness
- efficiency
- stakeholder satisfaction.

Evaluating

To evaluate is to decide or formulate a credible judgement on a situation, using criteria. In business, owners and managers regularly evaluate business strategies to inform future decision-making, based on the achievement of four main criteria: competitiveness, effectiveness, efficiency and stakeholder satisfaction. These criteria refer to a standard or benchmark to be achieved and are contextualised to a business situation.

Competitiveness

‘To what degree has the business offered products or services that meet or exceed market standards in relation to other businesses?’ (Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

The criterion of competitiveness can be used to make judgements on two businesses, and on which one has performed more effectively than the other. Factors that impact upon a business’s ability to be competitive include customers, performance, growth plans, resources, strategies, technology, financial stability and the external environment (Figure 1.7).

Overall, most businesses strive to achieve competitive advantage, and hence, competitiveness as a criterion can provide the opportunities for businesses to refine and develop their strategies so they have strong market position in their industry.

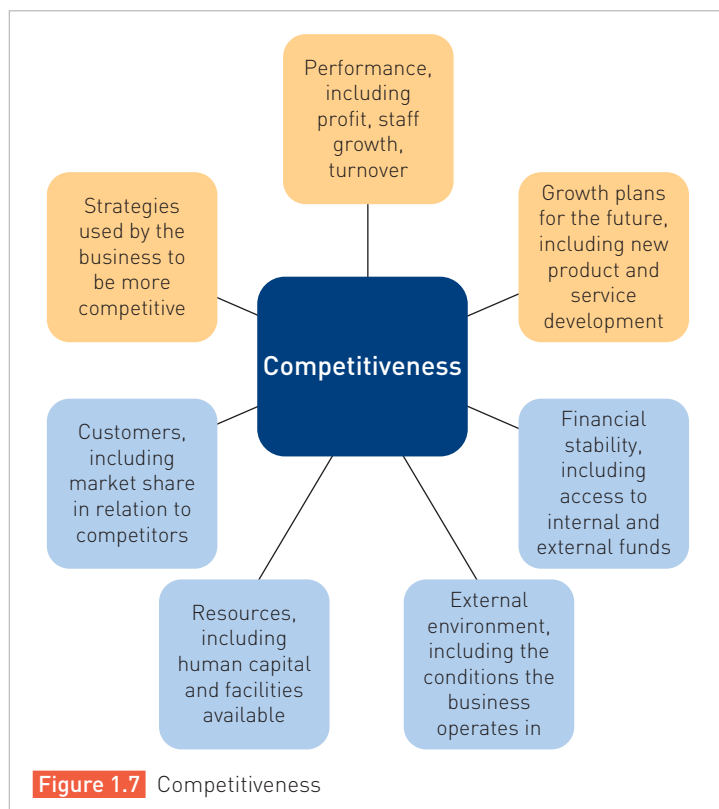
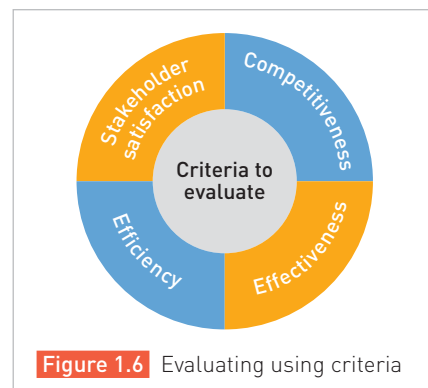
Effectiveness

‘To what degree has the business achieved goals and/or objectives and to what extent has the business solved targeted problems?’ (Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

Effectiveness as a criterion evaluates to what degree a business has achieved desired outcomes, most notably its goals and objectives. Effectiveness in a business is often referred to as ‘doing the right thing’ (Figure 1.8).

Effectiveness can also be used to determine the outcome of a problem-solving model, where a business is presented with a range of alternatives and must select the best or most strategic solution.

Making judgements using effectiveness does require consideration of how a business’s ‘small wins’ contribute to the ‘big picture’ or vision for the business. For example, a small business that donates equipment, prizes or services to a local community event may see an increase in its customer base and sales following the event, due to the favourable exposure it has gained.



As all business practices can be evaluated using effectiveness as the criterion, businesses must ensure they set SMART objectives so that judgements are informed and can be justified with evidence. SMART objectives are covered in chapter 2.

Efficiency

‘To what degree has the business optimised its use of resources and application of processes in achieving goals and/or objectives?’
(Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

Efficiency is the business’s ability to perform in the best possible manner with the minimum use of time and effort. It is often referred to as ‘doing the thing right’ (Figure 1.9).

Efficiency therefore requires a precise and comprehensive investigation into a business’s processes – the way in which it operates. Efficiency can be used to judge the length of time used to complete a task, the speed in which processes are completed, the rate of output, the reduction of negative environmental impacts, the quantity of resources used and frugal spending to reduce costs.



Figure 1.9 Efficiency

Stakeholder satisfaction

‘To what degree has the business considered and managed stakeholder expectations in achieving goals and/or objectives?’
(Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

The process of achieving stakeholder satisfaction is to understand the stakeholders, manage the stakeholders and measure the success (Figure 1.10).

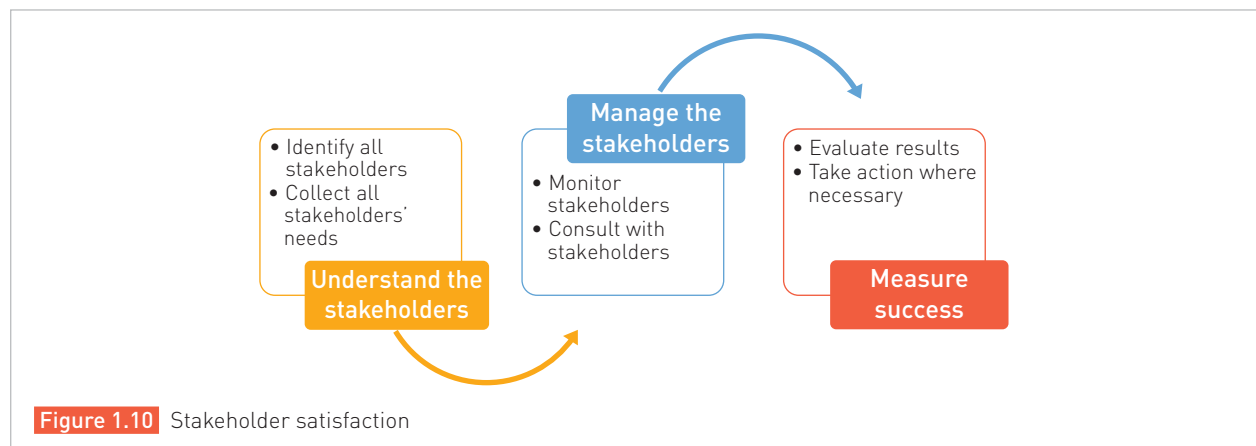


Figure 1.10 Stakeholder satisfaction

A range of stakeholders can be considered when using this criterion, and a key understanding of their motives is essential. For example, a customer will generally expect high-quality goods and services provided at a reasonable price. Employees want job security, input into decision-making, and training support. Suppliers want contract commitments, fair negotiations and exclusivity of service. Management wants the business’s goals to be met and the vision of the business to become more of a reality each day. Other stakeholders will have their own motives and may be considered depending on the situation being evaluated. Keeping stakeholders satisfied has become a significant measure of success for a business, most notably becoming a priority when social media allows stakeholders to interrupt a business’s dialogue. For example, a business may run a new advertising campaign that unintentionally offends a community group. This group then shares its frustration on social media platforms and the business must respond quickly and appropriately to resolve the situation.

When using stakeholder satisfaction as a criterion for evaluating, it is important to note that not all stakeholder views are weighted equally, and a business must align its stakeholder satisfaction strategies with its overall business goals.

Criteria with a specific focus

To support the use of business criteria when evaluating, it is reasonable to expect that the criteria may need to be contextualised to a specific focus area. This is to ensure the evaluation is relevant to the business situation.

Table 1.2 provides a list of focus areas and sample questions that can assist in fine-tuning an evaluation. The sample questions are general and, if used, should be aligned to at least one of the major criteria – competitiveness, effectiveness, efficiency and stakeholder satisfaction.

Table 1.2 Focus areas and sample questions to assist with an evaluation

Focus	Questions to consider
Accountability	To what extent has the business met its obligations? How responsible is the business or how responsible should it be?
Capacity	To what extent can the business successfully manage or implement the strategy? How is the business able to cater to demand?
Compliance	How has the business met its legal obligations?
Cost	What is the impact of finance on the business's strategy or decision?
Diversity	To what extent has the business engaged or provided opportunities for its staff, upon considering their wide-ranging backgrounds?
Engagement	To what extent has the business persuaded, satisfied or supported its intended audience?
Ethics	To what extent has the business ensured its actions are legal, morally sound and considered the outcomes on others?
Labour	What impact do staff (or people as a resource) have on the business strategy or decision?
Needs	To what extent does the business's decision align with its goals and objectives?
Productivity	Can the business's processes improve as a result of its strategies or decisions?
Profitability	What impact will the business's decision or strategy have on its ability to improve financial performance?
Quality	To what extent will quality be enhanced or compromised?
Reputation	What is the potential that the business's strategy or decisions will improve or hinder current perceptions of the business?
Risk	To what extent does the level of exposure have an impact on the business strategy or decision?
Sustainability	To what extent do the business's strategies or decisions support the long-term achievement of goals? How has the business considered environmental impacts in its decision-making?
Time	How long will it take to enact the business strategy or decision, and what are the potential consequences of this?

QUESTIONS 1.2



- 1 **Explain** the purpose of evaluating business situations.
- 2 **Create** a table to **describe** the characteristics of the four main business criteria.

Criterion	Characteristics
Competitiveness	
Effectiveness	
Efficiency	
Stakeholder satisfaction	

- 3 **Create** sentence responses to **compare** the following criteria:
 - a effectiveness and efficiency
 - b competitiveness and effectiveness
 - c efficiency and stakeholder satisfaction.
- 4 **Discuss** how using a specific focus area may assist in evaluating using the four main criteria.
- 5 **Select** information from a local business and the four criteria to **propose** eight inquiry questions the business could use to evaluate its performance.

Using inquiry-based learning in Business

Key learnings

You will learn about Business essentials by examining:

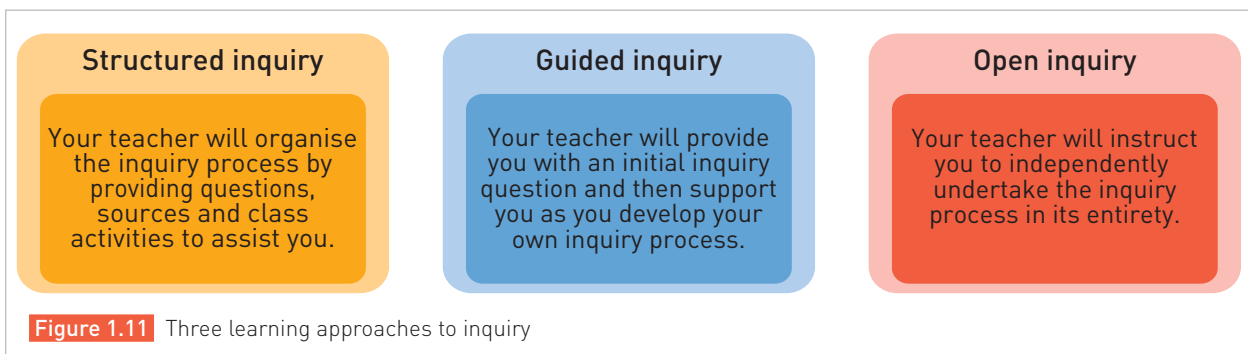
- inquiry-based learning
- approaches to inquiry
- planning the inquiry process
- how to write an inquiry question.

In Business, **inquiry-based learning** provides you, the student, with the opportunity to investigate and explore business situations, strategies and issues that interest you or enhance your learning. You will be asked to use inquiry-based learning throughout this text and it is important to be provided with background information and direction to complete this effectively.

The relevance of inquiry-based learning can be linked to the research and decision-making undertaken by businesses, as many owners and managers will frequently use elements of the **inquiry process** to inform their strategic planning, across all stages of the life cycle. For example, they may choose to investigate effective promotional strategies, the consequences of giving a staff member a promotion, extending the breadth and depth of a product line or relocating manufacturing overseas. The use of inquiry-based learning can provide businesses with thoroughly researched outcomes, further allowing them to make positive business decisions.

Learning approaches to inquiry

There are three learning approaches to inquiry that are used to develop your ability to complete the inquiry process. These approaches – **structured**, **guided** and **open inquiry** – are explained in Figure 1.11.



Planning the inquiry process

The inquiry process, be it structured, guided or open, requires you to plan your investigation. There are five steps to the inquiry process that can assist you in your planning:

- Step 1 – Form an approach to the task.
- Step 2 – Find and gather research from a range of authentic sources.
- Step 3 – Analyse and interpret research.
- Step 4 – Evaluate, synthesise and justify findings.
- Step 5 – Reflect on the inquiry process and its impact on learning.

Figure 1.12 provides a list of questions that support the planning of an inquiry process.

Inquiry-based learning: a framework that informs how an investigation can be completed through conducting research, analysis of information, evaluation of outcomes and a reflection on the process

Inquiry process: the steps to follow in order when engaging in inquiry-based learning

Structured inquiry: an approach where the teacher provides students with inquiry questions, sources and class activities to conduct the investigation

Guided inquiry: an approach where the teacher provides students with an initial inquiry question and supports the student in developing further inquiry questions, researching and completing the investigation

Open inquiry: an approach where the student completes the inquiry process independently

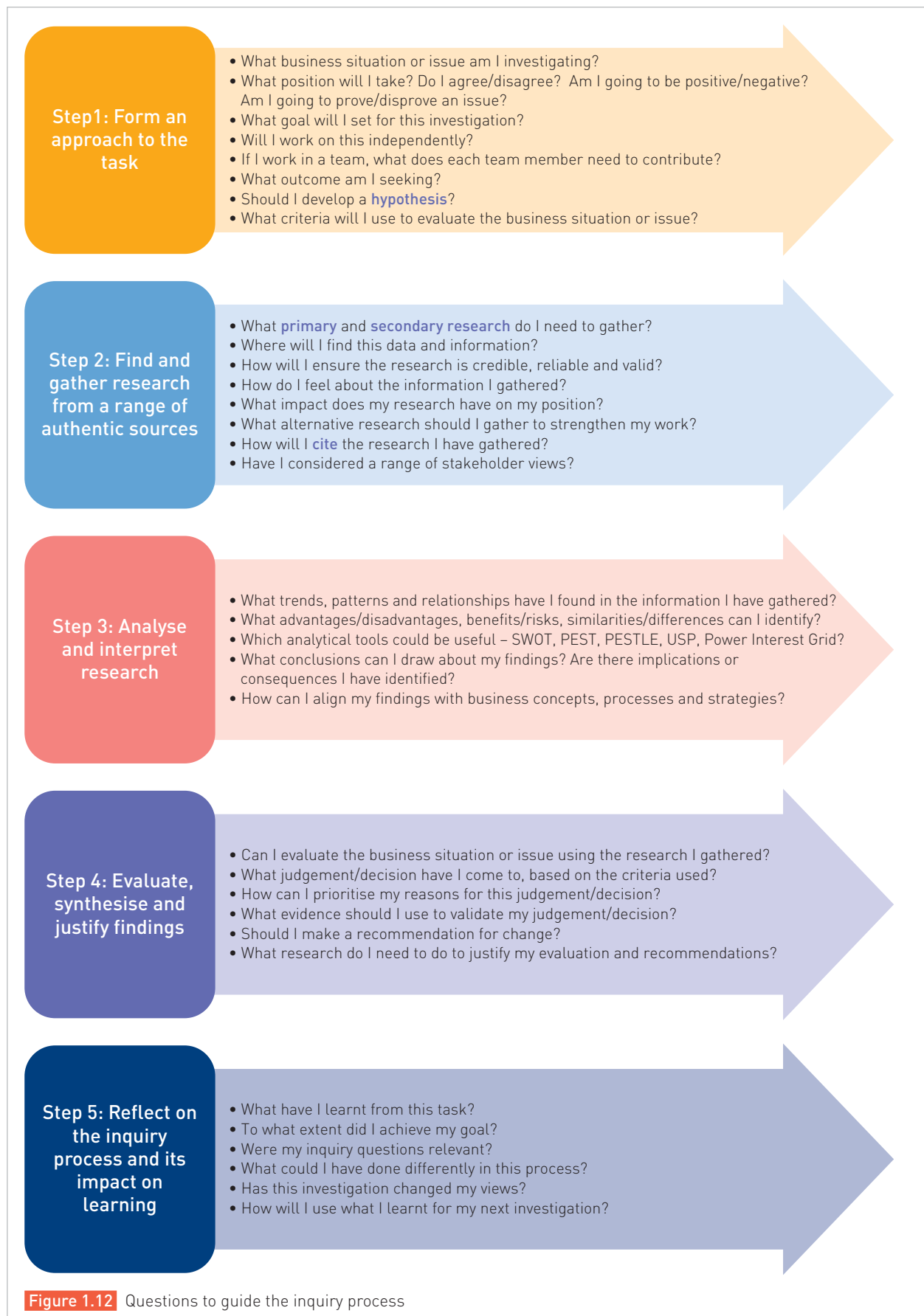


Figure 1.12 Questions to guide the inquiry process

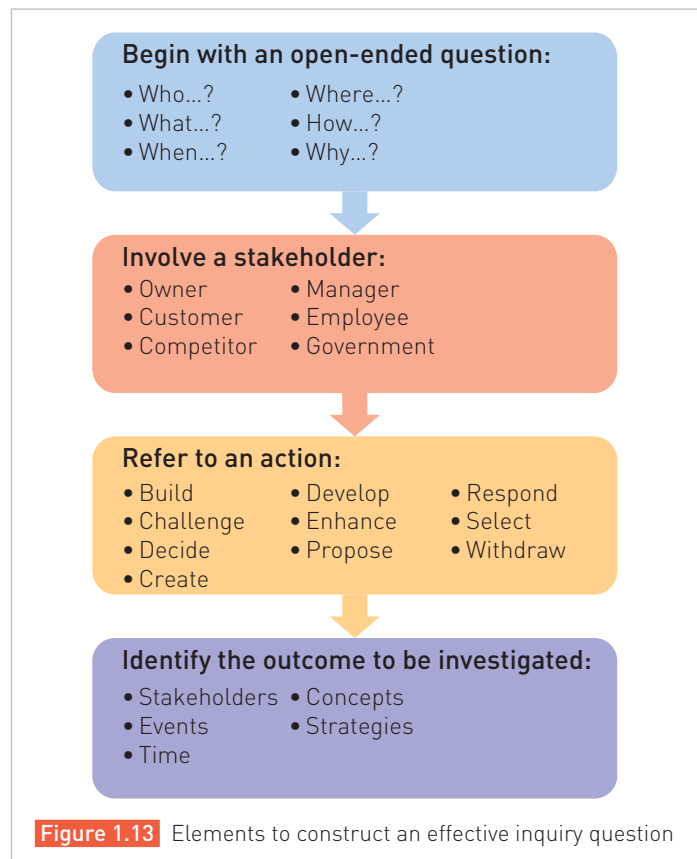
How to construct inquiry questions

When investigating a business situation or issue, it is important that the inquiry questions you develop are effective and encourage you to think, as opposed to recalling or summarising information. This can be achieved by adding elements to a question so that it is broad enough to gather research, but also encourages an in-depth response. This will ensure you can learn the complexities that underpin a business situation or issue. An effective inquiry question should:

- begin with an open-ended question
- involve a stakeholder
- refer to an action
- identify the outcome to be investigated (Figure 1.13).

Using Figure 1.13 as a guide, effective inquiry questions could include:

- Why did the business owner choose to launch in December?
- How did competitors respond to the business's new location?
- What is the role of a top-level manager in building business productivity?
- When should the business owner choose to meet with the bank to secure a loan?



QUESTIONS 1.3



- 1 **Explain** the purpose of the inquiry process.
- 2 **Compare** the structured, guided and open approaches to inquiry.
- 3 **Create** a paragraph to **explain** the five steps of the inquiry process.
- 4 **Propose** three questions about Business you are keen to learn about and potentially investigate, using the elements of an inquiry question.

Hypothesis: a predicted answer that requires research to establish its truth or otherwise

Primary research: information and data sources that provide direct evidence or firsthand account of an event or action from a person, group or organisation

Secondary research: information and data sources that describe, analyse, interpret, evaluate or judge an event or action, but are not direct evidence or a firsthand account

Cite: to reference a primary and secondary source in a body of text by acknowledging the author and year of publication

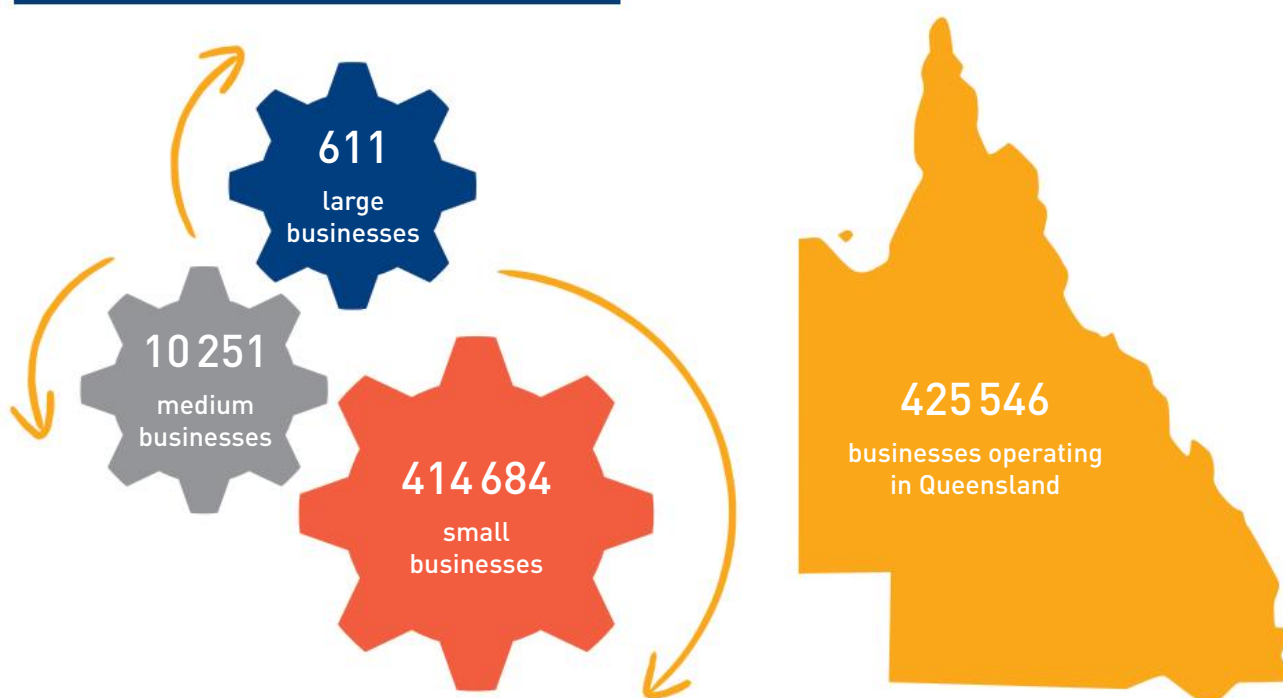
Unit

1

Business creation

Topic 1 Fundamentals of business

BUSINESS FUNDAMENTALS



TOP THREE QUEENSLAND SMALL BUSINESS INDUSTRIES



BUSINESS STRUCTURES



Sole trader



Partnership



Company

STRATEGIC PLANNING



BUSINESS GOALS



LEADERSHIP AND MANAGEMENT



BUSINESS FUNDAMENTALS



Finance



Human resources



Marketing



Operations



FUNDAMENTALS OF BUSINESS

What you will learn

In everything we do, we interact with a business, either intentionally or not. Whether it is using a mobile phone, watching television, cooking a meal or pulling on a pair of jeans, a business has been involved in some way. To have an understanding of the fundamentals of a business is powerful.

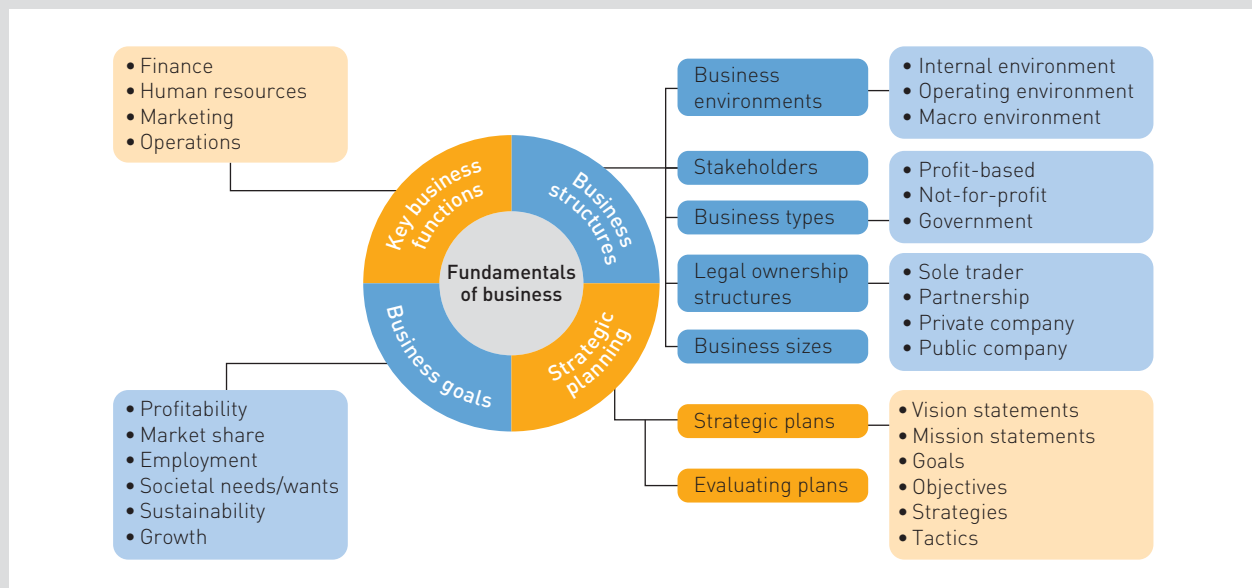
This chapter will investigate the fundamental concepts, strategies and processes in a business world. Through understanding business goals and strategies, environmental factors and business processes and systems, the creation of business ideas will be determined.

This chapter will provide you with the opportunity to:

- **describe** business facts, features and characteristics of the internal, operating and macro environmental factors for a variety of business structures
- **explain** business goals and strategies, and business processes and systems, relating to the fundamentals of business
- **select** data and information relating to the fundamentals to **analyse** strategic planning, stakeholders and the business environment using a SWOT analytical tool
- **interpret** relationships and patterns to **draw conclusions** about the implications of the business environment
- **evaluate** strategic planning to **make decisions**
- **create** responses to **communicate** the fundamentals of business to audiences.

The analytical tools used in this chapter are:

- SWOT analysis
- SMART.



Key skills

In this chapter you will have the opportunity to develop the following 21st-century skills:

- critical thinking:
 - reasoning
- communication:
 - effective oral communication
 - effective written communication
- personal and social skills:
 - management
- creative thinking:
 - creativity
- collaboration and teamwork:
 - participating and contributing
- information and communication technologies (ICT) skills:
 - accessing and analysing information
 - being productive users of technology.

(Source: Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

GAINING INSIGHT



The world of business

FOCUS QUESTION: How does an idea become a business?

Active Truth is passionate about producing a high-quality activewear range that is both functional and fashionable for all women, regardless of their size, shape or stage of life.

Active Truth was founded by two women who believed in loving and looking after your body for the right reasons – health, happiness, energy and enjoyment. Stevie Angel and Nadia Tucker met as new mums and quickly became friends over long walks pushing their prams and on post-gym coffee dates.

Buying new activewear for their changed bodies was a challenge, and after talking with other women they recognised that many women, especially those larger than size 16, were being underserved by the activewear market because of lack of options and inferior products that didn't deliver on their promises.

After buying one too many pairs of expensive tights that sagged, rolled down or, worse still, were see-through, the duo set out to create a label that women could rely on for high-quality, fashionable activewear, whatever their size, shape or stage of life. They believed all women wanted the same high-performance styles in beautiful prints, so they developed a size-inclusive range (Australian sizes 8–26), including maternity styles, despite popular opinion that only standard sizes were in demand.

Stevie Angel and Nadia Tucker have spent time with women, discussing their needs when working out and moving throughout the day, and assessing what is required during and after pregnancy. From these discussions they found the perfect balance of functionality and style with the range of leggings and tights available from Active Truth.

Many women find leggings restrictive and hot, and know that, over time, they tend to lose their shape. Active Truth created leggings that not only remedy these problems, but are full of supportive, innovative features. They are different from other activewear in that they provide support, are breathable and allow greater air circulation, which keeps the wearer cooler. The superior compression fabric also draws moisture away from the skin. They also created 'squat-proof' leggings



Nadia Tucker & Stevie Angel, Founders-Active Truth

Figure 2.1 Stevie Angel and Nadia Tucker created Active Truth, a label that women can depend on.

that do not become sheer as a result of bending or moving. Additionally, all tights have a double-layer high waistband that gives optimum core support and won't budge during a workout.

Active Truth's signature high-waist tights have quickly become a favourite for thousands of women across Australia and have received rave reviews from high-profile women including Mia Freedman, Zoë Foster-Blake and Sophie Cachia. From design to fit to fabric, the Active Truth range is made to wear well, wash after wash, and will support you through any workout and every day in comfort, confidence and style.

Questions

- 1 **Identify** and **explain** the stage in the business life cycle where Active Truth would be best placed.
- 2 What inspired Stevie Angel and Nadia Tucker to start their business?
- 3 What factors influenced the development of their product range?
- 4 What challenges could this business encounter?
- 5 **Explain** why their product might be successful in the market.

The world of business

The world of business is a complex environment. First and foremost, a business exists to provide goods and services to satisfy consumers' needs and wants. However, a business also exists with the intention to achieve an outcome, and in most instances this outcome is a profit. In an ever-changing environment, this presents a challenge for many business owners. A business needs to be competitive and sustainable in an innovation-driven world. This means that a business needs to consider, and be responsive to, environmental changes such as emerging technologies, globalisation and customer behaviour. A business and its owner need to be reactive to the changes in the marketplace and the world around it to be successful. Every business owner wants to create a successful business and perhaps be the next Mark Zuckerberg. To achieve this, a business owner must understand their customers, the environment they exist in and the fundamental aspects of the business. This chapter will examine the fundamentals of a business, including:

- business structures
- strategic planning
- business goals and objectives
- key business functions.

Business structures

What is a business?

A business is an economic activity that provides a good or service to satisfy the needs and wants of consumers. The aim of a business is to achieve a common goal. A business often begins with an idea such as fulfilling a customer need or providing an innovative, unique new product. A plan is then developed and financial resources are secured. The idea is put into action to achieve the business goal. This is illustrated in Figure 2.2.

An idea or an innovation is a starting point for a future business. It can be a simple invention to improve an existing product or service, or a new idea to create a future trend or technology. Whatever it is, the success of the business will depend on having a competitive advantage.

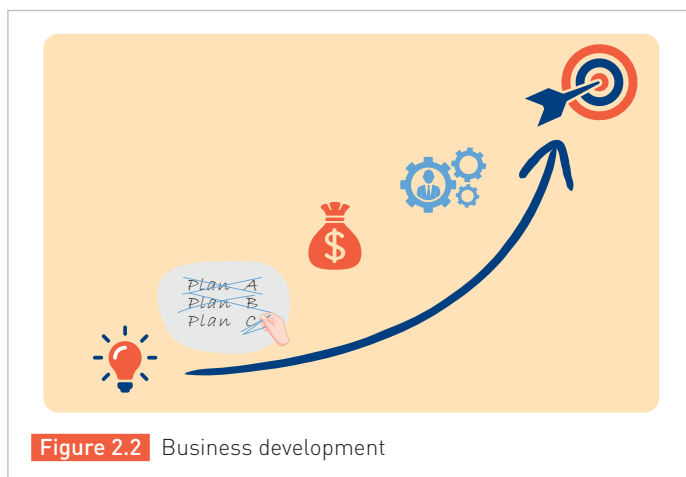


Figure 2.2 Business development

QUESTIONS 2.1



- 1 Brainstorm and **create** a list of new business ideas. Share your ideas with another person.
- 2 Consider each of the business ideas in the table below by answering the following questions:
 - a **Identify** the factors that could contribute to the business being successful.
 - b **Indicate** the aspects that make this business idea unique.
 - c **Evaluate** the business ideas to decide which is the best and explain why.

Business idea 1	Website rentals This business idea is to provide the service of renting a website space for a specific period of time. Instead of needing to create a new website, a business would rent an existing website.
Business idea 2	Shareable office space Businesses can rent an office space, including staff and equipment, on a needs basis instead of investing in their own office. This would be available as a temporary office space for a business.
Business idea 3	Medical sensor bands This business idea is to produce a medical sensor band that predicts if the wearer will have a medical condition in the near future that requires treatment. The medical sensor band would be worn every day.

GAINING INSIGHT



Knobby Underwear

Rob Rand began his business Knobby Underwear from an idea to create interesting and fun underwear. Here is the story of his business.

Knobby Underwear is a Sunshine Coast-based company that started with a unique business idea. The business's founder, Rob Rand, has established a thriving business that delivers underwear to consumers worldwide. He created an underwear club that sends members a new pair of underwear each month for \$20. Each month, new underwear designs are created and are shipped to club members. The focus is on retaining customers, who are offered free shipping and no additional fees, and are allowed to cancel subscriptions at any time. The business began in 2014 targeting males only, but in 2016 the business expanded to include a range of underwear for females.

For more information about the business, visit the Knobby Underwear website.



Figure 2.3 Knobby Underwear

Questions

- 1 What makes this business idea unique?
- 2 **Identify** the factors that could contribute to the business being successful.

Key features of a business

The basic function of a business is to optimise its results. It usually transforms inputs into outputs, such as goods and services, in exchange for money, to reach a desired outcome. Interestingly, business activities are not something that is often thought about, but every day, either directly or indirectly, we use goods and services provided by businesses. For example, if you buy a takeaway coffee, there have been numerous businesses involved. Let's break down what has occurred (Table 2.1).

Table 2.1 Business activity

Type of business	Good and/or service provided
Coffee shop	Coffee
Coffee shop	Employee to make and serve coffee
Supplier 1	Coffee beans
Supplier 2	Milk, sugar
Supplier 3	Packaging – coffee cup
Supplier 4	Coffee-making equipment
Service provider 1	Electricity
Service provider 2	Water
Government	Food safety regulations
Government	Business taxes

This table illustrates that in the simple process of buying a takeaway coffee there could have been numerous businesses involved. Each of these businesses operates in a similar manner and has the same key features: they provide a good and/or a service in exchange for money.

Goods and services

A business provides goods and services to consumers. Goods may include clothes, televisions, phones or food. They are described as tangible products, which means they are something in a physical form. A business can also provide services such as medical services (doctor, nurse), financial services (bank, accountant) or trade services (electrician, plumber). Services are activities or actions that are performed, and they can be described as intangible or invisible goods. Goods and services are provided to satisfy consumers' needs and wants. A business is established to offer these goods and services.

Exchange

A business is an economic activity that requires the exchange of goods or services for money. Exchange refers to the transfer of something of value from one party to another. It usually involves two parties, the buyer and the seller. The buyer is the person who obtains the good or service, and the seller is the person who provides it. A business transaction occurs when there is an exchange.

Outcome

The primary motive of most businesses is to achieve a positive outcome. This could be in the form of a profit. A profit is the financial gain made by a business after expenses. Profits are essential for survival as well as for growth and business expansion. To achieve a positive outcome, the business must act in an ethical manner and satisfy the needs and wants of its customers.

QUESTIONS 2.2



- 1 **Define** what is meant by 'a business'.
- 2 **Identify** the key features of a business.
- 3 **Explain** the purpose of a business.
- 4 Complete the following table to **identify** the business or businesses involved in providing goods and services.

Good or service	Business or businesses involved in providing the good or service
Hamburger purchased from a takeaway store	
Mobile phone purchased from a phone shop	
Visit to a doctor at a local doctor's surgery	

- 5 Read the following article and answer the questions that follow.

Pipe dream

Who would ever imagine people wearing surfboards on their feet? Justin King, founder of Sole Surfer, did just that. He designed footwear in the shape of a surfboard. The Australia-based company Sole Surfer has achieved recognition for its innovative footwear. The business has redesigned the traditional thong shape and turned it into a surfer's dream. The thongs come in a range of surfboard-inspired tail shapes including pin tail, swallow tail and square tail. Justin King was inspired by his passion for surfing and by growing up in and around the surf movement of the 1980s.



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Figure 2.4 The Sole Surfer thong was developed with surfers in mind.

- a **Describe** the business idea.
- b **Explain** what has influenced the success of this idea.
- c **Create** a list of inventions and decide if each one could be turned into a business idea.

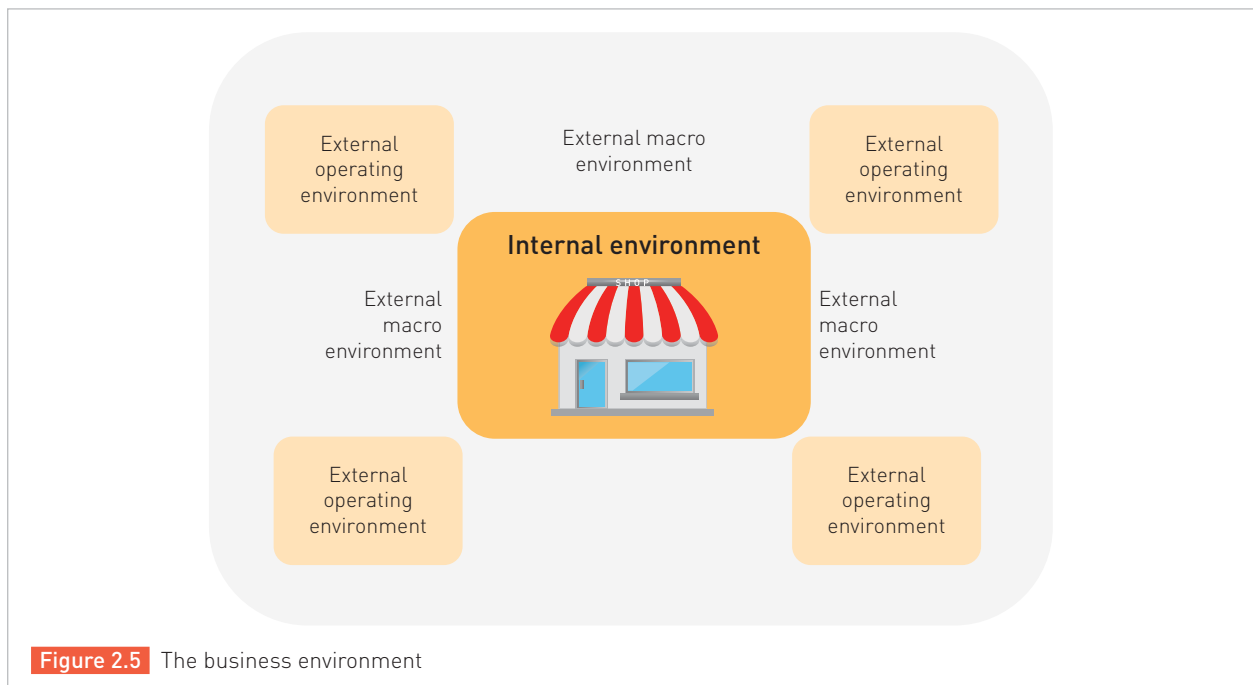
Business environment

Key learnings

You will learn the following about business environments:

- internal environment of a business
- external environment of a business:
 - operating environment
 - macro environment.

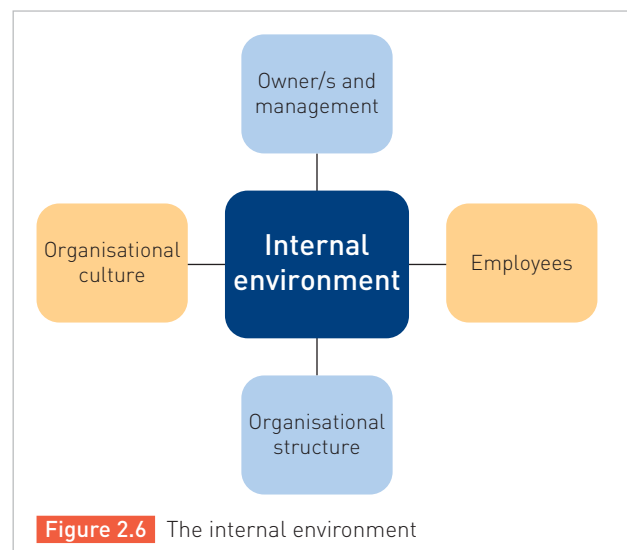
Businesses in Australia operate in a complex environment of internal and external factors that impact on their success (Figure 2.5). A business must be aware of the environmental factors that influence its operations and management, and respond immediately.



Internal environment

The internal environment (Figure 2.6) consists of the factors that directly influence the approach and the success of the operations inside a business. These factors are easier to manage than the external environment as they occur within a business. The internal factors can impact on a business in both a positive and a negative way. However, a business can monitor and control internal environmental factors as they occur, to ensure the success of a business. The elements of the internal environment include:

- owner/s and management
- employees
- organisational structure
- organisational culture.



Owner/s and management

The role of leadership (owner/s and management) is an essential internal factor in a business and will have a direct influence on its operations. A business needs to have an effective management team in order to succeed. Skilful and expert management will foster an efficient and effective business. The leadership and management style needs to be appropriate to the business and should foster a positive work environment.

Employees

Employees are an essential internal factor, and are often considered a business's most important asset. A business's success is often dependent on employees' performance. Therefore it is crucial to recruit and select the most appropriate employees for a business. It is also vital to provide a working environment that maximises employee performance, motivation, job satisfaction and output.

Organisational structure

An organisational structure is a formal structure that outlines the roles and responsibilities of each member of the business. This internal structure can impact on the operational effectiveness of a business. A highly structured organisation with efficient supervisors and strong communication lines can positively influence performance and productivity, resulting in favourable outcomes. However, an ineffective organisational structure will have the opposite effect. The way in which a business's activities are divided, organised and coordinated will influence outcomes and employee performance.

Organisational culture

Organisational culture is another important factor that influences the success of a business. Organisational culture refers to the shared values, beliefs, expectations, attitudes and behaviours of the people in a business. An organisational culture usually evolves over time. It determines how management and employees interact and how the business functions and deals with business situations.

QUESTIONS 2.3



Read through the case studies below and answer the following questions for each organisation.

- 1 **Describe** the internal features of the business.
- 2 **Explain** what internal factors could lead to the success of the business.

Case study 1: The right cuppa

Tea Lift is a small cafe, owned and operated by partners Gerry Winks and Simone Bale. They share a passion for food and both enjoy a 'good cup of tea'. Winks and Bale have established a business that focuses on quality and old-fashioned customer service. They believe that their customers are their priority and place importance on greeting customers with a smile, showing a genuine interest in their customers and making them feel valued.

Case study 2: The perfect vessel

Anchors Away is a ship brokerage that specialises in buying and selling boats. The business was established in 2010 and has grown significantly, with hundreds of listings on its database extending worldwide. Anchors Away began as a small, privately owned company belonging to the McIntyre family. Joan and Bob McIntyre are the managing directors, and their children John and Sophie lead the sales team. They employ two additional sales brokers and a receptionist. The business focuses on collaboration and teamwork.

'I have always felt valued at Anchors Away', said one employee. 'I feel that we are all working for the same goal and they really treat me like one of their family.' The business prides itself in promoting a workplace that establishes strong relationships between team members, provides greater job satisfaction and energises employees.

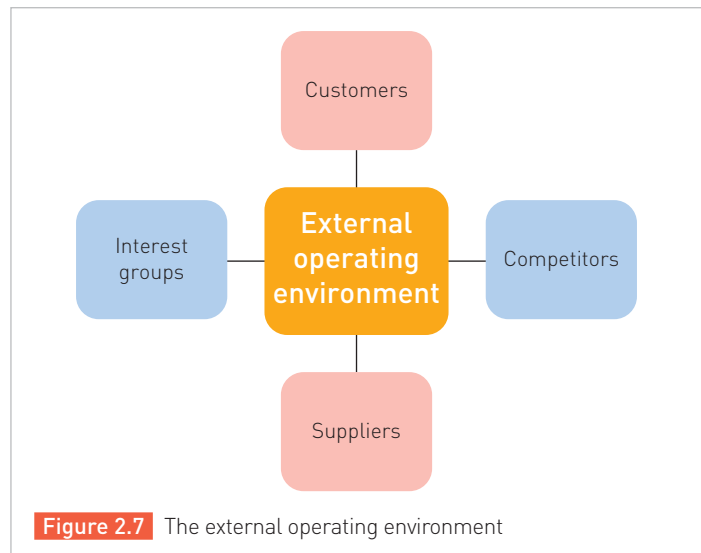
External environment

The external environment is made up of two layers, the operating environment and the macro environment. These environments fall outside the formal boundaries of a business and impact on operations.

External operating environment

The external operating environment (Figure 2.7) comprises the factors that directly influence the operations of a business. It consists of **stakeholders** that are outside the business's internal structure and that impact on how the business functions. These stakeholders may include:

- customers
- competitors
- suppliers
- interest groups.



Customers

Customers have a direct impact on the operations of a business. A business must establish a positive relationship with its customers as they provide revenue and certainty. They are essential to the success of a business and therefore are an extremely important stakeholder. A business must establish a strong customer base, gain loyalty from customers, continue to build relationships and encourage more customers to create a competitive organisation. Customers are the lifeblood of a business. Businesses need to implement an effective customer service policy to build strong relationships. A high level of customer satisfaction will improve a business's reputation and ultimately its profit.

EMERGING TECHNOLOGIES



Online reviews

Online reviews are affecting all kinds of businesses, including restaurants and those selling consumer products and professional services. The power of online reviews should not be underestimated. They are influencing consumer decisions about a business. The bottom line is that these comments can hurt or assist a business.

Word-of-mouth is a powerful source of referrals for a business, but the ability to use technology through online reviews has added another layer of information. Just imagine the impact it could have on a business. For example, say you are a small business owner opening a new cafe. You have promoted your business in the local area using the online review platform Zomato. Zomato lists and reviews more than 3500 restaurants in Brisbane and 1.2 million restaurants across 24 countries. Customers are starting to frequent your business and your business is booming. People are 'liking' your food and service and you are receiving good reviews. And then the worst happens: a customer complains about your business online. This then has a domino effect and a few more people add negative comments on your review page.



This is an all too common situation that occurs for businesses. The internet is full of opinions and people who are looking to share their opinions about their experiences. Businesses have to take this into account. Customers are reading reviews before they have even visited your business. What is being said about a business must be considered (Figure 2.8). It is up to the business owner to take an active interest in online reviews and convert these online reviewers into customers.

Stakeholder: anyone with an interest in a business and how it operates. A stakeholder can be an individual, a group or an organisation that is affected by the activity of a business.



Questions

- 1 Would you write an online review about an experience? Why, or why not?
- 2 **Explain** the impact online reviews are having on a business.
- 3 How can a business use online reviews to its advantage?
- 4 Find an example of a business that has responded to an online review. **Explain** the impact this could have on the business and its customers.

Competitors

Competition has a significant impact on how a business operates and how successful it will be. A **competitor** can be defined as any business that is in the same or a similar industry and offers the same or a similar product or service. A business must consistently monitor its competitors to see what they are doing, and then try to do it better. If a rival business introduces changes to its product or its pricing, the competing business must be prepared to change, too, to remain competitive. Figure 2.9 shows some of the most competitive businesses in particular industries.



Clockwise from top left: Shutterstock.com/PhotoTodos; Getty Images/Quinn Rooney; Shutterstock.com/chrisdorney; Shutterstock.com/360b; Shutterstock.com/StockStudio; AAP Image/Alan Porritt

Competitor: a person or entity that offers competing products or services

Suppliers

A business **supplier** provides the resources that a business needs to operate. A business needs to choose suppliers that are reliable and that provide the necessary resources in a timely and cost-effective manner. Usually, in order to remain competitive, businesses have a number of suppliers. This allows them to shop around for the best deal and negotiate the lowest possible price. It is also important to maintain a positive relationship with a business supplier. This will ensure that the business is up-to-date with new offers and receives good service.

Interest groups

In business, an interest group is an organisation that shares a common interest and a desire to work together to protect and promote a specific industry. The main types of interest groups that impact on a business are professional associations, trade unions and public interest groups.

Professional associations

Professional associations are groups that provide assistance and support to businesses and practitioners in a particular industry. They work to protect the industry and act to represent and support their professional members. Many professional associations provide industrial representation, professional development such as career advice and skills training, educational programs, information resources and other benefits. Figure 2.10 shows examples of professions that have associations of this kind.



Trade unions

A trade union is an organisation that is formed by workers in an industry to work for the common interest of its members. The main purpose of a trade union is to protect the rights of its members, to negotiate working conditions and to regulate relationships between employers and employees. Members of an industry have the option to join a trade union. Figure 2.11 shows the logos of some of the main trade unions in Australia and of the Australian Council of Trade Unions (ACTU), which is the peak body for Australian unions.

Supplier: a person or organisation that provides a product or service



Clockwise from top left: ACTU; Electrical Trades Union; Australian Workers Union; Maritime Union of Australia

Public interest groups

A public interest group focuses on a specific area within an industry and usually attempts to influence specific policies. It can even lobby governments to make changes in public policies affecting a specific industry. For example, the focus of a public interest group might be on environmental protection, social justice or civil liberties.

QUESTIONS 2.4



- 1 Define the term 'external operating environment'.
- 2 Read the following article and explain the impact of the external operating environment on the business.

Puppy power

Dene Shore, the owner and manager of Pet Haven, a small pet store, is celebrating because protestors outside his business are bringing in more customers. Shore is accused by animal activists of sourcing his animals from a large-scale breeder who mass-produces animals in unfavourable conditions. Shore claims these allegations are untrue. He says that he only buys his animals from reputable suppliers who provide quality animals from quality bloodlines.

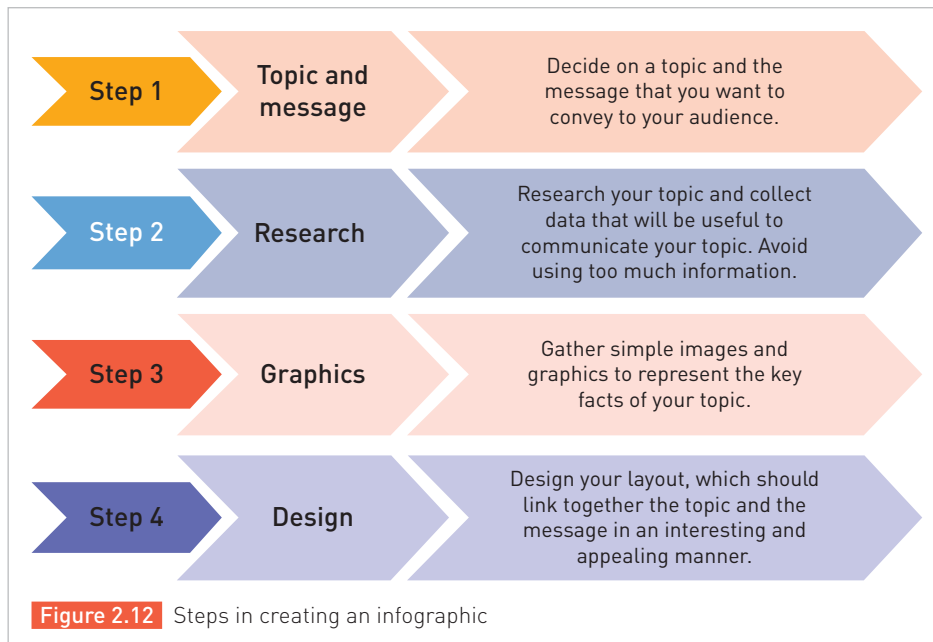
'I buy my animals from 10 main breeders', Shore said. 'I place pictures of their facilities in my store so customers can see.' Shore explained that he uses numerous suppliers so he can meet the demands of his customers.

Pet Haven has become a leading pet business and it has taken a large share of the pet industry. Its rival business Pet Extra cannot compete with the reputation and loyal following of Pet Haven's customers. The standards of business practice that Shore has established also contribute to his success. He is a member of the Australian Veterinary Association (AVA). All pets come with a health assurance plan that is validated by the AVA.

While animal activists have vowed to continue protesting, Shore says he is confident his shop will continue to thrive.

Infographic

An infographic is a creative representation of information and data. It uses graphics, pictures, diagrams and symbols to represent complex ideas and data so that the information is visually engaging and appeals to the target audience (Figure 2.12). You can see an example of an infographic representing the fundamentals of business on pages 16–17.



Preparing an infographic

Step 1: topic and message

Decide on a topic and the message that you want to convey to your audience. For example, the key message could be that investing in green energy will be cost-saving for a business.

Step 2: research

Research your topic and collect data that will be useful to communicate your topic. Use short facts and statistics, and avoid using too much information.

Step 3: graphics

Gather simple images and graphics to represent the key facts of your topic.

Step 4: design

Design your layout, which should link together the topic and message in an interesting and appealing manner. Make sure your infographic is not too cluttered. Don't forget to give your infographic a catchy title that conveys your message.

INQUIRY



Inquiry task: Investigate the influence of an impact group in a specific industry

Infographics are a great method to provide information in a simple and effective way. Your task is to create an infographic to show the effects a specific interest group can have in the community. Your infographic is to be placed in the school library on the display board.

- 1 **Select** an interest group. You can choose one of the following groups or select your own.
- 2 **Research** the group to **identify** the focus and influence they have in a specific industry. Visit the website of the interest group and collect interesting and relevant information.
- 3 **Explain** their involvement in a specific industry and **analyse** the impact they have.
- 4 **Evaluate** whether they have made an impact.
- 5 **Create** an infographic to convey a message about the interest group you have selected.

Interest groups

Environmental groups

- Clean Up Australia works with communities to clean up and conserve Australia's environment.

Community and welfare services

- Royal Society for the Prevention of Cruelty to Animals (RSPCA) is a community-based group that works to prevent cruelty to animals by promoting care and protection.

Employment-related groups

- Australian Chamber of Commerce and Industry is concerned about issues that impact on business, including economics, trade, workplace relations, education and training.

Aboriginal and Torres Strait Islander groups

- National Congress of Australia's First People is a national voice for Aboriginal and Torres Strait Islander peoples.

Service groups

- Lions Australia is a community group that provides assistance to communities and individuals.

Sporting and recreational groups

- Surf Life Saving Australia is a community group that promotes water safety and provides surf rescue services.

Your choice

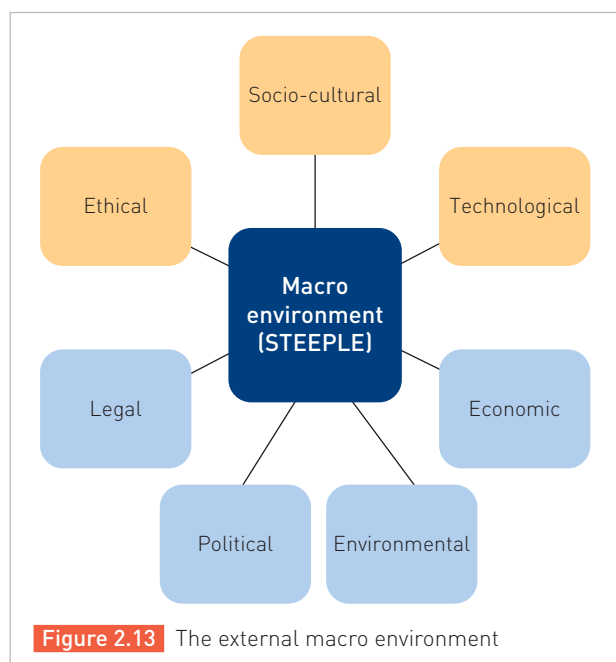


External environment: macro

A macro environment is the wider environment in which a business operates. It is the condition of the whole environment, not of a specific industry. A business does not operate in isolation. It is surrounded by, and operates in, a larger context that influences its performance and its ability to compete in its marketplace. A business has no control over these factors however they impact on operations, decision-making and the performance of a business. The success of a business depends on its ability to manage the effect of the macro external environment on the business.

There are seven main factors that affect the macro environment: socio-cultural, technological, economic, environmental, political, legal and ethical considerations. These factors are often referred to by the acronym STEEPLE (Figure 2.13):

- S – socio-cultural
- T – technological
- E – economic
- E – environmental
- P – political
- L – legal
- E – ethical



Socio-cultural factors

Socio-cultural factors are the people that influence a business – the consumers. They influence how a business operates, what it provides, the price of the product and service, and may even impact on the success of a business. With society continually changing, businesses need to recognise and respond to these changes to satisfy consumers. For example, the growing use of digital technology, such as robots, can directly influence the way a business operates. A business that responds quickly to social change can capture the market, increasing sales and profit. Other socio-cultural factors that may impact on a business include:

- an ageing population
- changes in family structure; dual-income, sole parents; smaller families
- higher education levels
- diversity in the workplace; gender, ethnicity.

Technological factors

Technology is changing the face and pace of business. The business that is the fastest, with the best technological advancements, can often beat competitors in the market. Technology can be used to develop products, deliver products and services to customers, and run a business efficiently.

Business operations and productivity are also becoming more efficient through the use of automated processes. At the same time, technology has advanced communication lines, making a business more accessible at any time and anywhere. Business technology has changed the way many businesses operate, including:

- *automation* – using automation streamlines processes by integrating applications and thus reducing time and costs. This can lead to a more efficient operation, where work is completed faster at a reduced labour cost, thereby reducing overall operating costs
- *research and development (R & D)* – this is the process by which a business develops new technology or improves existing technology to improve operations. This can reduce costs and increase productivity, often giving a business a competitive advantage.

Economic factors

The economic climate impacts on a business and its customers. Many economic factors affect the operation of a business, including:

- *level of consumer confidence*. If consumers are optimistic about the current economic environment, they tend to spend more. Conversely, if consumers are concerned about economic conditions, they will save more and spend less. This directly affects sales in a business. A business must be able to predict consumer spending to adjust its operations
- *inflation* – the rate at which prices for goods and services rise. If inflation is high, product prices increase and the value of the dollar falls. This results in a decrease in consumer buying power as the consumer's income remains the same but the prices of products and services increase. This impacts on business as reduced demand directly impacts on profit
- *interest rates*, which impact on the amount of money that flows through the economic system and therefore affect businesses and consumers. If interest rates are high, it is more expensive for a business to operate. The business usually raises prices and therefore consumer spending drops. When interest rates are low, there is more money available for both businesses and consumers. Businesses often take risks by introducing new products or expanding in a low-interest climate. Consumers spend more and therefore sales increase.

Political factors

Political factors relate to government policy and can impact many aspects of a business. In Australia, the three levels of government (federal, state and local) impose regulations that businesses must comply with. It is important that a business understands these factors and ensures it is aligned to laws, regulations and policies.

Political factors can include:

- *taxes* – the government sets the taxation rates and this can impact on a business's ability to make a profit
- *trade regulations* – the government controls the policies on trade and can impose **tariffs** on imported goods. This can impact on a business's ability to be competitive
- *industry regulations* – the government sets standards that businesses must follow. For example, periodic inspections are carried out on restaurants to ensure they are meeting industry health standards.

It is important for a business to understand the political environment so that the business can operate successfully.

Legal factors

Legal factors affect the operation of a business and include all regulations and laws. The government imposes these measures to protect the consumer and provide a fair playing field for businesses to operate in. The main areas of law that impact on a business include:

- *consumer law* – designed to protect consumers from fraudulent business practices. The legislation provides specific guidelines for business practices such as standards of service, and outlaws misleading advertising, dishonest tactics and selling faulty or dangerous goods
- *health and safety law* – legislation in place to provide a balanced and consistent framework for the health and safety of workers
- *employment laws* – designed to protect employees and make it illegal to treat workers differently based on their ethnicity, religious beliefs, gender, age or disability.

Environmental factors

Environmental factors, sometimes called 'ecological factors', refer to the physical environment, and range from climate and weather to the availability of resources. These factors influence a business's processes and are necessary to protect the natural environment and at the same time focus on efficiency of operations. Some environmental factors that impact on a business include:

- climate change
- waste disposal and recycling
- pollution and greenhouse gas emissions
- power usage (fossil fuel)
- environmental sustainability.

Ethical factors

Businesses are faced with a multitude of ethical issues. It is the responsibility of a business to establish a code of **ethics**, which will dictate how it does business. A code of ethics is a set of values that the business operates under and will guide the way the business acts. It involves a business distinguishing between right and wrong and making ethical decisions. Ethics are structured around what is acceptable to society. A business has a certain responsibility to society for its conduct and the impact of its activities on customers, suppliers, employees and communities as well as the environment they operate in. A code of ethics could include:

- *fair trade* – providing fair prices and conditions for workers within an industry
- *sustainability* – preserving the world's natural resources for future generations.

QUESTIONS 2.5



- 1 **Define** the term 'macro external environment'.
- 2 Read the article below and answer the following questions:
 - a **Identify** the macro external environmental factors that are considerations for this business.
 - b **Identify** other macro external factors that could influence the future of this business.
 - c **Explain** the relationship between the visionary report and the macro environment.

True Colours

True Colours Pty Ltd is a medium-scale manufacturer of beauty products. Karen Griffiths, the founder and CEO, has written a 'visionary report' for True Colours Pty Ltd that describes future growth targets for the business. It also highlights various factors that influence the business's ability to meet these targets.

Visionary report for True Colours Pty Ltd

Goal	Increase market share in all our beauty products through increasing production efficiency and market branding.
Considerations	The business's ability to meet these goals depends on: • highlighting sustainability by increasing all-natural beauty products • introducing a new organic product range • increasing target market to include a wider range of consumers (age, gender) • introducing automated technologies to improve productivity • following labelling rules on the container and packaging • only using suppliers who ban animal testing • limiting industrial conflict by providing safeguards for factory workers • limiting use of foreign suppliers to reduce excessive tariffs • monitoring and adjusting to exchange rates and interest rate fluctuations • implementing innovative manufacturing technologies • monitoring economic climate and adjusting prices accordingly • limiting industrial conflict and work stoppages in manufacturing plants • keeping up-to-date with current trends in industry.

- 3 **Explain** the impact the following environmental factors could have on a business:
 - a an increase in the number of smaller families (one-child family)
 - b greater use of automated systems in the workplace
 - c increase in GST (Goods and Services Tax) on luxury items
 - d trade ban on goods imported from a nominated Asian country
 - e tightening of the laws on mobile food carts to restrict the selling of hot food items
 - f increased government intervention on electricity usage by imposing fines for overuse
 - g decreased information on product labels of food items.
- 4 **Determine** the macro external environmental factor that is influencing each of the following situations:

Situation	Macro external environmental factor
Ice cream sales were low this year due to unusually cold weather all year.	
The average Australian family has declined in size with most families having one child only.	
Interest rates have risen to 17% per annum.	
Customers have less money to spend due to a recession.	
The local council has changed zoning laws for a suburb banning future industrial development in the area.	
High rates of unemployment have increased the demand for basic goods (milk and bread).	
A new manufacturing plant has been developed that produces minimal pollution.	

Situation	Macro external environmental factor
The government has resumed land to preserve the natural ecosystem for future generations.	
The government has increased taxes on imported goods.	
Grocery trolleys are being installed with automatic scanning devices that will calculate the total cost of items as they are placed in the trolley.	
Tighter controls are being placed on the use of billboards for commercial advertising promoting products and services.	

Stakeholders

A stakeholder is anyone with an interest or concern in a business and how it operates. Stakeholders impact on the operations in a business and can:

- influence a business
- be influenced by a business
- both influence and be influenced.

Businesses have many stakeholders, which can be individuals, groups or organisations and may be internal or external to a business (Figure 2.14).

Internal stakeholders

An internal stakeholder has a direct relationship with the core operations of a business. Internal stakeholders could be owners, managers or employees and could have the following interest or concern with the operations of a business:

- Owners are interested in maximising profits.
 - Managers and employees want to stay employed and be paid wages or salaries.
- Each of these stakeholders is potentially impacted on by the success of the business.

External stakeholders

An external stakeholder does not directly work for a business but is affected by the actions or outcomes of the business. External stakeholders could be consumers, suppliers, investors, the community or government. They could be concerned about, or affected by, the business's performance in the following ways:

- Consumers want the business to provide goods and services to a high standard.
- Suppliers want the business to continue to purchase from them.
- Investors are concerned about earning an income from their investment.
- The community wants the business to contribute positively to its environment and the community.
- Government is interested in the operations of a business (legally, and regarding taxation and employment).

Influence of stakeholders on a business

Stakeholders can influence and impact on various areas in a business – in particular, financially and operationally. The following illustrates how this can happen.



Figure 2.14 Stakeholders of a business

Financial impact

The key objective of a business is to make a profit. To do this, it operates to improve revenue, minimise costs and produce a positive financial result. However, a business has a greater role in society and it should also be concerned about the community it operates in. This means a business should implement sustainable environmental practices such as waste management, recycling programs or green energy use (Figure 2.15). By doing this, a business could achieve greater community support and good publicity. However, to implement such programs is costly and could have a financial impact on a business.



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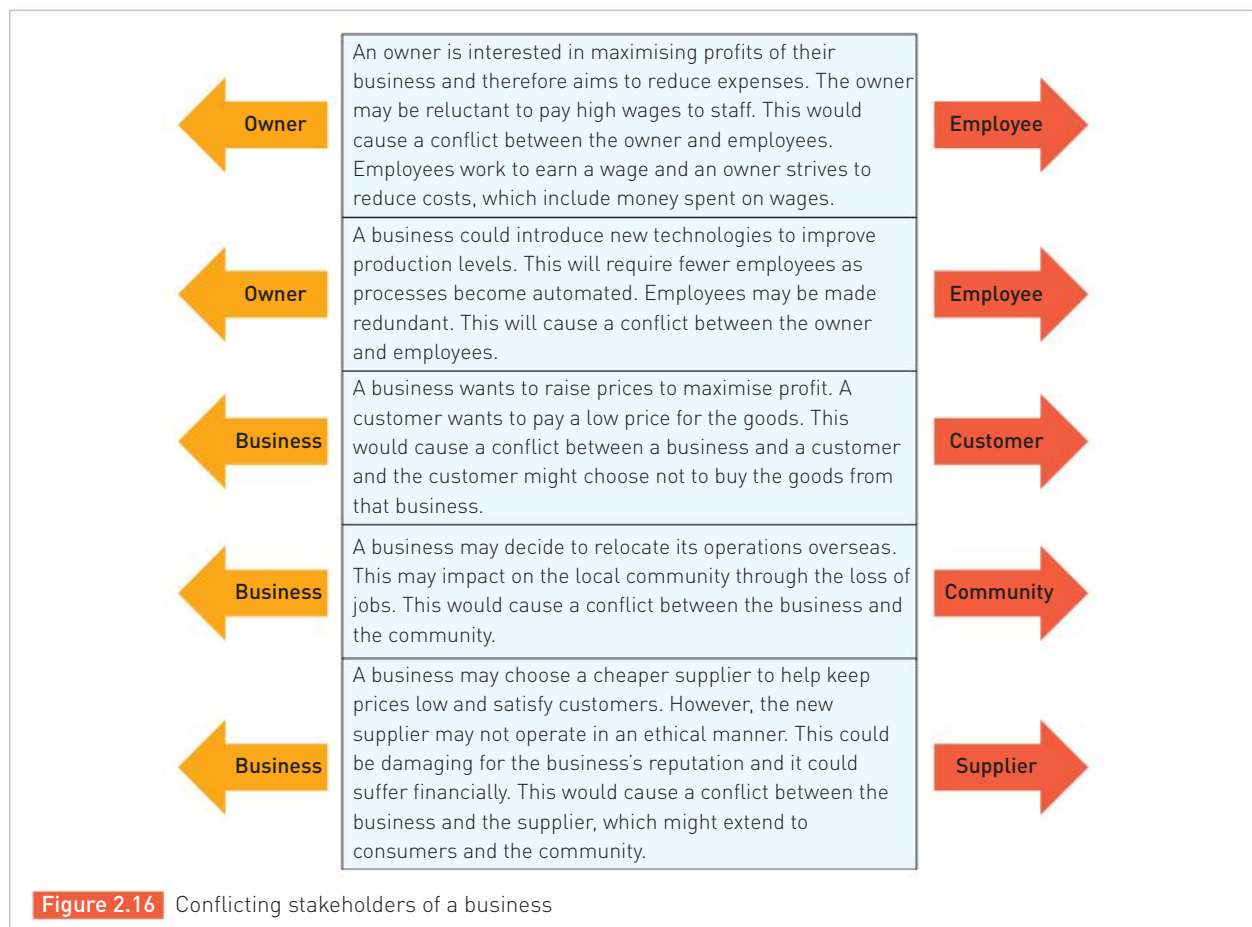
Figure 2.15 Sustainable environmental practices

Operational impact

Employees have an enormous impact on the operations of a business. Employees' expectations in the workplace are that they will be valued key stakeholders. This includes receiving payment for work, working in a safe, non-discriminatory environment and being treated fairly. Failure to provide an equal-opportunity and harmonious workplace can lead to lawsuits and lower employee morale. Therefore, employers must meet their obligations and build a relationship with their employees to achieve a productive outcome.

Conflicting stakeholders

Stakeholders have different interests in a business, which can lead to conflict between various stakeholders. A conflict could arise when the needs of one stakeholder conflict with those of another. It is important for a business to balance the interests of its stakeholders. Examples of conflicting stakeholders are shown in Figure 2.16.



QUESTIONS 2.6



- 1 **Define** the term stakeholder.
- 2 The following organisations have various stakeholders:
 - a doctor
 - a dog groomer
 - a hairdressing salon
 - the Red Cross
 - a local cafe.
 For each organisation, you are required to do the following:
 - a **Identify** a key stakeholder.
 - b **Explain** the stakeholder's ability to influence the business.
 - c **Explain** how the business could be affected by the stakeholder's actions.
- 3 Complete the table below by **identifying** a potential conflict that could exist between stakeholders in a business.

Stakeholders	Potential conflict
Owner and employee	
Customer and society	
Government and business	
Business and supplier	
Customer and employee	
Owner and manager	

- 4 **Create** a short response to **explain** this statement: 'Business organisations have to satisfy their stakeholders'.

GAINING INSIGHT



Wheel turning business

Cycle past this shop and you will see why it has the winning formula. Wheel Cycle is a small bicycle shop located in the township of Port Douglas on the northern coast of Queensland. The business is owned and operated by Estelle King, a keen cyclist. Estelle saw a gap in the market and opened her shop selling bicycles and riding

apparel, hiring out bicycles and providing a workshop for repairs. Estelle has also created an online business and provides cycle gear and equipment Australia-wide.

'I couldn't simply open my business and wait for customers', Estelle said. 'I decided to be proactive and make my business happen.'



Shutterstock.com/Africa Studio

Figure 2.17 Wheel Cycle

Port Douglas is a small town located in the tropical north of Queensland, approximately 70 kilometres from Cairns. The town's population can often double with the influx of tourists during the peak tourism season.

'Most people either walk or ride around Port Douglas', Estelle said. 'This was what inspired me to create my business.'

Estelle has sourced local suppliers to provide the bicycle equipment and has employed a local manufacturer for the bicycles. She has managed to secure a local designer to create unique apparel for her store. This has been beneficial for the business as it is supporting other businesses in the community.

'We are such a tight-knit community that I want to back my fellow businesses', Estelle said. 'It is about supporting each other.'

As a consequence, Wheel Cycle has created a successful business that has a strong customer base. The business employs a full-time sales manager and six part-time workers; a full-time service manager and two part-time repairers; an office administrator; and a person to handle the rentals. Wheel Cycle is open seven days a week to meet the needs of the community as Port Douglas is a tourism hotspot and most businesses in the area operate similar times.

Questions

- 1 **Determine** the internal and external stakeholders for Wheel Cycle.
- 2 **Explain** the impact an external stakeholder could have on Wheel Cycle.
- 3 **Identify and explain** a potential conflict that could arise between stakeholders of Wheel Cycle.

Business types

A business can be categorised according to the reason for its existence. Not all businesses have the same focus or intention when they begin. One of the major decisions that has to be made before establishing a business is whether to enter the profit sector or the not-for-profit sector. A profit-based business offers one or more products or services that are valued in the marketplace with the aim of making a profit. A not-for-profit business is generally centred on a need in society and the income generated is distributed to the cause. Another type of business is a government organisation.

Key learnings

You will learn about the following types of businesses:

- profit-based businesses
- not-for-profit businesses
- government-owned corporations (GOC)
- government business enterprises (GBE).

Profit-based business

A profit-based business provides a product and/or a service with the aim of making a profit. A profit is achieved if the amount of revenue gained from the business activity exceeds the costs needed to operate the business. Profits, generated by sales of products or services, are distributed to the owner/s or shareholders of the business. Profits can also be redistributed back into the business to promote future growth and development. A business that strives to make a profit will often identify and measure key point drivers to implement strategies that will improve profit. These strategies could include:

- developing new product lines
- finding new markets or customers
- improving customer service
- reviewing current operations
- increasing productivity.

GAINING INSIGHT



A growing business

Growing a business from an idea has become a success story for a local Brisbane small business owner. Mark Brennan, a qualified horticulturist, has a thriving gardening service business and is already considering expanding. He established his home-based business, Jardiner Gardening Services, and within a year has a budding customer base.

'It all started with a friendly competition with my neighbour John to see who could have the greenest lawn in the street', Brennan said. This became a talking point in the local community and thus his business was created. Brennan saw an opportunity to provide a quality gardening service that was currently not on offer. Initially Brennan built his client base with the aid of online advertising agencies such as hipages and Airtasker. As the business has established a strong client base with growing referrals, these services are no longer required. The growing client base and decreased advertising costs have resulted in increasing profits and opportunities for expansion.



Figure 2.18 Jardiner Gardening Services, a growing business

Jardiner Gardening Services is a growing and successful profit-based home business.

Questions

- 1 **Identify** and **explain** the factors that contributed to the success of this small home business.
- 2 **Determine** how this business could continue its success and suggest strategies it could implement.

Not-for-profit business

A not-for-profit (NFP) business is an organisation that does not provide a profit or benefit for the person or people operating the business. It is formed to provide goods, services or funds to a particular concern or to work to benefit a community. Examples of not-for-profit organisations are: The Smith Family, Guide Dogs Australia, Cancer Council and RSPCA.

A not-for-profit business can be either a private or a publicly-owned business and can exist for many different reasons. It can be a large national or international organisation, or even a small, community-based business such as a local sporting group or a school.

A not-for-profit business can still make a profit, but the profit must not be distributed to the owners or any other person associated with the business. A not-for-profit business also aims to generate income to cover the expenses of the business. These expenses can include advertising, rent and even wages for employees. The profit generated after expenses is then distributed to meet the objectives of the business.

A not-for-profit business provides a benefit (either direct or indirect) while carrying out its purpose. For example:

- direct benefit – flood victims may receive food hampers
- indirect benefit – flood victims may receive help cleaning up their properties.

Not-for-profit businesses operate across many industries. Some provide welfare to communities; others protect and maintain the environment. There are many types of not-for-profit businesses in Australia, including:

- not-for-profit charities, such as the Salvation Army
- not-for-profit recreation and sporting clubs, such as Surf Life Saving (Queensland)
- not-for-profit government groups, such as school canteens.

In Australia, a not-for-profit business is controlled by the Australian Government under the Australian Charities and Not-for-profits Commission (ACNC). This body regulates not-for-profit organisations by:

- assisting with registration
- providing information, guidance and support
- maintaining a free public register of businesses for the public to access.

For more information about the regulations that govern not-for-profit businesses in Australia, visit the website of the ACNC.

A Brisbane-based not-for-profit organisation is Bat Conservation & Rescue Qld Inc., which provides a service to protect the bat population in the local area. It does not operate for a profit or benefit, but works for the community.



ACNC

GAINING INSIGHT



Brisbane-based bat care group

Bat Conservation & Rescue Qld Inc. is a self-funded volunteer organisation that operates in the Greater Brisbane area, including Brisbane, Ipswich, Logan, Redlands and Pine River. The organisation is a bat rescue group that also provides advice and assistance. The group has local volunteers who have been trained in bat rescue, care and rehabilitation. They offer a free 24/7 rescue service for bats found injured or in need of care, and the group has a dedicated phone, the bat hotline. Bat Conservation & Rescue is not government-funded and relies on the generosity and support of the community to survive. The group also provides educational programs to the community, schools and local councils. It works in conjunction with the RSPCA and has been recognised as a reliable, humane and responsible organisation. It is currently the largest bat-specific rescue organisation in Queensland.



Figure 2.19 Bat Conservation & Rescue Qld Inc.

Visit the Bat Conservation & Rescue Qld Inc. website for more information about this not-for-profit organisation.



Questions

- 1 **Describe** the reason this not-for-profit business is operating.
- 2 **Explain** the benefits this not-for-profit business provides to the community.

Government-owned corporations (GOCs)

A government-owned corporation (GOC) is a business that is established by a government in response to a need in a community. It is a business that operates on behalf of an owner government. In Queensland all GOCs are regulated by the *Government Owned Corporations Act 1993 (Qld)* and the Code of Practice for government-owned corporations. The Queensland Treasury monitors the performance of GOCs in Queensland. The Queensland Government owns commercial businesses in the sectors of energy, water, rail and ports. Examples of GOCs in Queensland include:

- Ergon Energy Corporation Ltd
- Sunwater Limited
- Queensland Rail.

All GOCs are reviewed annually and their performance is monitored against established targets. They are assessed to ensure that they fit the government's objectives for the community and are operating in a proper, effective and efficient way. All GOCs have a board of directors and a Chief Executive Officer (CEO) who manages the day-to-day affairs of the business. The CEO is appointed by the GOC's board of directors. The Office of GOCs maintains policies and guidelines and these are available on the Queensland Government website.



Government-owned corporations (GOC) policies and guidelines

Government business enterprises (GBEs)

A government business enterprise (GBE) is a Commonwealth entity or company that is governed by the *Public Governance, Performance and Accountability Act 2013*. It is established to fulfil a Commonwealth Government-recognised purpose. Examples of GBEs in Australia include:

- Australian Postal Corporation
- Australian Rail Track Corporation Limited
- Snowy Hydro Limited
- Defence Housing Australia.

A GBE is a commercially focused business that makes a substantial contribution to the Australian economy through job creation and productivity, and delivers a service to the community. There is a high level of scrutiny and accountability in a government-owned business. A board of directors is established to provide strategic leadership and control over the operation and performance of the business. For more information on GBEs, visit the Australian Government website.



Government business enterprises (GBEs)

QUESTIONS 2.7



- 1 **Identify** a common feature shared by profit-based businesses.
- 2 **Identify** a common feature shared by not-for-profit businesses.
- 3 **Differentiate** between the following business types:
 - a a profit-based business and a not-for-profit business
 - b a government-owned corporation and a government business enterprise.
- 4 Using the ACNC website, research a not-for-profit organisation and **create** an infographic outlining the features of the organisation.



Legal ownership structures

When starting a business, an important consideration is the legal structure of ownership and operation. The type of structure chosen will depend primarily on the size and type of business and how much the business intends to grow. There are four main business structures in Australia: sole trader, partnership, private company and public company. The Australian Government provides an online tool to help choose the most suitable business structure, and basic details on business and tax registrations. It is a step-by-step guide that gives information



and advice and provides tips and checklists for future business owners. For more information on this online tool, visit the Australian Government website.

Key learnings

You will learn about the following business legal structures (Figure 2.20):

- sole trader
- partnership
- private company
- public company.

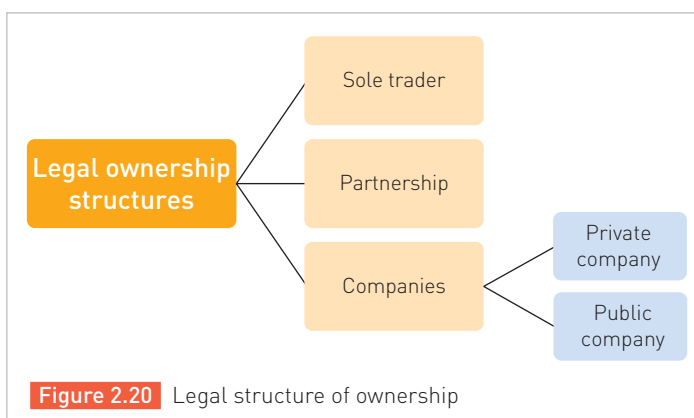


Figure 2.20 Legal structure of ownership

Sole trader

A sole trader is a business owned and operated by one person. It is usually a small-scale business and it is relatively simple and inexpensive to establish. The owner provides all the **capital**, makes all the decisions and takes on all the responsibility for operating the business. The owner can employ other people to work in the business. In return the sole trader receives all profits but is liable for all losses made by the business. A sole trader is bound by **unlimited liability**. This means they are personally responsible for all debts of the business.

Features of a sole trader structure

The following are the key features of a sole trader structured business:

- It is simple to establish and easy to operate.
- The owner uses their personal tax file number (TFN) to lodge returns.
- It is not a separate entity, therefore the owner is personally responsible for the debts of the business (unlimited liability).
- The owner has full control of the business and makes all the decisions.
- The owner can employ people to help operate the business.
- It is relatively simple to change the business structure as the business grows.
- There are minimal legal and statutory regulations and it is generally a low-cost structure.

Figure 2.21 lists the advantages and disadvantages of being a sole trader.

Capital: the amount of finance invested by the owner/s in a business

Unlimited liability: means the owner/s is personally responsible for the debts of the business

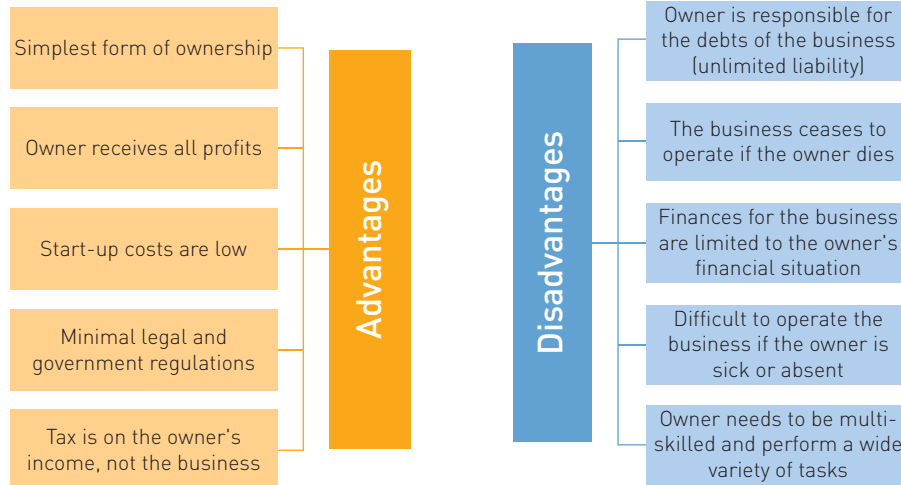


Figure 2.21 Advantages and disadvantages of a sole trader business

GAINING INSIGHT



Sole trader: Orr's Doors



All images courtesy Orr's Doors

Figure 2.22 Colin Orr, business owner

Orr's Doors, based in Logan City, is a business owned and operated by Colin Orr. The business specialises in kitchen refurbishment and Mr Orr is a qualified shop-fitter and builder. After 20 years in the industry, Mr Orr elected to set up his own business as a sole trader. He has been successfully operating his own business for 15 years. Mr Orr said, 'I have always taken pride in my work as a tradesman and I felt I could offer greater customer satisfaction working for myself'.

To establish Orr's Doors, Mr Orr constructed a business plan and established the goals and objectives for his business. He calculated the amount of capital he would require to buy the equipment

and resources needed to begin operations. He also projected his future earning capacity and created a financial plan.

'I believed I could be more financially successful working for myself and retaining profit rather than working for wages', Colin Orr said. Mr Orr also researched his competition and determined how to compete in this industry.



Figure 2.23 Orr's Doors business logo and website

Colin Orr completed the necessary legal obligations by registering his business name and website, applied for an ABN (Australian Business Number) and TFN (tax file number). Mr Orr arranged insurance to cover his vehicle, equipment and himself. He created a workshop in the backyard of his family home and began operating his business. Mr Orr has set up a basic bookkeeping system, which he manages, and he uses a paper-based method to invoice his customers.

Orr's Doors relies on word-of-mouth advertising and Mr Orr has a strong customer base.

'I have established a reputation as being an honest and reliable tradie', Mr Orr said. Customers are able to write reviews on the business website.

Mr Orr works on a customer-need basis, which gives him the ability to dictate his working hours.

'I have a young child and I was looking to work more flexible hours to achieve a better work-life balance.'

Orr's Doors is a successful small business operating in a local area.

Questions

- 1 **Define** a sole trader business.
- 2 **Identify** and **explain** the stage in the business life cycle at which Orr's Doors would be best placed.
- 3 **Identify** possible reasons why Mr Orr operates as a sole trader.
- 4 **Explain** the benefits of operating as a sole trader.
- 5 **Explain** the difficulties of operating as a sole trader.
- 6 **Identify** and **explain** how Orr's Doors could use technology to improve its operations.

Partnership

A partnership is a business structure that involves a number of people who operate a business together. A partnership requires a minimum of two partners and most have a maximum of 20 partners; however, some industries (medical, accounting and legal firms) allow more partners. In Queensland a partnership is governed by the *Partnership Act 1891 (Qld)*. Like a sole trading structure, a partnership entity is not separate from its operators. Therefore, the owners of a partnership are responsible for the debts of the business (unlimited liability).

Before entering a partnership it is advisable to establish a formal agreement such as a partnership agreement. This is usually drawn up by a solicitor and is legally binding. A partnership agreement outlines the conditions under which the business operates, and can include:

- each partner's role and responsibilities in the business
- each partner's financial contribution
- how the profit/loss will be shared
- procedure for making decisions
- procedure for resolving conflicts
- procedure for ending the partnership.

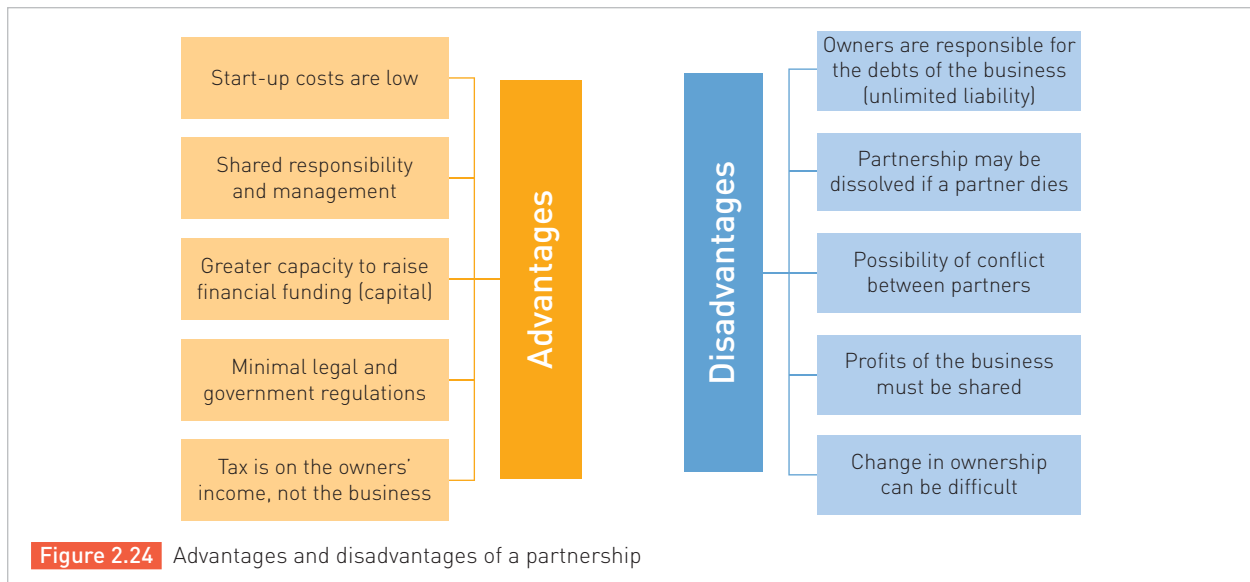
It is important to have a formal agreement to avoid disputes and misunderstandings. It gives partners a clear understanding of the arrangements for the business to operate.

Features of a partnership structure

The following are the key features of a partnership structured business:

- It is relatively simple to establish.
- The business requires a separate tax file number (TFN).
- It is not a separate entity, therefore the owners are personally responsible for the debts of the business (unlimited liability).
- The owners share control and management of the business.
- The business can employ people to help operate the business.
- The business must be registered for goods and services tax (GST) if the annual income turnover is over the nominated threshold.

Figure 2.24 lists the advantages and disadvantages of a partnership.



GAINING INSIGHT



Where the country meets the beach

Skye Barnett has been operating a successful jewellery business for five years and sells her products at a local craft market at Eumundi on the Queensland Sunshine Coast. She has a good reputation and has a strong customer base. Ms Barnett is well known in the local area for her unique designs, which showcase the natural beauty of the Queensland coast. Her jewellery pieces are bold, sizeable and distinctive. Barnett completed a business degree 10 years ago, which gave her basic foundational skills to start up her own business. Barnett's business has grown to such an extent that she is struggling to keep up with customer demand.

Lenny Fisher lives on a rural property in the Scenic Rim region of south-east Queensland, 100 kilometres from Brisbane city. A year ago, he established a business selling his original artwork to galleries Australia-wide. Fisher has been recognised as a prominent Australian artist. Mr Fisher's inspirations come from his surroundings: 'I am captivated by the vastness of the bush, the isolation

and the emptiness', Fisher said. Lenny Fisher is a retired financial adviser who specialised in providing investment, taxation and insurance advice.

Skye Barnett recognised Fisher's artistic ability and is keen to incorporate their talents. She has proposed to Fisher that they run a business together and expand their product range, designs and target market.

Questions

- 1 **Identify** and **explain** the stage in the business life cycle at which Skye Barnett's business would be best placed.
- 2 **Identify** the features of a partnership as they relate to this situation.
- 3 **Explain** the benefits for both parties of entering into a partnership.
- 4 **Explain** the difficulties of operating this business proposal as a partnership.
- 5 **Identify** and **explain** how the use of technology could improve operations for this future business.

Company

A company is considered a separate legal entity, which means it has the same rights as a natural person, and can incur debt, sue and be sued. The structure of a company is complex and it must comply with the legal obligations and regulations that are detailed under the *Corporations Act 2001 (Cth)*. A company must also be registered with the Australian Securities and Investments Commission (ASIC) to obtain an Australian Company Number (ACN). In Australia, there are two main categories of a company – public and private (**proprietary**).

Proprietary: referring to the ownership of a business

Features of a company structure

The following are the key features of a company structured business:

- It is a more complex business structure to establish and operate.
- The business requires a separate tax file number (TFN).
- It is a separate legal entity.
- Owners of a company are referred to as **shareholders**.
- Owners of a company have limited liability, meaning their liability is limited to the value of their shareholding.
- Directors are appointed by shareholders to manage and control the business.
- It must comply with the obligations under the *Corporations Act 2001 (Cth)*.
- The business's operations are controlled by directors and owned by the shareholders.
- It must be registered for Goods and Services Tax (GST) if the annual income turnover is over the nominated threshold.
- It must be registered with the Australian Securities and Investments Commission (ASIC).

Private company

A private company is a separate legal entity structure, which owns the business. Private companies are usually small to medium-sized, family-owned businesses. As the name suggests, a private company has private ownership. The owners (shareholders) of a private company are usually family members, friends or colleagues, and the proprietorship is restricted to a maximum of 50 owners (shareholders). Shareholders can only sell their shares in the business on approval from the other shareholders. A private company must have the words 'Proprietary Limited', abbreviated to Pty Ltd, after its name.

Public company

A public company is also a separate legal entity structure, which owns the business. A public company is a large business that is publicly listed on the Australian Stock Exchange (ASX). This type of structure requires a minimum of five shareholders; there is no upper limit to the number of shareholders. A public company initially issues a prospectus, inviting members of the public to purchase shares in the business. The shares are then freely traded on the stock exchange and there are no restrictions on the transfer of shares or the raising of funds from the public through share offers. A public company has the word 'Limited (Ltd)' in its name. It is required to publish an annual report that details the financial records and activities of the business. Table 2.2 shows a comparison between private and public companies.

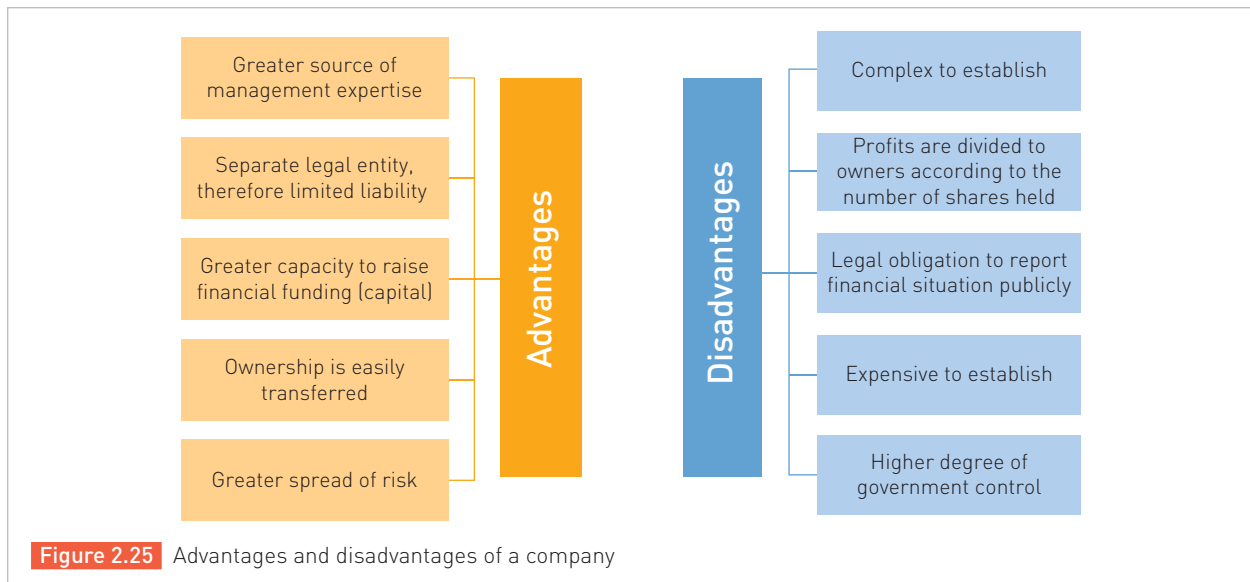
Table 2.2 Comparison between private and public companies

Private company	Public company
'Pty Ltd' in name	'Ltd' in name
Limit of 50 shareholders/owners	Minimum of five shareholders; no upper limit
Ownership restricted to approved shareholders	Ownership not restricted; open to the public
Shares can be bought or sold only with shareholders' approval	Shares can be bought and sold on stock exchange

Comparison between private and public companies

There are a number of benefits of using a company structure to operate a business. The advantages and disadvantages of a company structure can be summarised as follows (Figure 2.25).

Shareholder: an owner of a share in a business



GAINING INSIGHT



A blooming season

CropCo Pty Ltd is to remain a private company after a record season. The company directors received overwhelming support to retain the current structure with only 25 per cent of shareholders voting to convert it to a public company. The company has achieved strong growth and announced its annual profits were up from \$4.7 million to \$15.8 million for the last financial year. This is the third year of record profits, reflecting its growth in the industry.

CropCo Pty Ltd began 10 years ago as a small, family-owned private company. It has now expanded to include 40 invited shareholders taking an interest in the ownership of the business. It has also expanded its operations from being a Brisbane-based business to trading nationally. Bettina Bryant, the company director, claims that CropCo Pty Ltd has expanded rapidly and the business continues to show a strong growth strategy.

Despite ruling out an expansion now, the company said it would need to revisit this annually to consider the stakeholders' interest and for future growth in the industry.

Questions

- 1 **Identify** and **explain** the stage in the business life cycle at which CropCo Pty Ltd would be best placed.
- 2 **Identify** the features of a private company.
- 3 **Explain** the benefits of operating this business as a private company.
- 4 **Identify** and **explain** possible reasons why the shareholders decided to keep CropCo Pty Ltd as a private company.
- 5 **Analyse** the main benefits to CropCo Pty Ltd and its current shareholders if the business did become a public company.

QUESTIONS 2.8



- 1 **Define** the following terms:

a legal structure	h capital
b sole trader	i legal entity
c partnership	j proprietorship
d unlimited liability	k partnership agreement
e private company	l stock exchange
f public company	m limited liability.
g shareholders	
- 2 **Identify** three reasons to establish a business as a sole trader.
- 3 'An effective partnership is one in which the partners always agree on all matters relating to the business.' Do you agree? Provide reasons to support your answer.

- 4 You are currently working as a part-time employee for a sole trading business. The owner has offered you a 35 per cent partnership and you decide to accept the offer. **Identify** the benefits and risks of being a partner.
- 5 **Explain** the following statement: 'The costs involved in establishing and operating a company are far greater than those of establishing a sole trader or partnership business'.
- 6 **Create** a double bubble map to compare the similarities and differences between a private company and a public company.
- 7 Research business structures in Australia to **create** an attribute list organiser that summarises the key attributes of the four legal ownership structures.

Key attributes of legal ownership structures	Sole trader	Partnership	Private company	Public company
Definition				
Specific business example				
Number of owners				
Life expectancy of the business				
Basic business and tax requirements				
Type of taxation				
Liability of owners				
Benefits				
Risk				

Size of a business

When creating a business, the size of the structure is another consideration. A business can come in a variety of sizes, from a small micro home business to a large international organisation. They all compete in a similar environment, but the extent of their operation is different, depending on their size. The size of a business can range from a micro business to a small, medium or large business (Figure 2.26).

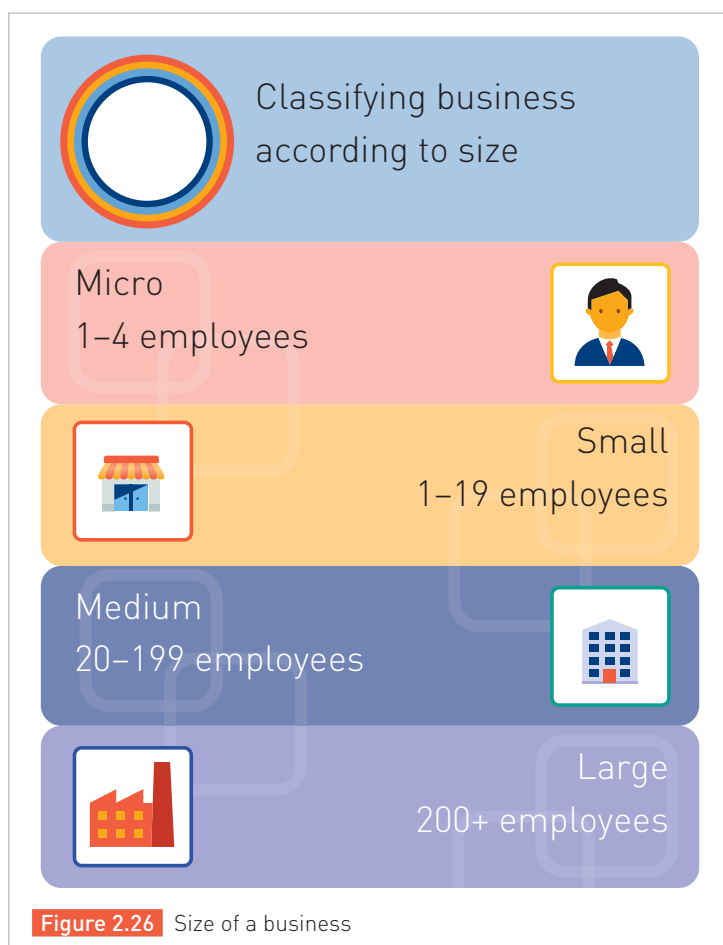
The Australian Bureau of Statistics also provides a guide to measuring a business's size that is based on the number of employees. Table 2.3 shows an overview of the various sizes of a business and the attributes that could be used as a measure.



Measures to determine the size of a business

There are several measures to determine the size of a business. These measures include:

- **industry** – the specific field in which a business operates. Usually relates to the product or service provided
- **owners** – the number of owners of a business



- *legal structure* – how a business has been established, such as a sole trader, partnership or company
- *employees* – the number of people who are hired to operate a business
- **market share** – how large a share of the market a business has in comparison with its competitors
- *capital* – the amount of money the owner/s are required to contribute to operate the business.

Table 2.3 Measures to determine the size of a business

Attribute	Micro	Small	Medium	Large
Industry examples	Bakeries Tradespeople	Bakeries Tradespeople	Manufacturers Hotel chains	Supermarkets Banks
Legal structure	Sole trader	Sole trader Partnership	Partnership Private company	Pubic company Government-owned
Employees	Less than five full-time employees	Less than 20 full-time employees	Less than 200 full-time employees	Large number of full-time employees, usually 200 people or more
Market share	• Very small market share • Focus is on the local area	• Small market share but not a leader in the market • Focus is on the local area	• Is a leader in market share • Usually operates on a national level	• Has a significant portion or a majority of the market share • Usually operates on a national and international level

Business categories

Businesses can also be sorted into various categories, including:

- *home-based business* – usually operates from the private residence of a business owner
- *digital business* – operates entirely online (over the Internet). It can include buying and selling online and providing a service online
- *local business* – provides a good or service in a particular geographic area
- *national business* – operates within a specific country
- *international business* – operates worldwide.

GAINING INSIGHT



Case study A: Dave's Sporting Goods

In the competitive world of retail, Dave owns and operates a successful sporting equipment store in a suburban shopping centre. The store has become successful due to the range of goods provided and the customer service. Dave is a keen sportsperson and employs two full-time staff members who also share his passion for sports. The store opens seven days a week. During the week, Dave usually only requires one staff member to work. On the weekends, the store is extremely busy with customers crowding the store. Dave also employs three part-time shop assistants who only work over the weekend. Dave's business has an excellent reputation and a strong customer following.



Figure 2.27 Dave's Sporting Goods

Market share: a business's share of the total industry sales for a particular product or service, often expressed as a percentage

Case study B: Big Al's

Big Al's Workshop is a local automotive mechanical repair shop located in an industrial area in the southern suburbs of Brisbane. The workshop operates five days a week and is a thriving business. The workshop has 10 vehicle bays, which allow it to provide extensive repair service to customers' vehicles. The business employs 20 full-time qualified mechanics, three office administration officers and two account clerks. Big Al's has been operating successfully for 10 years and has received recognition for being a reliable and honest mechanical workshop.

Case study C: Bunnings Warehouse

Bunnings Warehouse is a leading retailer of home improvements and outdoor living products. It is a major supplier to project builders, commercial tradespeople and the housing industry. Bunnings Warehouse operates from a large number of stores across Australia and New Zealand. It caters for both domestic and commercial customers. Bunnings stores stock around 45 000 products, including plants, gardening equipment, lighting products, tools, paint, home storage, building supplies and timber. Bunnings employs over 40 000 people, with the majority of its employees working on a full-time basis.

Questions

- 1 **Classify** each of the businesses described according to its size.
- 2 **Justify** your choice of classification.
- 3 **Identify** five differences between a small business and a large business.
- 4 **Explain** the strengths and weaknesses of a small business compared with a large business.



Figure 2.28 Big Al's Workshop



Figure 2.29 Bunnings Warehouse

- 5 **Determine** how the role of an owner in a small business could differ from the owner's role in a large business.

Strategic planning

Strategic planning is a management tool that is used to set priorities for the future of a business. It is a plan for a business and determines where an organisation is heading, how it is going to get there and how it will know if it got there or not. The focus of a strategic plan is usually on the entire business. A strategic plan is a recipe for success and should:

- serve as a framework for decisions
- explain the business to others in order to inform, motivate and involve
- assist with benchmarking and performance monitoring
- give insight into future planning and become a building block for the next plan.

A strategic plan is a multi-step process of creating vision and mission statements, setting goals and objectives and deciding on strategies and tactics for its operations to achieve success.

Key learnings

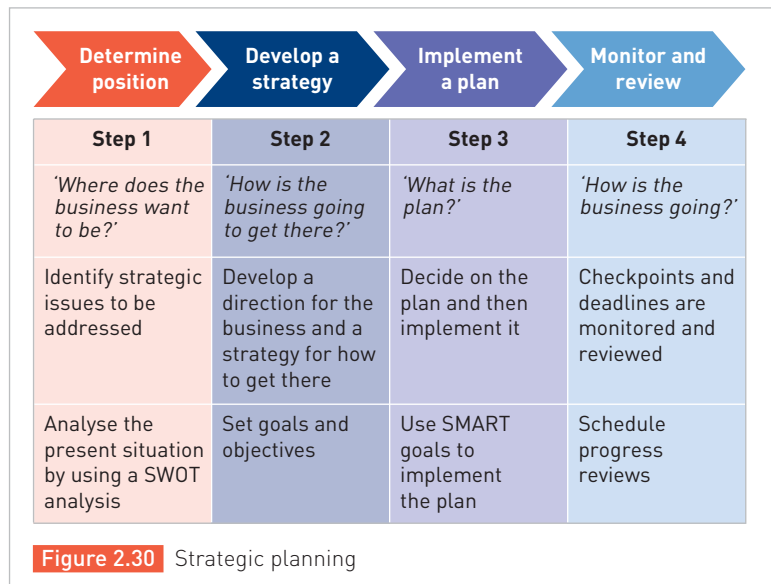
You will learn the following about strategic planning:

- vision statements
- mission statements

- goals
- objectives
- strategies
- tactics.

A strategic plan determines how a business intends to compete and survive in the marketplace over the long term. There are a variety of models and approaches used in strategic planning. For a business to develop a strategic plan, it may follow the approach shown in Figure 2.30.

Effective strategic planning clearly outlines not only where the business is heading, but also the actions that need to be taken and how the business will know if it is successful.



Benefits of strategic planning

Strategic planning is beneficial to a business in the following ways. It:

- clearly defines the purpose of the business
- establishes realistic goals and objectives within a time frame
- communicates the business's plan to others
- develops a sense of ownership of the plan
- ensures the most effective use is made of resources to focus on the business's priorities
- provides a base from which progress can be measured
- creates a strong cohesion that builds the values of a business.

ANALYTICAL TOOL



SWOT analysis: a planning tool

A SWOT is an analytical tool used by a business for strategic planning. It identifies the strengths, weaknesses, opportunities and threats (SWOT) in a graphical format. This analytical tool helps a business to focus on its internal environment (strengths and weaknesses) and the external environment (opportunities and threats).

Internal environment

Strengths and **weaknesses** are internal to the business and relate to matters concerning resources, programs and organisation in key areas. They include:

- *management* – systems used, expertise of management, resources available
- *operations* – efficiency of operations, capacity to operate, processes used
- *finances* – resources available, performance of business, purchasing systems
- *marketing* – sales, promotion of product, pricing

Strengths: what a business does well. This could include the type of product and service, loyal customer base or strong branding.

Weaknesses: negative factors that hinder a business from performing at its optimum level. Weaknesses could include poor reputation, high levels of debt or lack of capital.

- *products* – quality of product, features offered, range of products, competitiveness in pricing
- *people* – customer service offered, employees, management.

The objective is to establish a picture of the business identifying its good and bad points, achievements and failures and other critical features within a business.

External environment

The external **opportunities** and **threats** confronting a business can exist or develop in the following areas:

- *industry* – the business's industry, where changes may be occurring in:
 - size and segmentation, growth patterns and maturity
 - established patterns and relationships, emergences of niches
 - international markets
- *marketplace* – the marketplace the business trades in may be altering due to economic or socio-cultural factors, such as:
 - customers' needs and wants
 - socio-cultural or demographical issues relating to the economic conditions
 - changes in the political arena
- *competition* – the competition for the business may be creating new threats or opportunities, including:
 - aggressive marketing campaigns
 - changes in market share
- *technology* – new technologies may be causing fundamental changes in products, services and operations by introducing:
 - cost-saving devices in production
 - substitute products and services.

The objective of the business is to identify the opportunities present and be aware of the threats that other businesses pose.



A SWOT is a matrix divided into quadrants. Each quadrant represents an element of the SWOT and details the factors identified (Figure 2.31).

For more information on SWOT analytical tools, go to the MindTools website.

Developing business strategies

Once a SWOT analysis has been completed, a future direction for the business may become apparent. Using the SWOT could help a business formulate strategies and tactics, as shown in Figure 2.32.

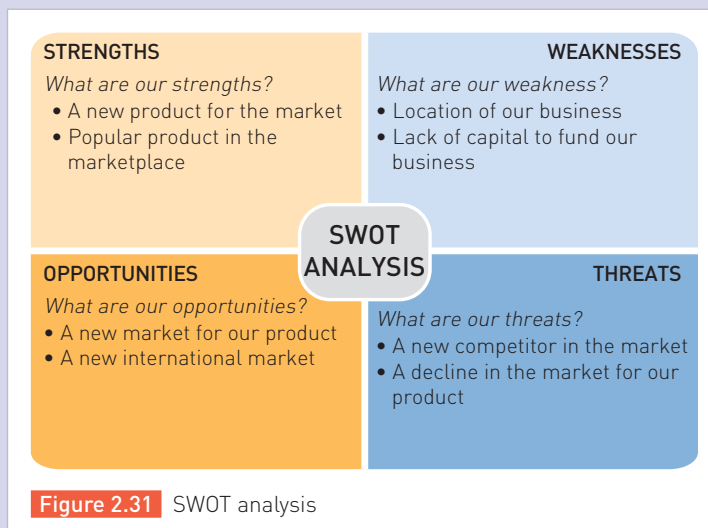


Figure 2.31 SWOT analysis

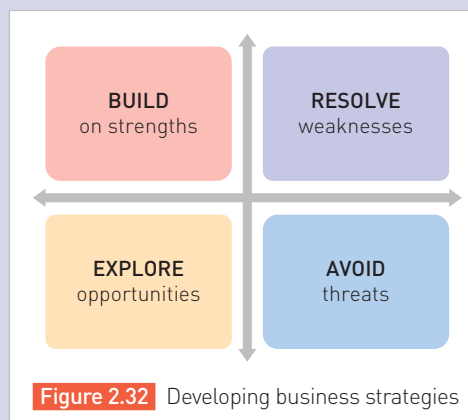


Figure 2.32 Developing business strategies

Opportunities: elements that contribute to giving a business a competitive edge; for example, a new market for a product or a global expansion

Threats: elements that can negatively impact on the performance of a business; for example, increasing competition or a decline in an industry

Questions

- 1 **Distinguish** between a business's internal environment and its external environment.
- 2 **Explain** the benefits of using a SWOT analysis as a planning tool.
- 3 Using the **inquiry** process, complete the following tasks based on your school.
 - a Complete a SWOT analysis of your school using the template below.

INTERNAL ENVIRONMENT	
Strengths What does your school do well? What do others see as your school's strengths?	Weaknesses What could your school improve on? What are others likely to see as your school's weaknesses?
EXTERNAL ENVIRONMENT	
Opportunities What opportunities are available to your school? How can your school turn its strengths into opportunities?	Threats What are other schools in your area doing that could pose a threat to your school? What threats do your school's weaknesses expose the school to?

- b **Interpret** the SWOT analysis to **draw conclusions** about the implications for the school to provide educational outcomes to stakeholders and achieve its strategic objective.
- c **Create** a short business-report extract for your school principal that **communicates** your **analysis** and **interpretations** about the future of your school.

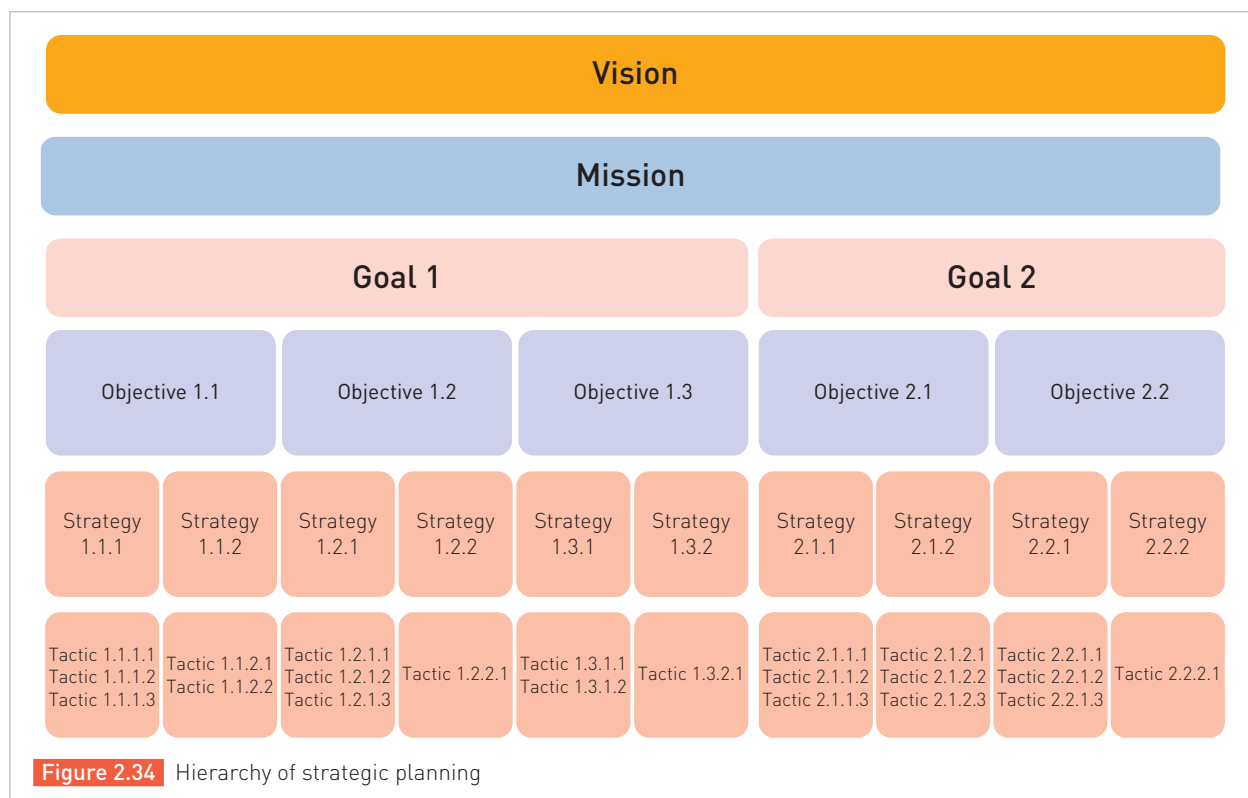
Strategic planning documents

Strategic documents are used to establish the purpose of a business (Figure 2.33). The development of vision and mission statements is an essential aspect of strategic planning. The purpose and future direction of a business is established within these documents, which provide a framework to develop the *goals* of a business. These goals are then transferred into operational *objectives*. Each objective will have an associated *strategy* to determine what approach will be used to reach the objective. To achieve the strategy, a *tactic* or action plan will be created. This process is referred to as strategic planning using strategic documents. Figure 2.34 illustrates the basic hierarchy of a strategic plan in a business, which includes:

- vision statement
- mission statement
- goals
- objectives
- strategies
- tactics.



Figure 2.33 Strategic documents



Strategic plans

Strategic documents can be divided into levels, known as the pyramid of purpose (Figure 2.35). Level 1 is the initial planning stage that produces the vision and mission statements. This is known as the ‘why’ phase, in which a business needs to establish the reason for its existence. The next level is where the business needs to determine ‘what’ it intends to achieve. To do this, a business needs to identify goals, and then objectives to achieve these goals. The final level is the ‘how’ section, in which a business will need to establish the strategies and tactics needed to reach the goals.

Vision and mission statements

Vision and mission statements are critical elements of a business’s strategic management plan. They are used to communicate the purpose of a business to key stakeholders.



Vision statements

A vision statement, or simply a ‘vision’, is a framework for a business’s strategic planning. It is an aspirational statement of what a business would like to achieve in the future. A vision is presented as a written picture of a business in terms of its physical appearance, size and activities, considering its future products, markets, customers, processes, location and staff. It should be a positive statement that is easily understood and provides a clear image of a business’s purpose. A vision statement should challenge and motivate managers and inspire employees to strive to achieve the organisation’s vision. Here are some examples of vision statements (Figure 2.36).



'To provide access to the world's information in one click.'



'To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online.'



'To help individuals and businesses realise their full potential.'

Figure 2.36 Examples of vision statements

Left to right: Getty Images/Jaap Arriens/NurPhoto; Shutterstock.com/Jonathan Weiss; Shutterstock.com/volkart basar

How to write a vision statement

The first step in writing a vision statement is to brainstorm and share ideas with key stakeholders in a business. The business's core values and reason for existence must be established. The following points should be taken into consideration when writing a vision statement. It is important to:

- project into the future – five years or more
- dream 'big' and focus on success
- be daring and distinct.

A vision statement is an aspirational description of a business's future direction. It is written for the business, about the business and should be a powerful and positive statement.

Mission statement

A mission statement is a plan of action for a business; it is an actionable statement. It states the purpose of a business by defining the business's culture, values and ethics. The statement should pinpoint what the business does, how it does it and why it does it. It should identify what the business is doing right now that sets it apart and goes beyond providing a service or product. It should be more precise than a vision statement, articulating in simple and concise terms the purpose of being. A mission statement should be inspirational to internal stakeholders (managers, employees) and present a clear message to external stakeholders (including competitors). Here are some examples of mission statements (Figure 2.37).



Our mission is:

- To refresh the world in mind, body and spirit
- To inspire moments of optimism and happiness through our brand and actions
- To create value and make a difference.



Our mission is to be our customers' favourite place and way to eat and drink. We're dedicated to being a great place for our people to work; to being a strong, positive presence in your community; and to delivering the quality, service, cleanliness and value our customers have come to expect from the Golden Arches – a symbol that's trusted around the world.



Our mission. Bring inspiration and innovation to every athlete* in the world.

* If you have a body, you are an athlete.

Figure 2.37 Examples of mission statements

Left to right: Shutterstock.com/ansonsaw; Shutterstock.com/ermingut; Shutterstock.com/Cineberg

How to write a mission statement

When drafting a mission statement, the strengths of the business should be clear from the beginning. It can be simply one or two sentences that answer the following questions:

- What do we do?
- How do we do it?
- For whom do we do it?

A mission statement has the following key characteristics. It should:

- *have purpose* – it should identify the prime purpose and existence of the business. It should help people understand what the business is about. It could contain words such as ‘to be the best’, ‘the highest quality’, and ‘in the world’
- *be actionable* – it should be practical and workable. It should focus on the present state of the business and be a tool by which the business navigates and against which strategic decisions can be made and measured. A good statement should help the business stay on course as it evolves
- *be inspirational* – it should be inspiring and motivating. It should leave a lasting impression and provide a clear insight into why the business exists
- *be short and concise* – it needs to be easily understood and convincing. To achieve this, the statement should be written in plain language and be short and concise. It should not contain jargon or concepts that are unfamiliar to people outside the industry area.

Summary of vision and mission statements

Vision and mission statements are strategic tools that are informing, inspiring and energising for the stakeholders of a business. They evoke emotion and build an image of the business in people’s minds. To summarise, here are the key attributes of a vision statement and a mission statement for a business (Table 2.4).

Table 2.4 Attributes of a vision statement and a mission statement

Attribute	Vision statement	Mission statement
Purpose	‘Where is the business going?’	‘Why does the business exist?’
Time	Future-based	Present-based
Function	A vision is aspirational	A mission is actionable
	Inspires and gives direction	Conveys a message of why the company exists
	Directed at the internal environment (owners and employees)	Directed at both the internal (owners and employees) and external environments
Feature	An expression of what it aims to achieve in the future	A declaration of what a business aspires to achieve now

QUESTIONS 2.9



- 1 **Explain** the strategic planning document known as a vision statement.
- 2 **Explain** the strategic planning document known as a mission statement.
- 3 **Explain** the difference between a vision statement and a mission statement.
- 4 Read the vision and mission statements of the Lemon Squeeze Cafe and answer the questions that follow.
 - a **Explain** the reason why this business exists.
 - b **Explain** the strengths of this business.
 - c **Identify** the stakeholders of Lemon Squeeze Cafe. According to the statements, how does it intend to fulfil the needs of these stakeholders?
 - d **Explain** the internal and external benefits of having both a vision and a mission statement for Lemon Squeeze Cafe.
 - e **Interpret** the relationships and patterns in the vision and mission statements of Lemon Squeeze Cafe to **draw conclusions** about the ability of this business to continue its successful operations.

Lemon Squeeze Cafe

Vision for Lemon Squeeze Cafe

Our vision is to be the customers' first choice for food by delivering products of outstanding quality through great service at a competitive price. We will provide delicious food, exceptional service and make every customer's experience memorable.



Mission statement for Lemon Squeeze Cafe

Lemon Squeeze Cafe is a place where the customer comes first. This is achieved through providing:

- customer service: we listen to our customers and create an enjoyable dining experience
- quality: we provide quality in everything that we make and do
- service: we focus on our customers and provide efficient, friendly service
- culture: we create an atmosphere that makes everyone feel welcome
- environment: we are concerned about the environment and have initiated sustainable practices.

Figure 2.38 Lemon Squeeze Cafe

- 5 Read the mission statements for Lemon Squeeze Cafe and Starbucks and answer the questions that follow.

- Analyse** the similarities and differences in elements of the two mission statements.
- Decide** which mission statement you find more inspiring and **explain** why.
- Interpret** the relationships and patterns in the Starbucks mission statement to **draw conclusions** about the ability of this business to continue successful operations.



- 6 Using the Internet, locate the strategic documents of a business to **identify** the following:
- the purpose of the business
 - the vision and/or mission statement.



starbucks.com.au

Our mission: to inspire and nurture the human spirit – one person, one cup and one neighbourhood at a time.

Figure 2.39 Starbucks' mission statement

[Source: www.starbucks.com.au/Mission-Statement.php]

Goals and objectives

A business must establish a direction and this involves establishing both goals and objectives.

- *Goals* are statements of direction that identify what a business wants to achieve.
- *Objectives* are statements of intention that provide direction for achieving a goal.

Business goals and objectives are strategic planning tools that are used to establish an intended direction for a business, and must be considered together. A goal without an objective means there is no plan to achieve the goal, whereas an objective without a goal means there is no direction for the objective (Figure 2.40).

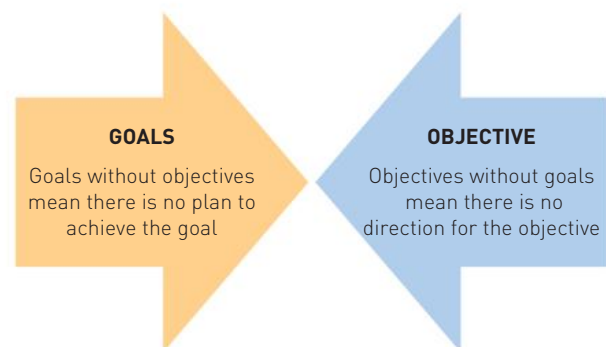


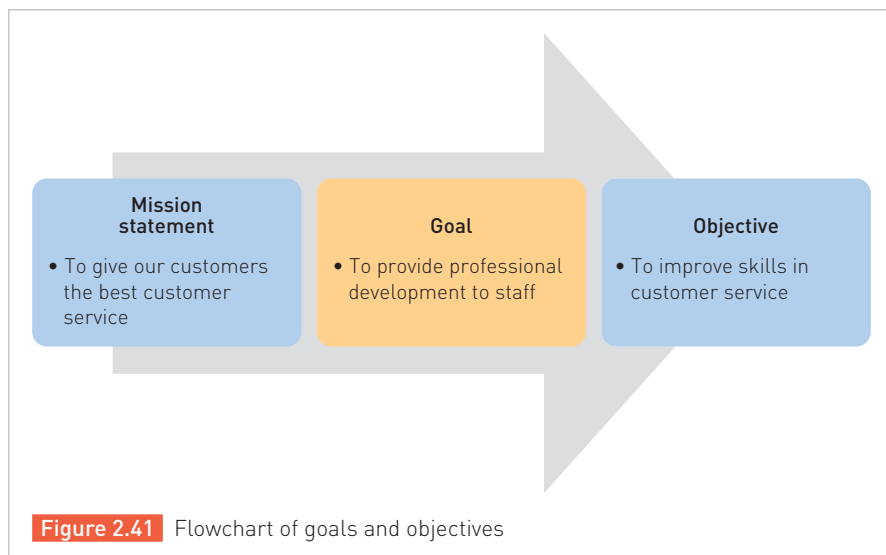
Figure 2.40 Goals and objectives

Setting goals and objectives

When developing goals and objectives, knowing the difference between the two is crucial for establishing a clear strategic plan. Here is a simple way to illustrate how they are different:

- A *goal* has the word ‘go’ in it, and ‘go’ implies a direction. A goal should set a clear direction towards the destination. For example, a goal could be to increase sales of a product.
- An *objective* has the word ‘object’ in it, and objects are concrete. An objective should break down a goal and set a journey towards achieving the goal. For example, an objective could be to employ more sales staff to sell the product.

Goals and objectives are linked to the mission statement of a business. A goal provides a clear direction of what a business wants to achieve in its mission statement. For example, the mission statement of a business might identify that ‘our mission is to give our customers the best customer service in the industry’. The business could then set as its goal to ‘provide professional development to staff’. To achieve that specific goal, the objective for the business could be to ‘improve skills in customer service’. Figure 2.41 shows the flowchart of goals and objectives from the mission statement of a business.



Summary of goals and objectives

Goals and objectives are both strategic tools for accomplishing what a business wants to achieve. Goals are used to help a business grow and achieve its objectives. Business goals and objectives are often the driving force for performance in operations. A design technique used to set objectives is to use a SMART objectives template (Figure 2.42).

ANALYTICAL TOOL



SMART goals and objectives

A SMART tool can be used in business to guide goal and objective setting. SMART is an acronym for the five elements of the tool: specific, measurable, achievable, realistic and timely. It is important for a business to establish goals and objectives and review these constantly. Having well-defined goals and objectives can:

- help a business grow
- achieve business aims
- improve collaboration and team work
- set a clear direction for the business.

Setting SMART goals and objectives can be a powerful tool for a business. It has the advantage of improving focus and clarity and providing a common framework for the business. To make goals and objectives clear and achievable, each element should be detailed.

Specific

The goal/objective should be clear and specific to give it a greater chance of being achieved. When determining it, you need to describe what you want to be achieved, by whom, where and when (and sometimes why).

Measurable

The goal/objective should be able to be measured so that it is recognisable when it is achieved. This will help to assess if the business is on the right track to achieving it. A step-by-step target with review points can be used to realise this.

Achievable

The goal/objective should be achievable by the business and is something that the business has the time, finance and resources to do.

Realistic

Ensure that the goal/objective is relevant to the direction the business wants to head in. The business needs to consider the strategic documents established, such as the vision and mission statement. The goal/objective also needs to fit in with the intention of the business.

Timely

The business needs to set realistic deadlines for completing the goal/objective. It needs to be something that can be achieved within the time frame.

A business can use a SMART framework similar to the diagram in Figure 2.42.

For more information on using a SMART tool, go to the MindTools website.

**SMART goal setting**

Figure 2.42 Be SMART – be specific, measurable, attainable, realistic and timely.

GAINING INSIGHT**Powerful leaders in the industry**

The CEO of the electrical giant PowerGrid company, Paul Hager, has set the company the aim of becoming the leading company in the industry in five years. To achieve this, Hager estimates that the profit margin for product sales needs to improve from 5 per cent to 8 per cent over the five-year period. This means that the total sales are to reach five million per year for five years. The closest competition to PowerGrid currently achieves total sales of one million per year. Based on future predictions, the competition should achieve no

more than 2.3 million sales over the next five years. Mr Hager has also announced his intention to become more competitive by increasing the product range to include power-saving devices.

Questions

- 1 **Identify** whether PowerGrid's aim fits the SMART framework.
- 2 **Explain** the importance of the CEO setting an overall aim for the company.

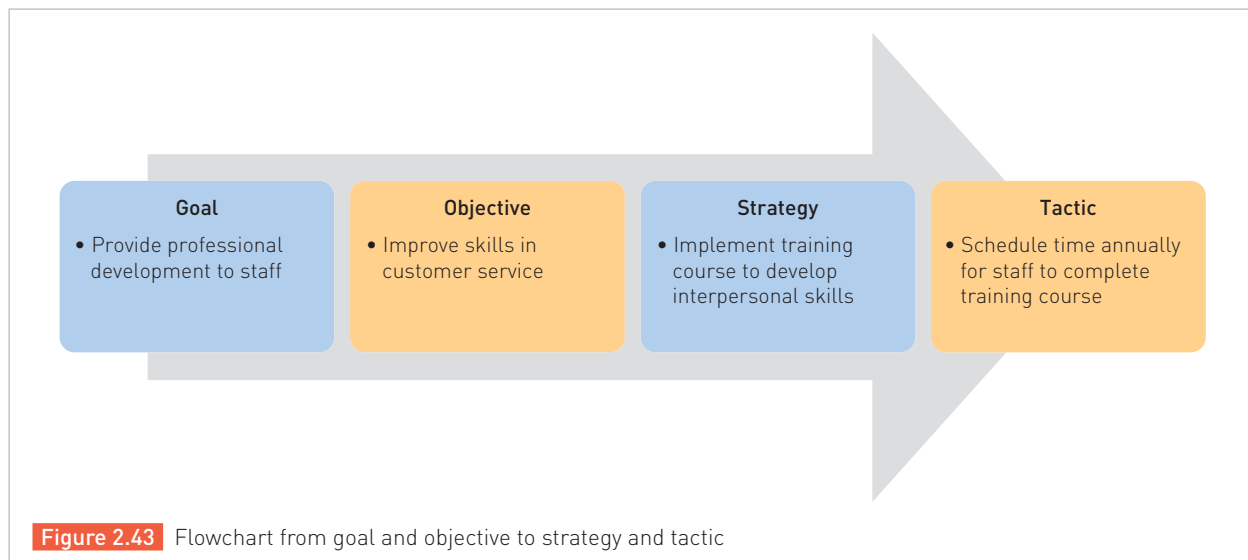
Strategies and tactics

Strategic planning involves three key stages (see Figure 2.35, Pyramid of purpose), setting out *why* the business exists (vision and mission), *what* the business intends to achieve (goals and objectives) and *how* it will achieve these (strategies and tactics). When a business formulates a strategy, it chooses a tactic to achieve the strategy. A strategy is a direction towards achieving a goal, and a tactic is the action taken to support that strategy. To be effective, the tactic must align with the strategy.

- A *strategy* is how to reach a goal in a business.
- *Tactics* are the actions taken to achieve the strategy.

Strategies and tactics are linked to the goals and objectives of a business. A strategy provides a clear link to how an objective can be achieved. For example, a business may have set as its goal to 'provide professional development to staff'. To achieve that specific goal, the objective for the business could be to 'improve skills in customer service'. The strategy for reaching that objective could be to 'implement training courses to develop interpersonal

skills'. Finally, the tactic to achieve the strategy could be to 'schedule time annually for staff to complete training courses'. Figure 2.43 shows the flowchart from goal and objective to strategy and tactic of a business.



Basically, strategies and tactics make business goals real. They redefine a goal by adding more detail to how the goal can be achieved. Each level adds relevance and practical application, and simplifies the process.

Summary of strategies and tactics

Strategies and tactics are strategic tools that detail how the business will achieve its aims. Strategies should clearly identify how the goal and objective will be reached. They should show the best route and provide tools with which to achieve this. These tools are known as tactics. The bottom line is that a business will not achieve its goals unless it breaks them down into objectives, strategies and tactics.

QUESTIONS 2.10



- 1 **Identify** the purpose of establishing business goals and objectives.
- 2 **Explain** the benefits of setting business goals and objectives.
- 3 Using the following table, write suitable tactics for this business to achieve its goal.

GOAL	To increase profit margin	
OBJECTIVE	Reduce operating expenses by 10 per cent in 18 months	
Strategies	Tactics	
1 Identify departments with highest expenditures		
2 Implement department budgets		
3 Implement a paper recycling program		
4 Offer incentives to departments that reduce costs		

Evaluating plans

A business needs to evaluate its strategic pathway using criteria to measure success. This will ensure that the business's strategic plans are being met. A business needs to evaluate practices and strategies to determine whether goals and objectives are being achieved. These evaluations are used to make judgements, decisions and recommendations.

Evaluating criteria

The four criteria used for evaluating are competitiveness, effectiveness, efficiency and stakeholder satisfaction. Refer to Chapter 1 for more detail.

Decisions

Another tool that can be used when evaluating business practices and strategies is a decision-making matrix or tree. These visual tools can be used to represent evaluation and decision-making processes and can be used to make judgements and recommendations.

Decision-making matrix

A decision-making matrix is a measuring tool that evaluates alternatives to a course of action. It is a visual representation that lists values in rows and columns and compares factors. This method of decision-making can clarify an issue by listing options and highlighting points that may assist with making a final decision. It is a method that can be useful to guide a business in making good decisions. A decision-making matrix allows factors to be prioritised and helps remove subjectivity in order to make a sound decision.

Example of a decision-making matrix

A business could use a decision-making matrix to determine the best location for the business. Table 2.5 shows an example of a decision-making matrix that could be used to determine this.

Table 2.5 Decision-making matrix

Business location					
Factor	Rent	Parking space for customers	Competition close by	Proximity to public transport	Score
Consideration	Lower is better	Higher is better	Lower is better	Higher is better	
Weighting	4	3	5	2	
Location 1	$2 \times 4 = 8$	$3 \times 3 = 9$	$4 \times 5 = 20$	$0 \times 2 = 0$	
Location 2	$3 \times 4 = 12$	$2 \times 3 = 6$	$3 \times 5 = 15$	$1 \times 2 = 2$	35
Location 3	$1 \times 4 = 4$	$1 \times 3 = 3$	$2 \times 5 = 10$	$0 \times 2 = 0$	17
Location 4	$4 \times 4 = 16$	$3 \times 3 = 9$	$4 \times 5 = 20$	$1 \times 2 = 2$	47

In this example, the factors that the owner has considered important are listed, weighted and scoring has been given. Competition has been determined as the most important factor and has been given a weighting of five, followed by rent (four), parking and then proximity to public transport. The overall score indicates that location 4 is the best option, and the owner can use this to justify the decision to locate the business there.

Decision tree

A decision-making matrix is not the only tool available when evaluating business practices and strategies. A decision tree is another option that predicts the consequences of choices. It is a visual representation in a tree-like graph that shows possible options and resulting outcomes. It clearly identifies possible solutions for a given decision through a systematic process. It starts with a single problem – the root – and then branches off into options and solutions to form a tree diagram. It is a useful tool to formally break down a complex decision.

Example of a decision tree

Using the same example as in the decision-making matrix (Table 2.5), a business could use a decision tree to determine the best location for the business. Figure 2.44 shows an example of a decision tree that could be used in this situation.

In this example, the options for locations start the tree branches. The factors the owner has considered important continue the branch. Each factor is then weighted and usually results in the most desirable outcome being highlighted. In this case, location 4 is the best option. This decision tool is simple to understand and interpret, it requires minimal preparation and the considered path is easy to follow. However, a decision tree can become excessively complex and requires some calculations. Decision tree computer software is available online to businesses, which makes the process easier. These programs assign values and probabilities to branches and assist with analysing options.

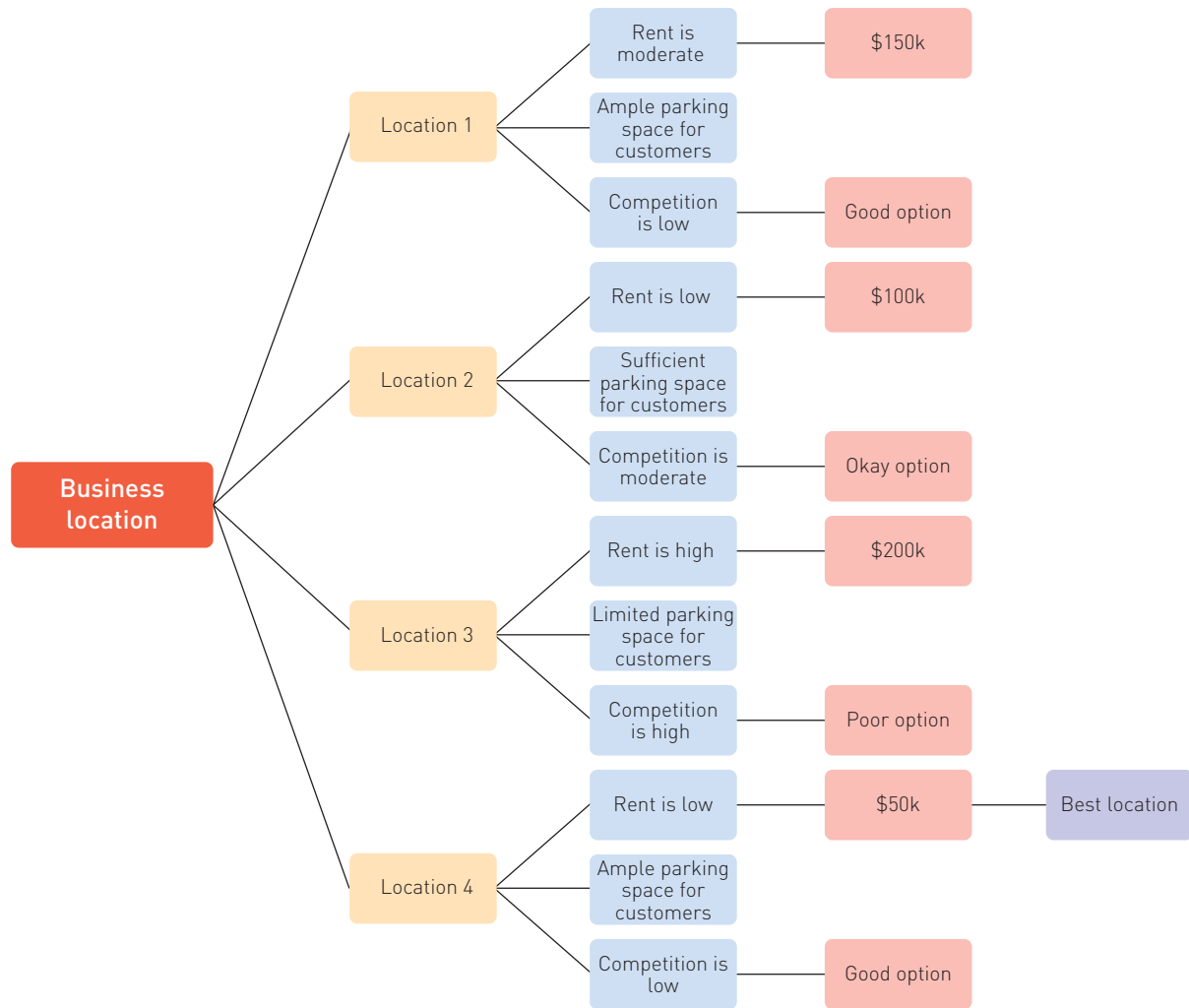


Figure 2.44 Decision tree

EMERGING TECHNOLOGIES



Goodbye cash

Businesses are preparing for a cashless society.

The decision for a business to become cashless is an important one. The business needs to consider its target market and how customers would expect to pay. A business also needs to anticipate the future direction of digital payments and cashless commerce.

The benefit of only accepting credit payment is the convenience of conducting financial transactions. A business no longer requires a safe or a cash float, and there is no need to reconcile the cash register at the end of the business day. It also gives a business a certain credibility and makes it easier for many customers to pay.



Figure 2.45 Many businesses are now completely cashless.

The main concern with only accepting card payment is the costs and fees associated with credit transactions. This may prove not to be cost-effective for some businesses. Additionally, there is an increased chance of fraud.

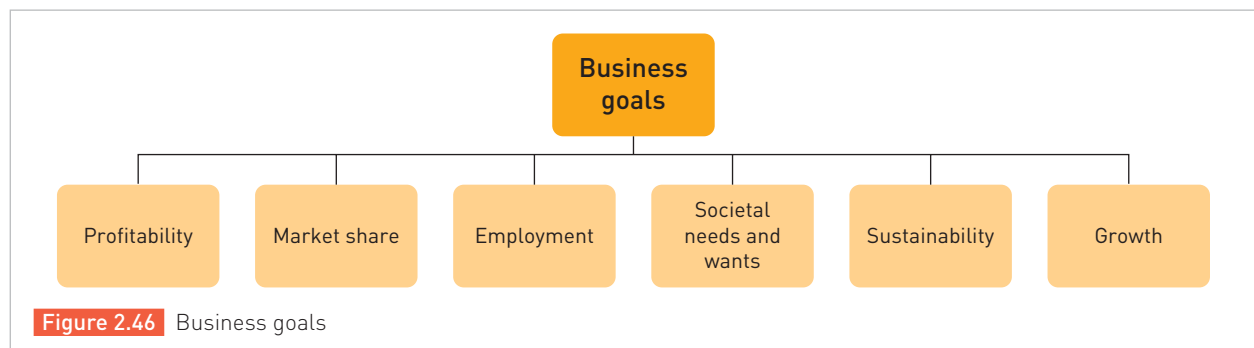
Moving towards a digital payment system is a challenge for a business and perhaps one that should be embraced. What do you think?

Questions

- 1 **Create** a table highlighting the advantages and disadvantages of having a cashless business.
- 2 **Create** a decision-making matrix or tree to decide whether a small business should only accept cards for customer payment.

Business goals

A business's primary goal is to maximise profits. To achieve this, specific goals need to be established. Goals give a business a clear direction and provide a means to measure the success of a business. They are a powerful tool that can focus the attention on achieving desirable outcomes. When specific goals are set, they identify what a business is trying to achieve and inform all stakeholders. This provides greater strength within a business as both leaders and workers have a purpose and a direction to follow. Most businesses also have the desire to improve and grow and to become more efficient and effective. Setting specific goals that focus on these areas will help a business achieve these results. This in turn will make a business more competitive and successful. Figure 2.46 shows the six most common business goals.



Key learnings

You will learn about business goals including:

- profitability
- market share
- employment
- societal needs and wants
- sustainability
- growth.

Profitability

In a profit-based business, making a profit is a critical element, and therefore a profitability goal should be created (Figure 2.47). The ability to generate a profit can be a means of measuring the success of a business and can be critical for a business's survival.

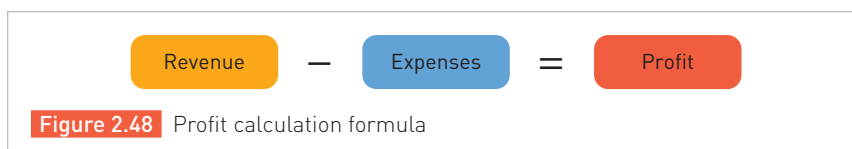
For a business to make a profit, the amount of **revenue** earned must exceed the **expenses** of the business. Put simply, to calculate a profit, deduct expenses from revenue (Figure 2.48).



Figure 2.47 Profitability goal

Revenue: the income that a business receives for goods sold or services provided

Expense: a cost involved in operating a business



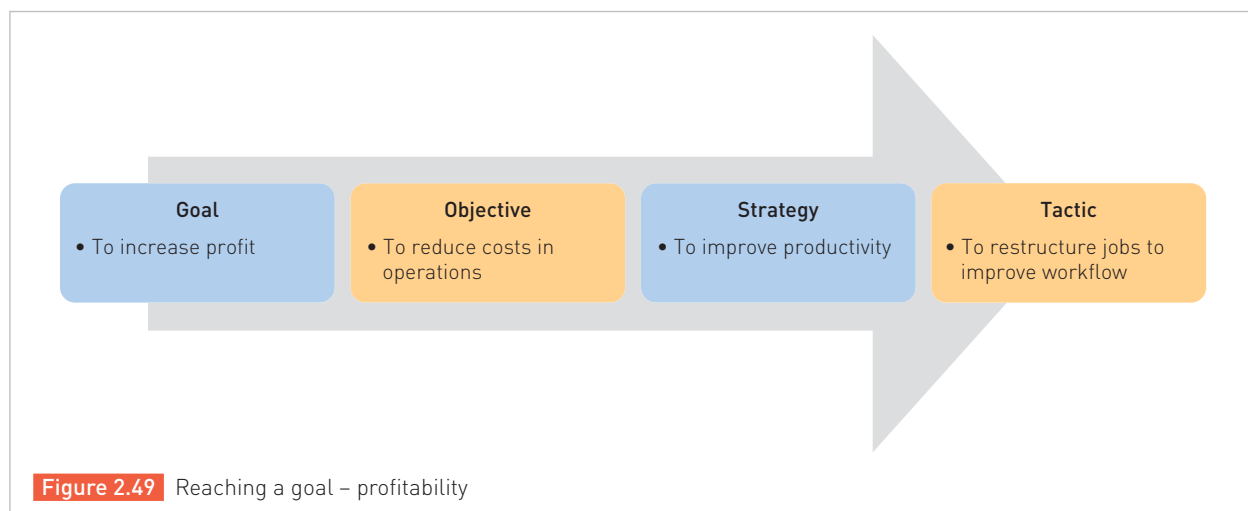
A business needs to raise revenues and lower expenses to generate a profit. This appears to be a simple equation, but there is more to understanding the concept of profit. A business needs to develop strategies to increase profits. This could include determining the level of sales required to produce enough revenue to make a profit. The expenses of the business (operating costs plus financial expenses) need to be lowered to produce a positive financial gain. It could also include ways to increase sales, increase profit on individual products and services, and decrease operating costs.

However, a business needs to do more than just make a profit. A business needs to use the profit to invest and grow the business for the future. It should establish a profitability goal to survive and grow.

Example of a profitability business goal

The goal of a business could be to increase profits. The objective may be to increase profit by reducing costs throughout the year of operation. Therefore the business needs to put in place strategies and tactics to achieve this. The strategy may be to improve productivity, and to do this the business may restructure jobs to improve the workflow. This should achieve the goal of increasing profits as productivity increases through improved workflow.

To simplify this process, Figure 2.49 represents how a goal of increasing profits can be achieved.



Market share

The success of a business is often measured by its share of the market. Therefore a vital goal for a business is to have a leading market share. Market share is a critical success factor for the continuation of a business in a competitive business environment. It is a sign of competitiveness. A strong market share indicates a business is a leader in an industry. Potential stakeholders such as consumers and employees will measure a business based on its market share. Market share drives the market's perception of a business and therefore drives the growth and success of a business.

Market share is essentially the percentage of the industry that a business controls. It can be calculated by dividing the total sales of an industry by the business's sales over a specific period of time. For example, in an industry, if consumers as a whole buy 100 products and 45 of these are from one business, then that business holds 45 per cent market share (Figure 2.50).

$$\text{Industry sales} \div \text{Business sales} = \text{Market share}$$

Figure 2.50 Market share calculation formula

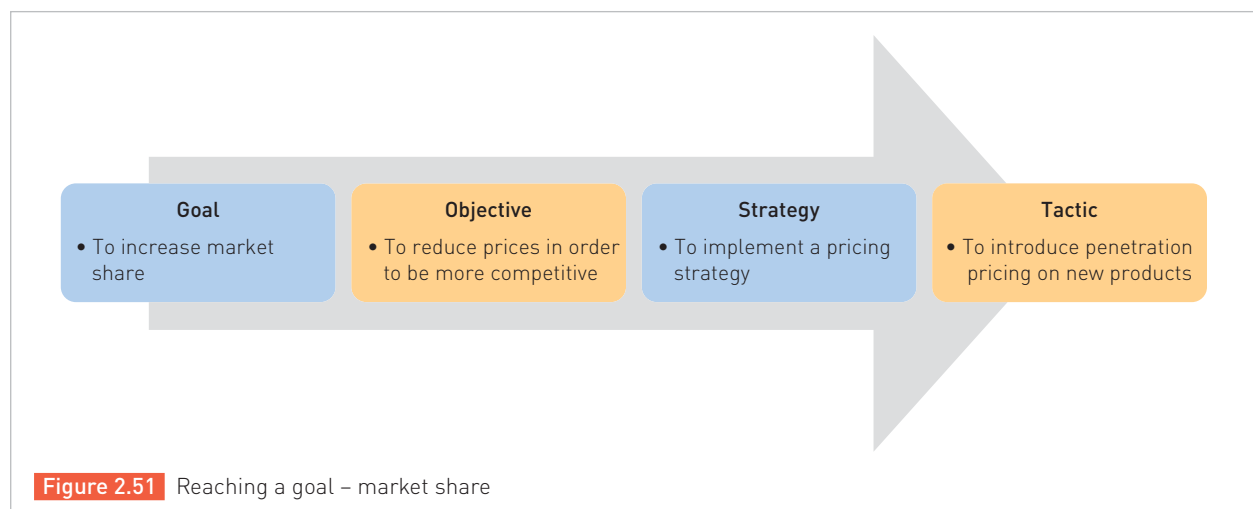
Calculating a market share in an industry gives a business an idea of its size in relation to its market and its competitors. It provides a **benchmark** for a business to measure itself on.

A business that maintains or grows its market share can be a leader in that industry. If a business maintains its market share, this means it is growing revenues at the same rate as other businesses in that industry. If a business's market share is increasing, it means that the business is growing revenues faster than its competitors. The greater the market share a business has, the more successful it could be. Therefore market share is a significant factor for a business. It measures the consumers' preference for a product (or service) over other similar products (or services). The higher the market share, the greater the opportunity for a business to generate more sales and become a market leader. It provides a business with the opportunity to achieve higher growth and improve profitability. In order to improve market share, a business could increase product offerings, lower prices, increase advertising or appeal to a larger **demographic**.

Example of a market share business goal

A business needs to remain competitive, and gaining a share of the market is crucial for its continued existence. The goal of a business may be to increase its market share for a particular product. The objective will be to become more competitive, so the pricing of the product will need to be reviewed. Therefore the business needs to put in place strategies and tactics to achieve this. The strategy may be to implement a pricing strategy. The business could introduce penetration pricing (initial low prices) on new products, which may encourage customers to try the product, providing an opportunity to win new customers. This should then achieve the goal of increasing market share by increasing customers.

Figure 2.51 gives a simple representation of how the goal of increasing market share can be achieved.

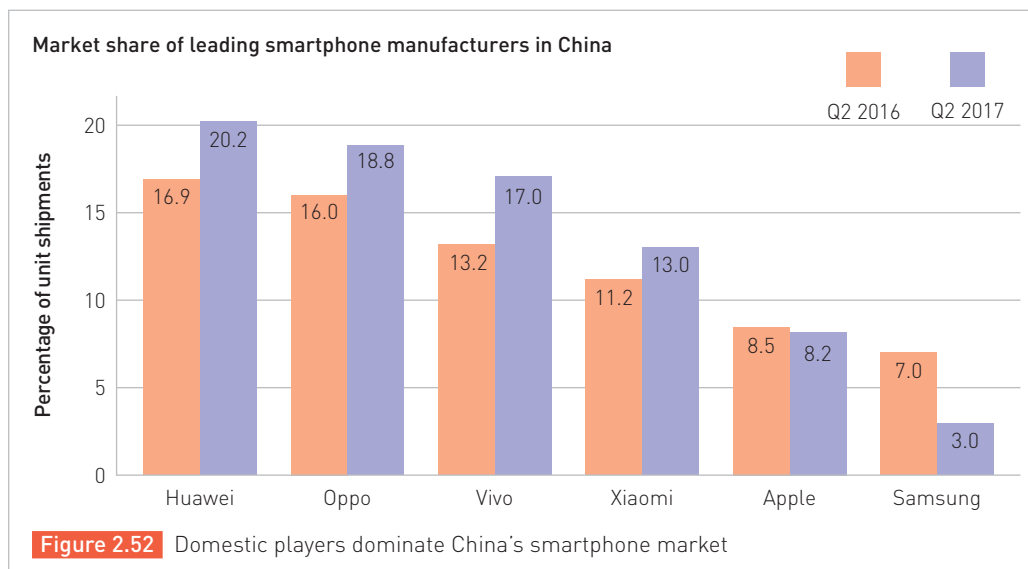


Benchmark: the process of comparing a business against other businesses in that industry

Demographic: a specific market, which can be based on age, gender, education level, income level, occupation or any other variables

The smartphone market is growing fast

Apple and Samsung are struggling to remain competitive in the Chinese smartphone market as local players continue to dominate. According to data from CounterPoint Research, the smartphone market in China grew by 3% between April and June 2017. As we see in this chart from Statista, Chinese brands like Huawei, Oppo, Vivo, and Xiaomi expanded their dominance and now account for 87% of the market. Samsung and Apple both lost ground. The big winner continues to be Huawei, which saw demand for its Nova and P10 models continue to grow. The big loser is Samsung, which saw its share of the market trimmed to 3%. The battery issues with Samsung's Galaxy 7 damaged the company's reputation, and its mid-tier phones faced tough competition from Chinese brands.



Source: <https://www.businessinsider.com.au/apple-and-samsung-are-losing-market-share-in-china-2017-8?r=US&IR=T>

QUESTIONS 2.11



Using the article 'The smartphone market is growing fast', answer the following questions:

- Explain** why a business should include market share as a business goal.
- Determine** why Huawei could be leading the smartphone market in China.
- Interpret** the patterns in the graph to **draw conclusions** about the implications for Apple's competitiveness in China's smartphone market.

Employment

The provision of employment is an essential business goal and is crucial for business growth (Figure 2.53). A business needs to project employment levels and have the necessary staff to attain goals. Employment refers to the relationship between two parties in which one party is the employer and the other is an employee. A business (the employer) usually requires workers (employees) to perform the operations of the business and provide a service to consumers. A strong workforce can sometimes give a business a competitive edge over a rival business. Therefore employees are often considered the most valuable assets of a business. This means a business should invest in its employees and develop employment goals.



Figure 2.53 Employment goal

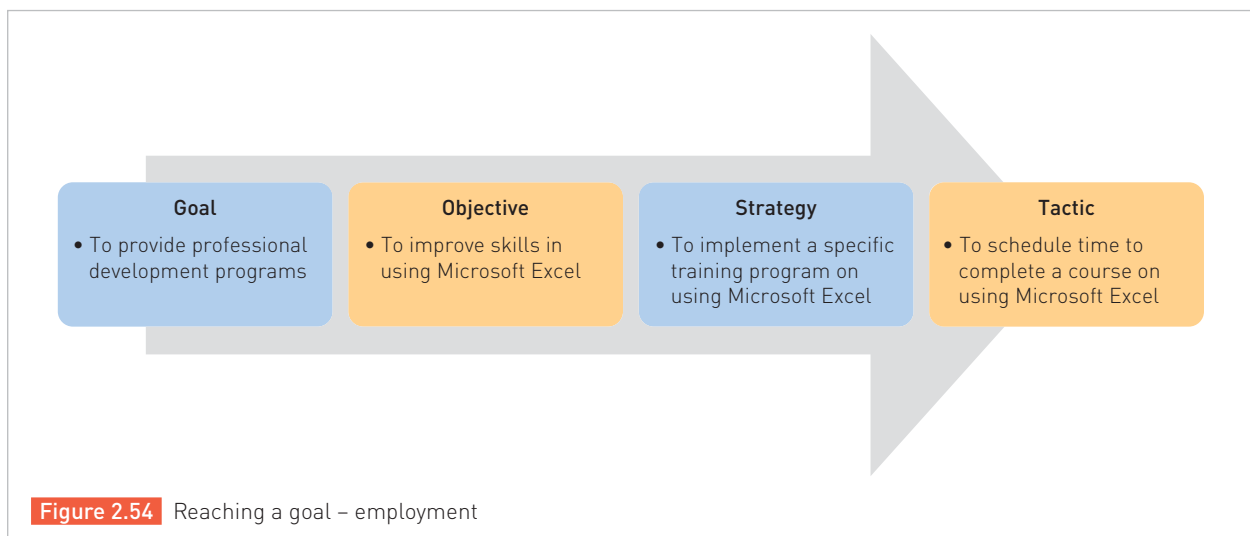
Implementing an employment system will increase employee satisfaction and loyalty. It will create a culture in a business that could also improve employee retention. The full potential of all employees should be realised. Employees should feel appreciated and motivated in the workplace. This, in turn, can improve employee productivity, which should increase profitability. The treatment of employees by a business is critical to success. It can impact on the recruitment process and the type of candidate who applies. If a business has a good employment reputation, it will attract more, and better qualified/skilled, employees.

Employment is also an important foundation for any economy. It keeps the economy healthy and provides revenue for the country through taxation. Taxes are used for goods and services that benefit the whole community, such as building road systems, investing in education and providing health services. Employment can impact on productivity levels, too. If consumer spending is high, this encourages a business to employ more labour to produce more goods and services. This increases employment levels within an economy.

Example of an employment business goal

A business needs to invest in an employment system that recognises and values its employees. The goal of a business may be to provide professional development programs for all employees. The objective will be to upskill employees in a specific area. Therefore the business needs to put in place strategies and tactics to achieve this. The strategy may be to implement a specific professional development course for employees. The business could then schedule time for employees to complete the course. This should then achieve the goal of providing a professional development program to promote quality employment opportunities.

Figure 2.54 gives a simple representation of how a goal of improving employment conditions can be achieved.

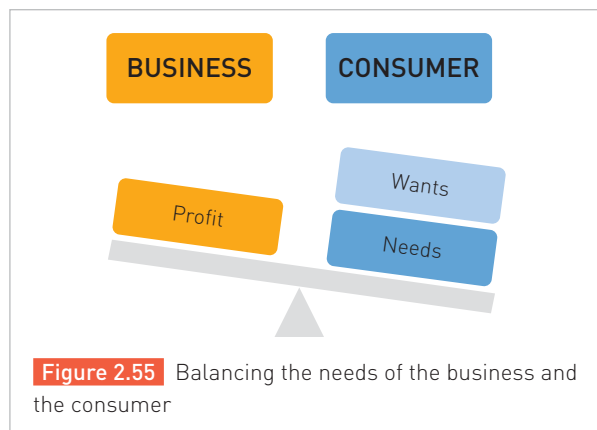


Societal needs and wants

A business operates within a society and must meet the needs and wants of the people in that society. The needs of individuals and of the community as a whole must be met. A business must be able to balance its profit and other goals to achieve the needs and wants of society (Figure 2.55).

To ensure that a business is meeting the expectations of society, it needs to ask the question: what do consumers need and what do they want? Firstly, it is important to understand the difference between a need and a want.

- A *need* can be defined as a basic human requirement, such as food, water and shelter. It is a physiological, personal or socio-economic requirement based on a person's function to live. For example, a person needs food to survive.
- A *want* can be defined as something that is desired and is often a means to fulfilling a need. For example a person may need shelter in the form of a house. However the choice of houses can range from a modest one-bedroom apartment to a lavish home with a pool and tennis court. This becomes a want.



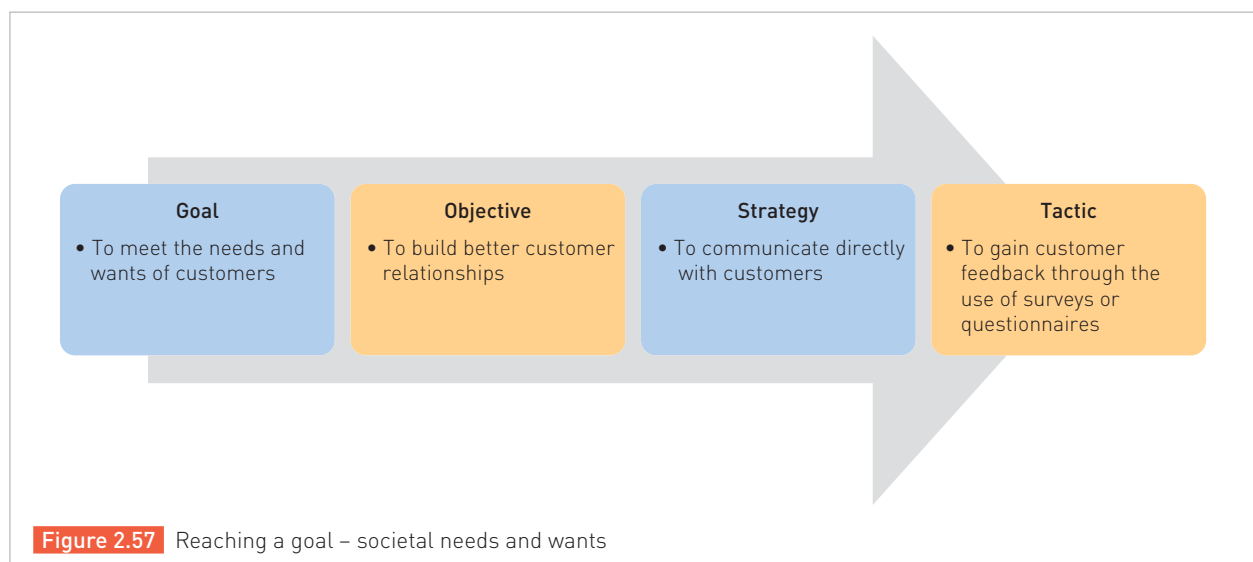
Shutterstock.com/horiyan; Shutterstock.com/Lukas Gojda

A business must be aware of, and understand, the needs and wants of a society (Figure 2.56). Building a business around these is critical to success.

Example of a societal business goal

To be successful, a business needs to be aware of society's needs and wants. A goal of a business may be to meet the needs and wants of customers. The objective would be to build a better relationship with customers. Therefore the business needs to put in place strategies and tactics to achieve this. The strategy could be to communicate more with customers to ensure the business is meeting their needs and wants. The business could do this by gaining customer feedback through surveys or questionnaires. Interpreting the results of these forms of feedback gives the business a better understanding of customer needs and wants. Strategies and tactics can then be put in place to achieve the goal.

Figure 2.57 gives a simple representation of how a goal of meeting the needs and wants of society can be achieved.



EMERGING TECHNOLOGIES



AR platform meeting customer's needs

The Swedish furniture superstore IKEA aims 'to create a better everyday life for the many people', and that is what it has done with its augmented reality (AR) app. It has revolutionised furniture shopping using futuristic technology. The IKEA Place app helps customers visualise what their furniture might look like in their own home. Basically, you can visually 'try on' furniture in your own home before you buy it. The app is designed so that you can choose any IKEA product and tap the item to appear in your room. It is useful to see if the IKEA Billy bookcase will fit in your home office, or you can match colours and designs. You can move the furniture around, experiment with different arrangements and add more than one item. It is a virtual reality program designed for your home or office.

Questions

- 1 What types of businesses could use this technology?
- 2 What are the benefits for the customer in using this technology to shop?
- 3 What are the risks for the business in offering this technology to customers?
- 4 How could this technology be improved for both the business and the customer?

Sustainability

A business is generally established to operate as a long-term investment. For a business to have longevity, it should commit to being a sustainable business and include **sustainability** as a goal.

A sustainable business can be defined as a business that generates a profit and improves societal and environmental conditions. Basically this means that a business needs to incorporate sustainable practices in what it does (a product or service) and in how it does it (the way the business operates). A business should address key areas of sustainability, including improving management of waste, energy and production. It needs to implement practices of recycling, renewing and regenerating that demonstrate a 'green' attitude. It needs to make decisions with the preservation of the environment and the well-being of future generations in mind.

Introducing sustainable practices can be rewarding for a business in many ways. It can increase consumer demand, improve a business's reputation, provide innovative opportunities and strengthen stakeholder relationships.

Consumer demand

There is a growing demand among consumers to buy products that are ethically and sustainably produced. Consumers want to feel good about what they are buying and how it has been produced. Some consumers are concerned about environmental issues and are willing to pay more for items from businesses that use sustainable methods, such as fair trade, and materials that are ethically sourced. A sustainable business will be better placed if it includes a sustainability goal to meet this growing demand.

Reputation

The reputation of a business is vital for long-term success. A business that includes sustainability as a business goal has the potential to increase customers. Customers are choosing businesses that implement sustainable practices. There is strong customer support and loyalty for businesses that are ethical and sustainable. This will build the reputation of a business and could mean an increase in market share.

Sustainability: the capacity to endure



Innovation

The focus of being sustainable provides new opportunities for innovation. It could mean the creation of new products or the redevelopment of existing products. It creates new market opportunities for businesses to develop solutions to challenges in the future.

Stakeholders

A business that is sustainable could strengthen stakeholder relations both internally and externally. It could attract and retain staff who are passionate about sustainability issues, and gain customers who prefer to buy environmentally friendly products. It could also attract investors who recognise value in being invested in a sustainable business.

Resource efficiency

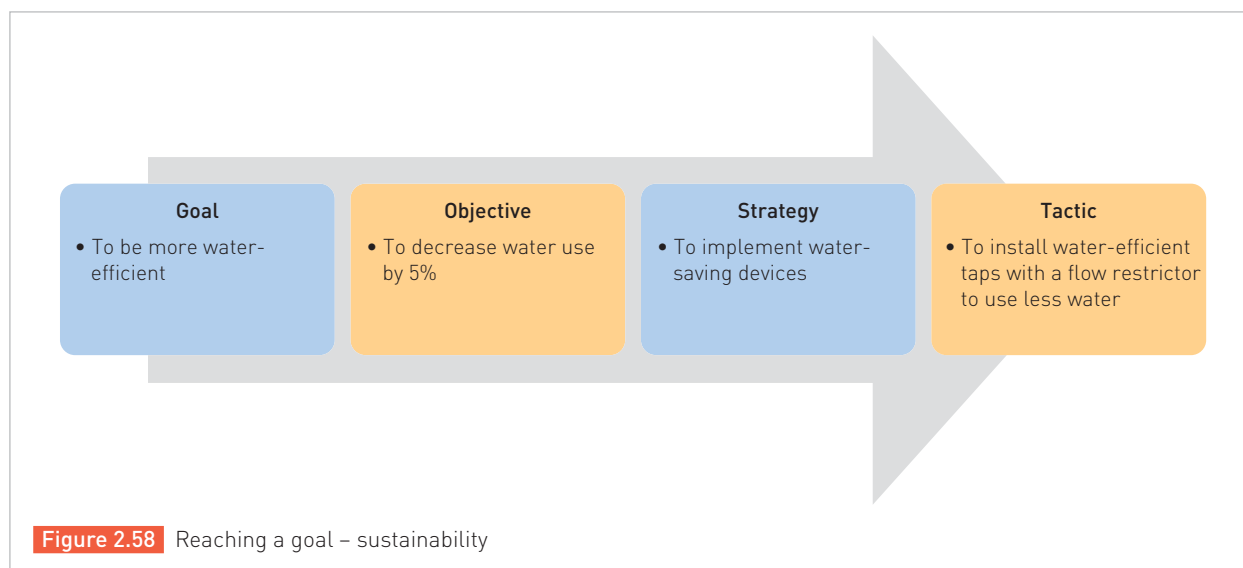
A business that is sustainable often has better use of resources and streamlined practices in its operations. It implements water- and energy-efficient initiatives that decrease costs for the business. It is also concerned about waste products and implements a system to reduce, reuse or recycle waste. A sustainable business is a smart business. The integration of a sustainability goal enables a business to be future-driven and an industry leader.

Example of a sustainability business goal

A business needs to implement sustainable practices in the workplace. A goal of a business may be to be more water-efficient. The objective could be to decrease water usage by 5 per cent. Therefore the business needs to put in place strategies and tactics to achieve this. The strategy may be to implement water-saving devices. The business could install water-efficient taps with a flow restrictor to use less water. This should then achieve the goal of being more water-efficient in the workplace. Follow the weblink to view the 2020 sustainability goals of Brambles, a global supply chain logistics company.



Figure 2.58 gives a simple representation of how a goal of sustainability can be achieved.



GAINING INSIGHT



Poppy Rose: how we are different



All images courtesy Elli Gregory

Figure 2.59 Poppy Rose: how we are different

We like to do flowers a little differently and offer a unique experience for our customers. Each morning the Poppy Rose team is up bright and early finding the freshest and most beautiful flowers from our local flower markets.

Source: Poppy Rose website, home page

We've found a sustainable way to deliver flowers, with minimal waste!

We operate a little differently to the big guys, focusing on a unique style of flowers which changes daily. We focus on minimising the amount of flowers that end up in the bin by only buying what we need each day – so it goes straight from our local grower's market to your door!

We want to minimise the impact we have on our environment by using Kraft brown recyclable paper and natural jute twine to bundle our

flowers – all of which are biodegradable (and they look great)! We thought it was time to say goodbye to hot pink cellophane and curly ribbons – you're welcome!

Our online ordering process is simple and by keeping our business online and keeping our overheads as low as possible we are able to keep the costs of our flowers down – that one's for you!

Source: Poppy Rose website, 'How we're different'

Questions

- 1 **Distinguish** how the business Poppy Rose is different to other florists.
- 2 **Explain** the benefits for the business Poppy Rose in implementing sustainable practices.
- 3 **Determine** why it is important for businesses such as Poppy Rose to show leadership in developing sustainable practices.

Growth

The growth of a business is a critical goal for the business's longevity. It establishes the future direction of a business and creates opportunities. A business should indicate a forward movement rather than being static. It should be driven to achieve. A business should be aiming to increase its market share, which translates to greater profits. A business needs to maximise capacity to build a better position within the marketplace. This could mean developing a stronger market position for a specific product in a particular market where competition is high.

A business also needs to satisfy the growth expectations of key stakeholders. It needs to show both internal and external growth. Internal growth should be to increase sales, employ more people, introduce more products or increase productivity. The external growth could be dictated by customer preferences and attitudinal changes. A business needs to set growth goals to react to these changes in a competitive landscape. External growth could also involve mergers or acquisitions. A business could merge with other businesses or acquire another business to grow and expand.

A goal of maximising growth is critical for any business. Achieving this goal will provide the opportunity for a business to increase its market share and to grow its profits.

Example of a growth business goal

A goal of a business could be to promote growth in the market. The objective could be to increase a customer-focused culture within the business. Therefore the business needs to put in place strategies and tactics to achieve this. The strategy may be to implement a customer rewards program to encourage growth. The business could start a rewards program to encourage consumer spending and entice more customers to buy goods or use services from the business. This should then achieve the goal of promoting growth in the market.

Figure 2.61 gives a simple representation of how a goal of growth can be achieved.



Figure 2.60 Growth of a business

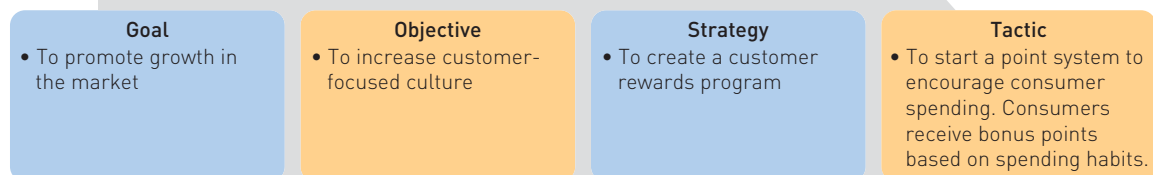


Figure 2.61 Reaching a goal – growth

GAINING INSIGHT



Bigger burger deal

The gourmet burger business is growing in popularity and this is clearly evident by the booming business Burger Urge. Originally founded by brothers Sean and Colby Carthew in 2007 as a small local restaurant on Brunswick Street, Fortitude Valley, the business has grown with stores opening nationwide. What sets Burger Urge apart from its competitors is its

approach to the business. Its mission statement says it all:

OUR MISSION

This is the part where we are supposed to talk about fluffy, feel good things, but our approach to life is pretty straightforward.

We make great burgers and have a lot of fun doing it.

We don't take ourselves too seriously – you won't find any cravats in our kitchens!

Sometimes we ruffle a few feathers and sometimes we're a bit left field.

One thing is certain – our burgers are good. Dangerously Good.

Burger Urge prides itself on using only the freshest, premium, free range products sourced from local Aussie farmers.

'No one does it quite like us. Known for our out of the box approach to just about everything, we pride ourselves on making delicious burgers that are also good for you.'

The business has been established as a private company but plans to expand further with a long-term goal of 100 operations across the country.



Alamy Stock Photo/Stars and Stripes

Questions

- 1 **Identify** what distinguishes Burger Urge from its competitors.
- 2 **Explain** how Burger Urge has achieved growth in the market.

QUESTIONS 2.12



- 1 Complete the following table on business goals.

Business goal	Description	Benefit for a business
Profitability		
Market share		
Employment		
Societal needs and wants		
Sustainability		
Growth		

- 2 **Identify** the business goal in each of the following examples.

	Example of a business goal	Business goal
a	Reduce operating costs by 10% in 18 months	
b	Improve employee skills in retail service	
c	Increase competitiveness by improving quality	
d	Create a good return on investment in technology	
e	Grow an email list of 5000 new subscribers in 12 months	
f	Improve our position in the local market and strengthen our brand	
g	Identify and understand customer needs and expectations	
h	Deliver more fuel-efficient systems in operations	

- 3 **Explain** a benefit for a business in establishing a sustainability goal.
- 4 **Identify** and **explain** the relationship between a market share goal and a growth goal for a business.

GAINING INSIGHT



McDonald's

McDonald's Australia Limited is an Australian public company. The first store to open in Australia was in 1971 in the Sydney suburb of Yagoona. There are now over 900 McDonald's outlets across Australia and the company employs around 90 000 people in its restaurants and management offices. McDonald's has as a priority to maintain trust and integrity. To do this, it prioritises its customers and employees, making sure they receive the respect they deserve.

'To be the best quick service restaurant experience.' Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile.

McDonald's identifies its strategic direction as follows:

- We place the customer experience at the core of all we do
- We are committed to our people
- We believe in the McDonald's System
- We operate our business ethically

- We give back to our communities
- We grow our business profitably
- We strive continually to improve

Source: mcdonalds.com.au/about-maccas/maccas-story

Questions

- 1 **Identify** the primary goal for McDonald's.
- 2 **Explain** the benefits to McDonald's for having this as its focus.
- 3 Match the strategic direction of McDonald's with the six main goals of a business to identify its priorities.
- 4 **Interpret** the relationships between the strategic direction and business goals to **draw conclusions** about the implications for McDonald's competitiveness.
- 5 **Create** a short business report extract for management that **communicates** your interpretations about McDonald's strategic direction and ability to be competitive.

Key business functions

Once a business has been established, it performs key internal functions. Those functions are: finance, human resources, marketing and operations. Regardless of the size, type or activity of a business, it performs all these functions. In a small business, all functions are generally performed by an individual, whereas in a larger business the same functions are usually divided into departmental teams. The bigger the business, the more detailed and involved these functions become. These key functions are linked together to achieve the overall aim and objectives of a business. They have to function together for the business to be effective. Figure 2.62 shows the four key functions of a business.

Key learnings

You will learn about the key business functions of:

- finance
- human resources
- marketing
- operations.

Finance

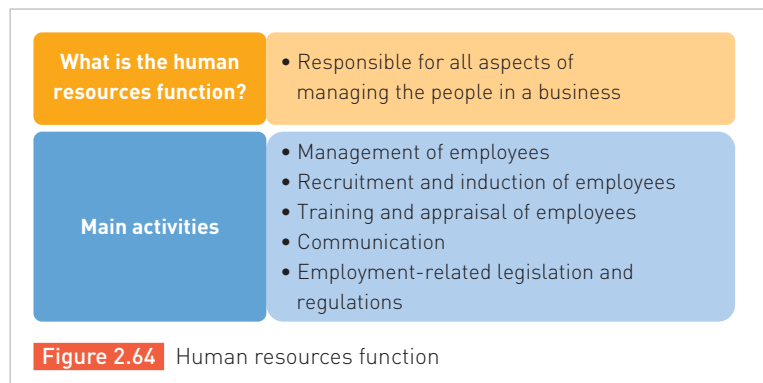
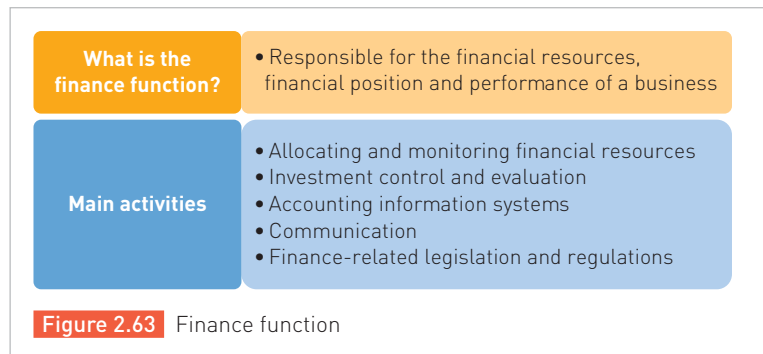
Finance is often regarded as the lifeblood of a business. The finance aspect of a business relates to the acquisition, management and use of financial resources in a business to achieve its objectives. It is a critical element to the survival of a business. A business succeeds and growth occurs when its finances are managed effectively. Finances in a business include sources of finance, investment and accounting information systems. The goal in



finance is to support the business in its operations and marketing by providing sufficient funds to complete activities. The function of finance is summarised in Figure 2.63.

Human resources

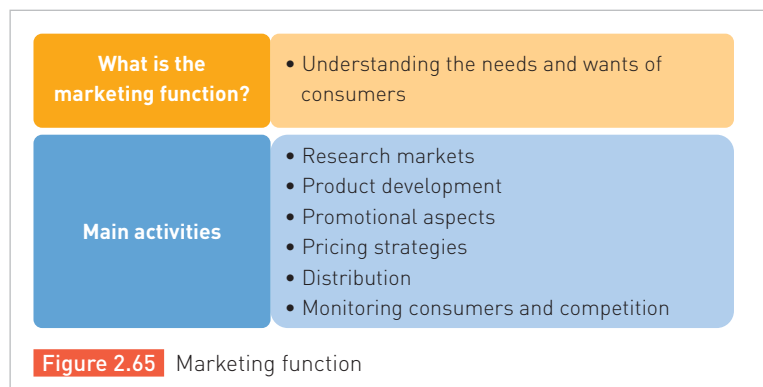
Human resources are the people who make up a business – the owners, managers and employees. The human resources function deals with acquiring, developing and maintaining a business's workforce. It involves the recruiting and hiring of new employees, training and motivating of current employees and providing compensation and benefits. Human resources play a critical role in helping a business to gain a competitive edge. In a fast-moving, competitive environment, there is a great demand for high-quality employees. The function of human resources is summarised in Figure 2.64.



Marketing

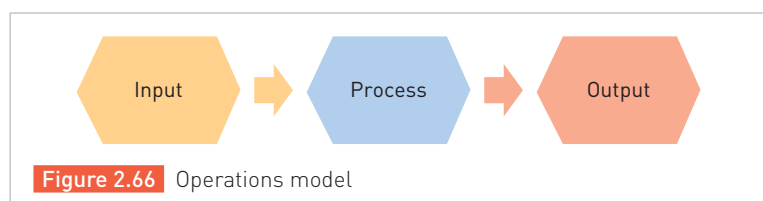
The function of marketing starts by determining what consumers want and need, and then goes about persuading potential customers to become customers. The marketing function is about identifying potentially successful products and then promoting those products. It involves a business determining customer buying habits and researching consumer trends. Businesses could ask themselves, 'What are people talking about and looking for, and what will they need in the future?'

Typically, the marketing process includes performing market research, product (or service) development, market development, market penetration and then creating a strategic marketing plan. It also involves identifying the target market, pricing, promoting and then distributing the product or service. The function of marketing is summarised in Figure 2.65.



Operations

The operations function refers to a business's production system and the processes it has in place to transform materials and labour into goods and services. It is concerned with creating the highest level of efficiency in operations to ensure that processes are as effective as possible so as to maximise the profit of a business. It is based on a model that flows from input, through process and then to output (Figure 2.66).



The operations of a business involve utilising resources from materials, equipment and technology to acquire, develop and deliver goods and services. This requires determining the size of manufacturing areas, and project management methods including implementing technology networks. The management of operations in a business encompasses the acquiring of goods or services, managing relations with those involved in the process and improving the business's sustainability in using resources. The operations of a business are the key to success. If productivity is high, a business has a greater chance of being a competitive entity. This in turn will lead to a greater chance of success. The function of operations can be summarised as follows (Figure 2.67).

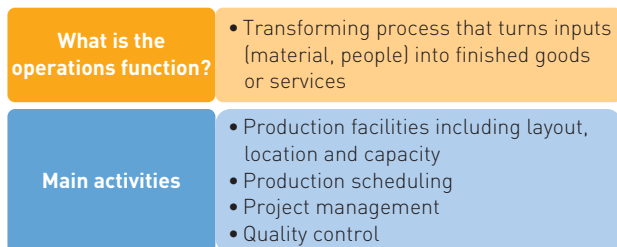


Figure 2.67 Operations function

QUESTIONS 2.13



- 1 **Identify** the business function that you would most prefer to be involved with, and **explain** why.
- 2 **Explain** the role of each of the key business functions in achieving business goals.
- 3 **Explain** how each of the functional areas of a business interacts with, and is dependent on, each of the others.
- 4 **Determine** which of the functions of a business is critical for the success of a business, and explain your reason.
- 5 **Explain** the impact technology could have on each of the key business functions.
- 6 **Classify** the following tasks according to the area of the four key business functions:
 - a providing training for new employees
 - b creating an electronic budget system to managing the invoicing of customers
 - c ensuring there are sufficient goods in stock to meet the needs of customers
 - d planning an advertising campaign for a new product line
 - e preparing the monthly cash-flow statement for management
 - f installing an automated robotic system in the factory
 - g determining a pricing strategy for a new product.

Chapter 2 review

This chapter introduced the fundamentals of business by examining business structures and the key business functions and showed how a business uses strategic planning and goal setting. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

2.1 Short items

- 1 **Describe** the features and characteristics of the internal, operating and macro business environmental factors for a profit-based business.
- 2 **Distinguish** between the internal and external environmental factors of a business.
- 3 **Explain** how customers can influence the operating environment of a business.
- 4 **Identify** a societal change and **explain** the impact it could have on a business.
- 5 **Explain** how a change in consumer law could have an effect on a business.
- 6 **Explain** why a business should have a code of ethics.
- 7 **Differentiate** between a profit-based business and a not-for-profit business.
- 8 **Describe** the key features of the following legal structures:
 - a sole trader
 - b partnership
 - c private company
 - d public company.
- 9 **Compare** the benefits of establishing a business as a partnership and as a sole trader.
- 10 **Differentiate** between a private and public company.
- 11 **Compare** and **contrast** the features of a small-scale business with those of a large-scale business.
- 12 **Differentiate** between a national and an international business.
- 13 **Explain** a benefit to a business in establishing the following strategic documents:
 - a mission statement
 - b vision statement.
- 14 **Differentiate** between a business goal and a business objective.
- 15 **Differentiate** between a business strategy and a business tactic.
- 16 **Explain** a sustainability goal a business could adopt to achieve a competitive edge.
- 17 **Explain** the relationship between goals and strategic planning in a start-up business.
- 18 **Identify** and **explain** ways in which a business can implement a profitability goal.
- 19 **Explain** the role of the key business functions (finance, human resources, marketing and operations) in achieving business goals.
- 20 **Explain** the role of technology and the operations function of a business.

2.2 Interpretive items

Using the case study below, answer the following questions:

- 1 **Create** a one-paragraph response (50 words) to **describe** the operating environmental factors that led Lucas Cook to the decision to start his business.
- 2 **Create** a one-paragraph response (100 words) to **describe** the business situation that led to Lucas Cook establishing Street Falls.

GAINING INSIGHT



Starting young

Lucas Cook started his own business while at school in Year 8. This young entrepreneur has created his own business, Street Falls, designing and selling street wear.

While other young people his age were completing school work, Lucas started making decisions about financial matters, operations, and designs of his products.



Figure 2.68 Street Falls

'When I created my first T-shirt, I saw potential for this to become a business', Lucas said. Street Falls sells a range of clothing, including windbreakers, hoodies, tall tees, rugby polos and long sleeves. Lucas designs the clothing and a manufacturer in Melbourne creates the clothing range.

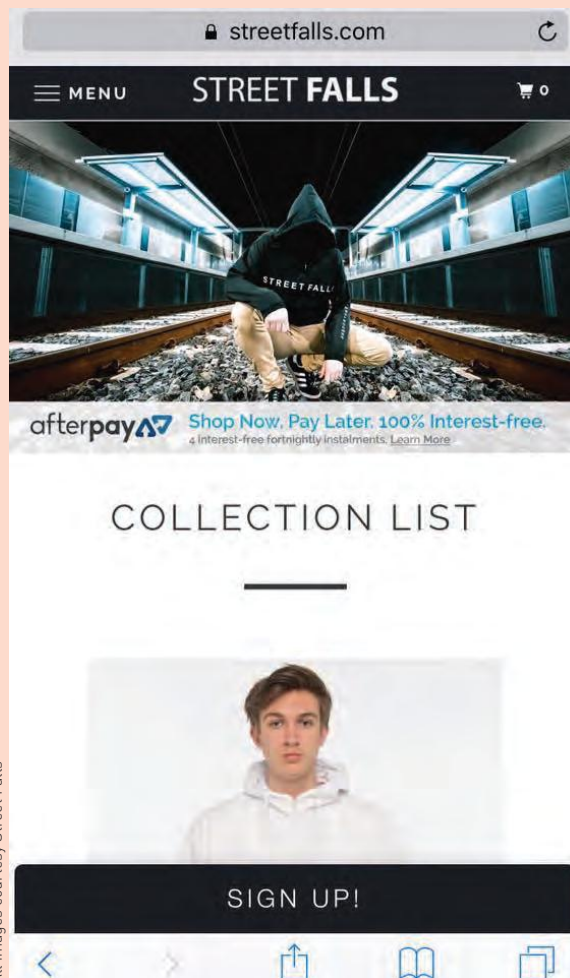


Figure 2.69 Street Falls apparel

Lucas has entered a competitive market, but has managed to differentiate his brand from other clothing. Lucas understands his target market and has created quality products at an affordable price. This has provided him with a leading edge in street fashion. Lucas is able to connect with his customers and provide the clothing they want.

'If you are engaging with your customers and make sure they are satisfied, they will be life-long returning customers', Lucas said.

Street Falls is an online business and customers can purchase from the business's website. Customers are able to follow the business on Facebook and Instagram. Lucas provides regular updates on these sites and promotes new products and sale items.



All images courtesy Street Falls

Figure 2.70 Street Falls website

Lucas sought the assistance of a business mentor to establish his online business. He obtained assistance from the Small Business Mentoring Service (SBMS), which is a not-for-profit association supported by the Victorian State Government. SBMS has a diverse range of mentors who have strong links to small businesses, either having owned their own business or worked in an organisation. SBMS provided the support and advice Lucas needed for his start-up business.

Lucas' success story is proof that age is no barrier when starting a business. It is a challenge and Lucas has taken the risk and turned his idea into a reality.

2.3 Extended-response items

Using the inquiry process, complete the following tasks by referring to the preceding case study on Street Falls.

- 1

Using the stimulus provided, **analyse** Street Falls’ business situation and environment to create a SWOT analysis.
- 2

Interpret the SWOT analysis to **draw conclusions** about the implications for Street Falls’ ability to be competitive.
- 3

Create a short business-report extract for the owner, Lucas Cook, that **communicates** your analysis and interpretations about environmental factors influencing Street Falls.

Strengths	Weaknesses
Opportunities	Threats

3

LEADERSHIP AND MANAGEMENT

What you will learn

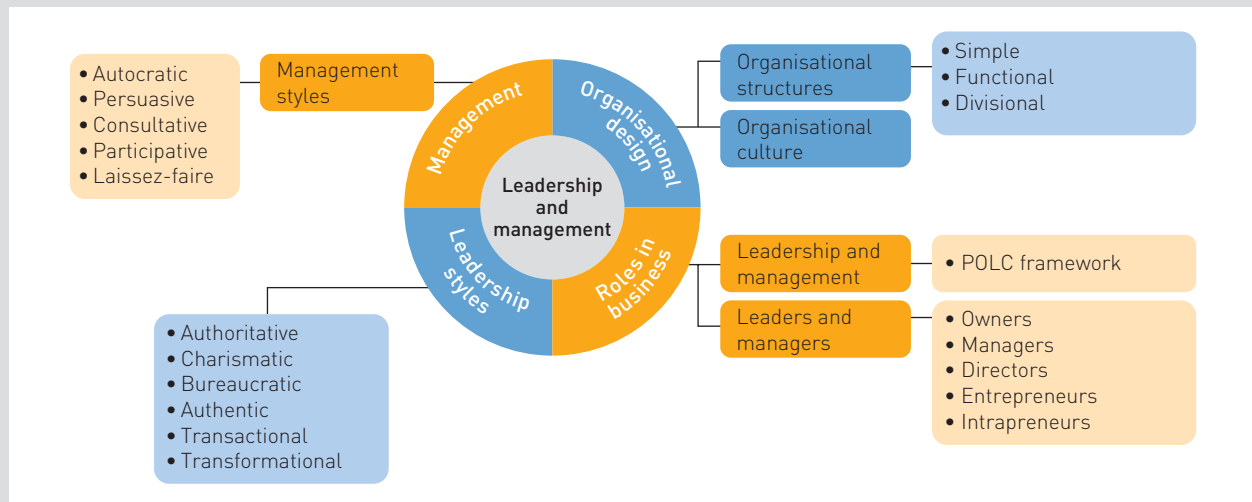
Can you inspire and motivate people, or are you able to plan, organise and coordinate others? If you answered yes to either of these questions, perhaps you have the attributes to become a business leader or manager. Put simply, the task of a leader is to 'lead' people and the task of a manager is to 'manage' people. There are important distinctions between leading and managing people. In this chapter we will explore leadership and management in a business. It will include examining the roles of leaders and managers and the various styles of leadership and management in a business. The organisational design of a business, comprising the structure and culture, will be explored to establish the environment in which leaders and managers work.

This chapter will provide you with the opportunity to:

- **explain** business leadership and management roles and styles relating to the fundamentals of business
- **select** data and information relating to the fundamentals to **analyse** leadership and management roles using a SWOT analytical tool
- **interpret** leadership and management roles and styles to **draw conclusions** about the implications of key business functions
- **create** responses to **communicate** the fundamentals of business to audiences.

The analytical tool used in this chapter is:

- SWOT analysis.



Key skills

In this chapter you will have the opportunity to develop the following 21st-century skills:

- critical thinking
 - reasoning
- communication
 - effective oral communication
 - effective written communication
- personal and social skills
 - management
- creative thinking
 - creativity
- collaboration and teamwork
 - participating and contributing
- information and communication technologies (ICT) skills
 - accessing and analysing information
 - being productive users of technology.

(Source: Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

GAINING INSIGHT



A leader with style and management

FOCUS QUESTION: What makes a successful leader and manager in a business?

Tracy Knight

Partner, Bentleys Corporate Recovery (Brisbane)

Tracy Knight is a successful leader and manager. She is a highly accomplished businesswoman with experience in strategic and operational management, and has demonstrated leadership in business.

Knight is an insolvency, business turnaround and advisory specialist and a Registered Liquidator. She has experience across diverse industries, including commercial and residential developments, health and aged care, tourism, retail, hospitality and gaming, mining, manufacturing, transport, rural businesses and accommodation. Her work across the broad spectrum of business types and structures has equipped her with strong business acumen and business operations know-how.

Knight has led many formal and informal appointments, including receivership engagements with top-tier banks and financiers, as well as business reviews and Investigative Accountant's Reports.

Knight's earlier career experience with the Australian Securities and Investments Commission (ASIC) ensures that her professional advisory skills are underpinned by a meticulous understanding of regulatory matters,



Figure 3.1 Tracy Knight – a leader and a manager

legislation, policies and procedures. She provides stakeholders with the confidence and assurance they need to make informed, timely decisions.

Qualifications, professional memberships and appointments

- Chartered Accountant
- Registered Liquidator
- Queensland Committee and Education Sub-Committee Member – ARITA
- Queensland Committee Member – TMA
- Board Member – The Leontine Circle
- Board Member – Red House Residential and Day Clinic

As a leader, Tracy Knight has a forward-thinking, open-minded approach to business. She thinks strategically by assessing the business environment she works in and acts accordingly. She has the foresight to look ahead, monitor and anticipate industry and market

trends. Knight's approach in business is to be positive and have a flexible mindset. She is visionary and focuses on the future operational conditions of her work. She has the ability to satisfy clients in a demanding industry. This is what makes her a successful leader and manager.

Questions

- 1 What skills does Tracy Knight value in leadership?
- 2 **Explain** Knight's key objective in business: 'My key objective is to exceed the expectations of all stakeholders.'
- 3 **Create** a list of skills that you possess that would make you a good leader.

Organisational design

Organisational design is the ‘big picture’ that describes a business. It involves the relationships that exist between various elements of a business (Figure 3.2).

When designing an organisation, a business needs to consider the following questions:

- What is the purpose of the business?
- What environment will the business operate in?
- How is it structured?
- How does it feel to work there?
- Who is leading the business?
- Who is managing the business?
- What style will they use?

Organisational structure includes the environment, strategic documents, the people and the culture of an organisation and the function of the business. It involves looking at the relationships between authority and responsibilities and making sure these align with the overall purpose of the business. A good organisational design will create an environment that:

- builds efficiency in operation
- creates a culture of committed and engaged workers
- improves communication
- achieves better outcomes
- promotes growth.

The right organisational design (Figure 3.3) is critical to a business's performance and success.

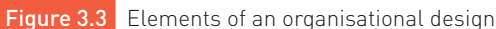


Figure 3.2 Building a business

Key learnings

You will learn about organisational design by examining:

- organisational structures
- organisational culture.



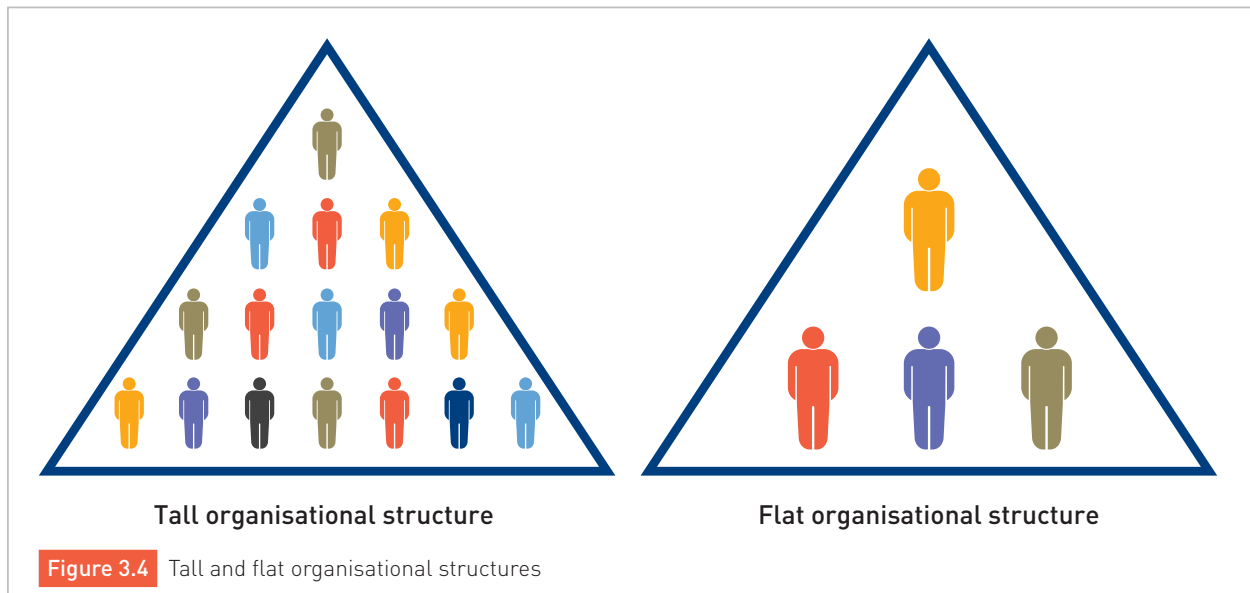
Organisational structures

An organisational structure is a framework that is used to show the level of command and control of the internal systems of a business. It is usually presented in a diagram that shows the level of **hierarchy** in an organisation. It distinguishes the power and authority and identifies the specific roles and responsibilities within a business. An organisational structure defines each person's role and shows how they fit in within the overall system. This structuring provides a business with a visual representation of how it is shaped and how it operates. An organisational structure also shows the relationships that exist in an organisation, the level of command and the communication routes that are to be followed. The structure is developed to show how an organisation will operate to achieve its goals and allow for future growth.

The type of structure that a business chooses needs to meet its operational requirements. Factors will include the size and type of the business, the leadership and management style and the impact from the external environment. The organisational structure also needs to allow for the growth of the business. This could involve adding additional layers to expand the level of command and control.

Elements of an organisational structure

An organisational structure can be either a 'tall' structure or a 'flat' structure (Figure 3.4) and can be either centralised or decentralised.



Tall structures have many levels of hierarchy. In organisational structures of this type the lines of communication and command are long. There is a chain of control over various levels within the hierarchy and tasks are delegated throughout the structure. There are opportunities for people in this structure to grow and develop, with opportunities for promotion.

Flat structures have few levels of hierarchy. Lines of communication are short, which makes decision-making very simple. There is usually one level of authority that is responsible for all levels of control.

Centralised organisation means that authority is taken by one person who makes the majority of the decisions, which are then passed down the organisational hierarchy. The decisions and command flow down from the top of the structure.

Decentralised organisation means that authority is delegated throughout the organisational hierarchy, which reduces the speed with which decisions are made. Decisions are made, and command is present, at various levels in the structure.

Hierarchy: a system that places people according to their level of authority in a business

Factors in deciding an organisational structure

The organisational structure that a business uses may depend on several factors. These could include those shown in Table 3.1.

Table 3.1 Factors in deciding an organisational structure

Factor	Explanation
Size of business	A <i>small</i> or <i>start-up</i> business often has a small workforce and therefore the level of command is simple. A flat or informal hierarchical structure is usually used in a small business. A <i>larger</i> business usually employs more people and is more complex in operation. Therefore a more structured and detailed level of command is needed. A layered hierarchical structure, divided into functions or departments, is usually required in a larger business.
Type of business	The type of business often dictates the organisational structure of command and control. A local business that operates in one location will usually need only a simple structure. A business that operates on a national or international level in multiple locations will need a more complex system.
Leadership and management	The style of leadership and management in a business will determine the structure of the organisation. If the person in charge prefers to make all decisions and take all the control, a simple hierarchical structure will often be used. If the person in charge delegates responsibility and prefers to share the level of command, a multilevel structure would be preferable.
Environment	The external business environment sometimes influences the organisational structure of a business. For example, if a business sells many products and uses various suppliers, it may be best to have a structure that divides the level of command to suit.

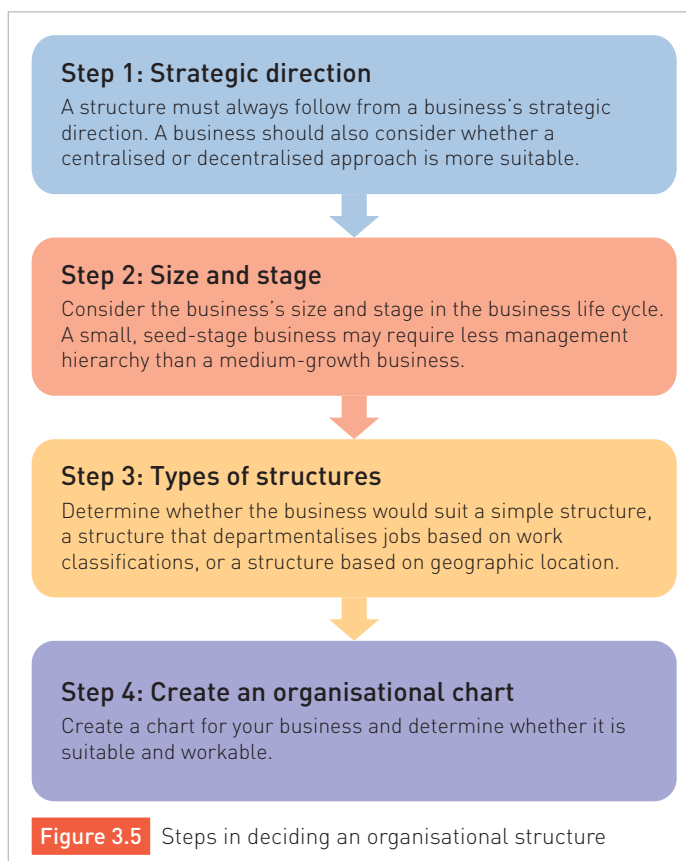
Steps to determine the best organisational structure

An organisational structure arranges the roles and responsibilities in a business and the level of command needed. This will help a business achieve its strategic goals. The right structure will allow the best use of resources and foster effective working relationships throughout the business. The following steps may help a business to determine the best structure for its business (Figure 3.5).

A business's organisational structure is like a road map of its communication pathways. A well-designed structure will contribute to the efficiency of operations and effectiveness in management and communication. A business should review its organisational structure on a regular basis to ensure the structure is meeting the needs of the organisation and allows for optimal growth in the future.

Why develop an organisational structure?

- An organisational structure gives all stakeholders a clear guide to the arrangements of the organisation.
- An organisational structure binds people together and gives an identity to people in the group.



GAINING INSIGHT



Simple but effective

Tesco is a British multinational grocery and general merchandise seller company. It follows a hierarchical organisational structure that divides positions and obligations into many parts to ensure work will be done efficiently and smoothly. The people at the top of the hierarchy have the maximum responsibility and

authority. Figure 3.6 is a typical organisational chart for a supermarket store. This structure has four layers of management within a store. It clearly defines the level of command and communication to provide a fast flow of information.

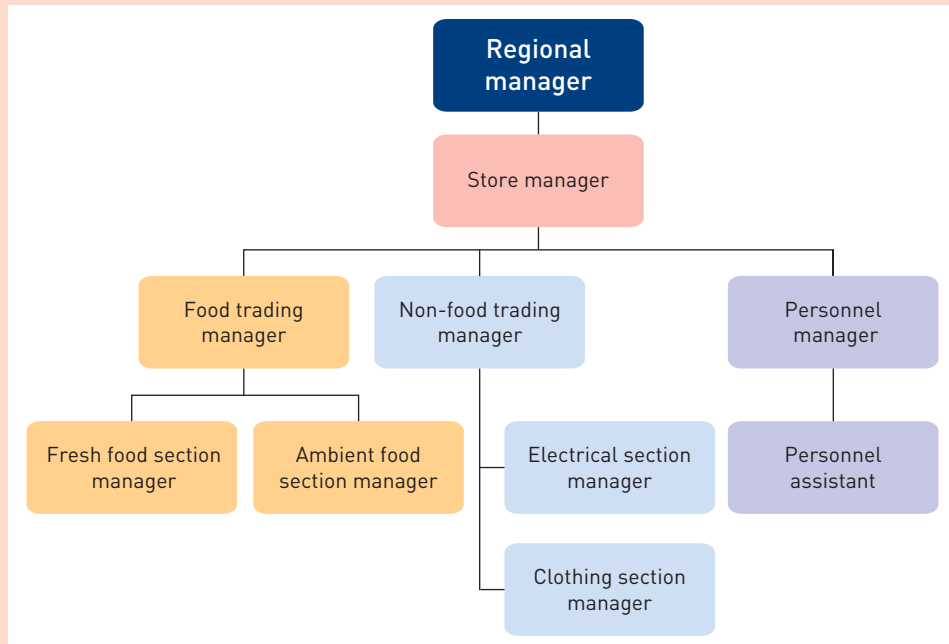


Figure 3.6 A typical organisational structure at store level

Questions

- 1 Draw an organisational structure for your school and **identify** the key levels of management.
- 2 **Explain** the benefits of having an organisational structure in your school.
- 3 **Determine** why a business would require an organisational structure and **explain** one reason.
- 4 **Explain** the difference between a centralised and a decentralised organisation.
- 5 **Describe** the costs and benefits associated with a decentralised organisational structure.
- 6 **Identify** and **explain** the benefits for a business in using a 'tall' structure.
- 7 **Identify** and **explain** the benefits for a business in using a 'flat' structure.
- 8 **Explain** why a business might choose a flat structure over a tall structure.
- 9 **Explain** why the size of a business should be considered when deciding on an organisational structure.

Types of organisational structures

There are three main organisational structures that a business will use:

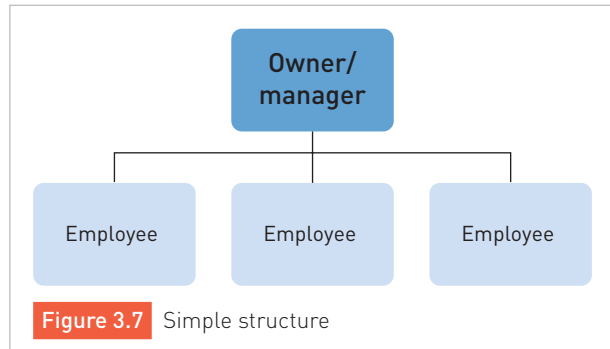
- simple organisational structure
- functional structure
- divisional structure.

Simple structure

A simple organisational structure is a basic system that has limited specifications or specialisation. There is a centralised authority, usually the owner, who has all the power and authority. There is no hierarchical level in a simple structure, as depicted in Figure 3.7.

Features of a simple structure

In a simple organisational structure there is no formalisation of work and a low amount of specialisation according to functions. It is often referred to as a flat structure and usually only has two or three vertical levels. It is widely used in smaller businesses or in a start-up business that has few employees. The owner is usually at the top of the structure and is required to manage and control the majority of the business functions. This can impact on the business as the owner may be overloaded with information, which can impact on decision-making. It also places added pressure on employees as they are required to perform multiple functions in various areas. A business that adopts this organisational structure usually has limited policies and procedures. Businesses often outgrow this type of structure and need to change to a more detailed functional system.



Advantages of a simple structure

There are some strengths of a simple structure, which include the following:

- Authority is centralised in one person.
- There is tight control of the operations of the business.
- All decisions are made by one person.
- Employees know who is in charge.

Disadvantages of a simple structure

The weaknesses of a simple structure are:

- the owner's increased workload
- that the owner has to make all decisions
- the lack of formalisation.

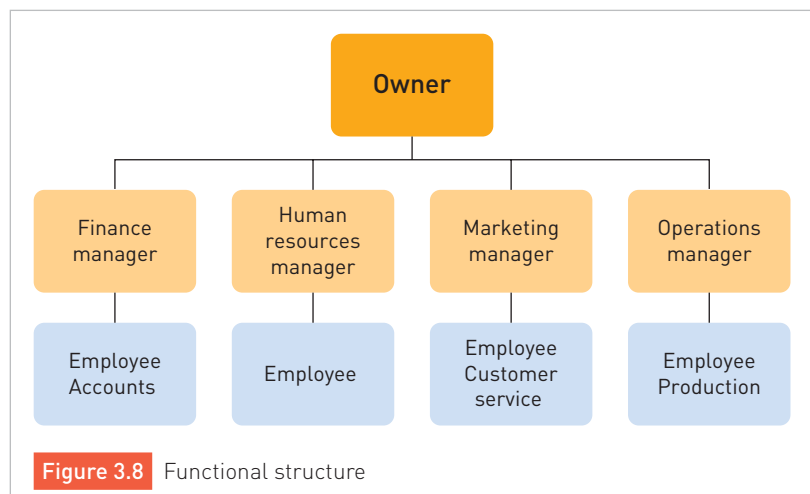
Functional structure

A functional organisational structure is one of the most common structures. In it, people are grouped into departments in specialised areas. It is a very structured, hierarchical system, as depicted in Figure 3.8.

Features of a functional structure

In a functional structure the focus is on the functions of a business. Similar or related specialties in a business are grouped together to form a hierarchical structure. Most businesses have a structure based on the main functions in a business: finance, human resources, marketing and operations.

In this structure people are classified according to the function that they perform. Each department has a functional manager, who has expertise in that area. The functional manager has all authority, including decision-making and resource allocation, in their department. They are responsible for the supervision and performance of the workers in their section. Employees in each department are usually skilled or have an expertise in a specific area. Explicit job descriptions, roles and responsibilities are created within each department. In a functional structure the leader of each area will report to the top of the hierarchy. A business that adopts a functional structure will have greater operational efficiency, as people and tasks are grouped by functions.



Advantages of a functional structure

There are advantages to grouping by function, including the following:

- Specialised skills and resources are grouped together.
- Employees are managed by one person with expertise in one area.
- Communication within departments increases.

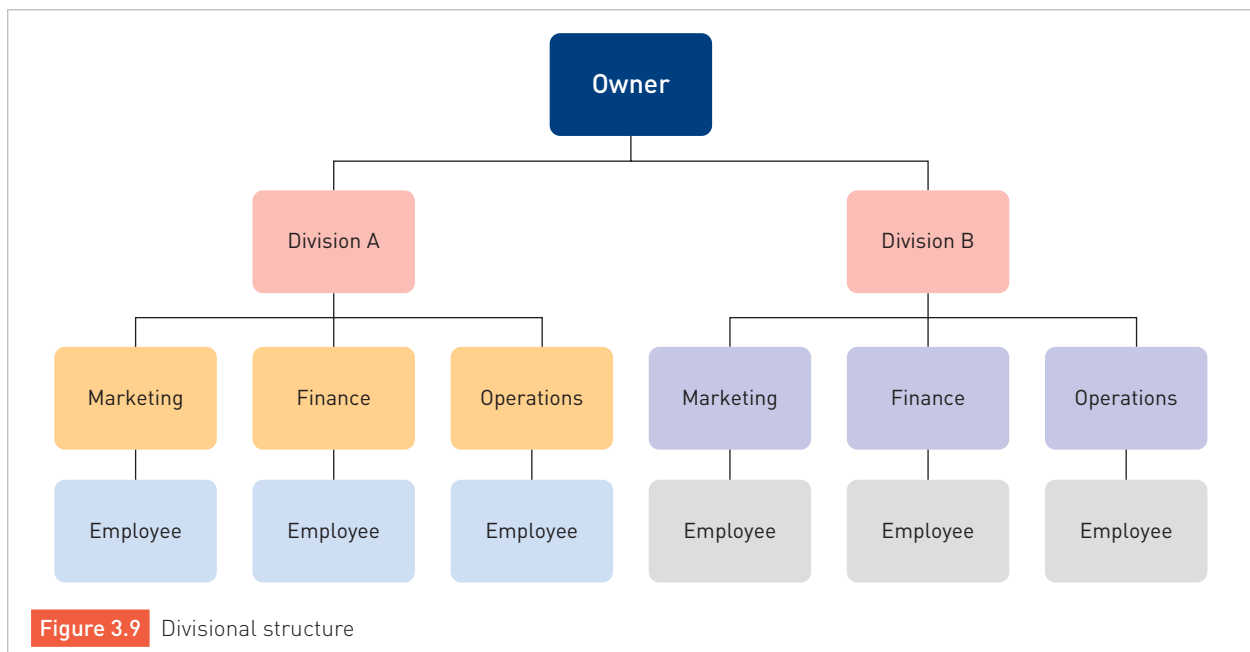
Disadvantages of a functional structure

The functional structure has some disadvantages, including these:

- Functional managers may focus on their own department and not the business as a whole.
- Communication between departments is reduced.

Divisional structure

A divisional organisational structure is a type that groups by divisions that exist within a business. These divisions could correspond to product lines, customers or geographical locations. It is a very structured, hierarchical system, as depicted in Figure 3.9.



Features of a divisional structure

A divisional structure focuses on a high degree of specialisation with specific divisions. It consists of parallel teams that focus on a single area within a business. Each division is equipped with its own resources to function independently. Such a structure gives a larger business the ability to segregate sections of a business into groups. Each group will likely be structured as a functional organisational structure within its specific division. This type of structure allows employees to be more skilled in the core elements of the business, rather than functional areas (finance, human resources, marketing and operations). A divisional structure can be grouped by departments as follows:

- *products* – a business may group sections according to the products they sell. For example, in a supermarket, the business may be divided into food sections, such as grocery department, meat department, fresh produce department, bakery department, delicatessen department (Figure 3.10).

A product departmentalised structure allows for specialisation in particular products or services. It can provide a manager with greater expertise in their area and build a stronger relationship with customers.

- *geography* – a business may group sections according to their location, for example into regional, state, national or international divisions; or by continents and/or countries, such as European region, Asian region, Northern American region, Southern African region, with managers in each (Figure 3.11).

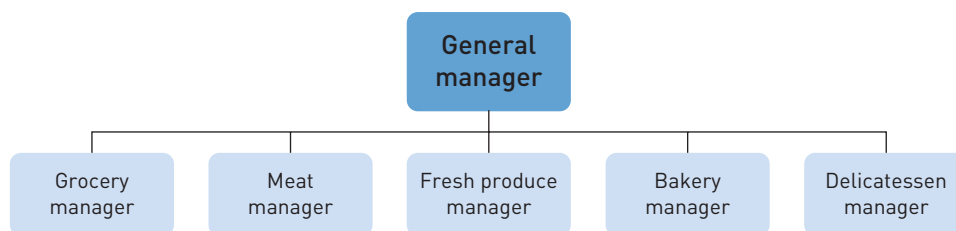


Figure 3.10 Product divisional structure

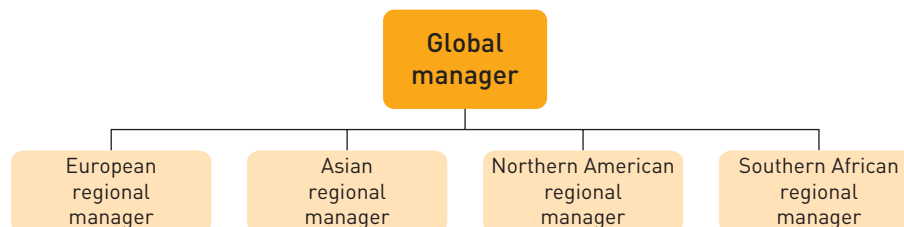


Figure 3.11 Geographic divisional structure

A geographical departmentalised structure provides more effective and efficient handling of specific regional issues that arise. It provides a unique service to a specific geographic market.

- *customer* – a business may be grouped on the basis of common customers, for example retail customers, wholesale customers and government customers; or local customers, national customers and international customers (Figure 3.12).

A customer departmentalised structure allows

for greater attention to specific customers' needs

and problems so they can be dealt with by a specialist in that particular division. A divisional structure is very effective in large businesses that have multiple facets.

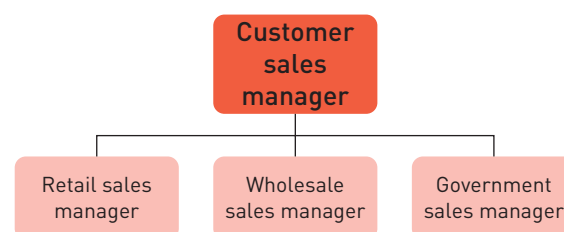


Figure 3.12 Customer divisional structure

Advantages of a divisional structure

The advantages of dividing a business using this kind of structure include:

- placing the focus on a division and the resources needed to support it
- building a common culture within a division.

Disadvantages of a divisional structure

The divisional structure has disadvantages, including:

- duplication of resources, skills and expertise in a number of divisions
- compartmentalising of divisions, which can lead to incompatibilities within a business.

QUESTIONS 3.1



- 1 **Identify** and **explain** the three main organisational structures used in businesses.
- 2 **Explain** the benefits for a business in having an organisational structure.
- 3 **Create** a table that identifies the key features, advantages and disadvantages of each organisational structure.
- 4 **Identify** the type of organisation a simple structure is best suited to.
- 5 **Explain** the limitations associated with a simple organisational structure.
- 6 **Explain** the difference between a functional and a divisional structure.
- 7 **Explain** the benefits of establishing a customer divisional structure.

GAINING INSIGHT



Delicious Dishes

Caroline Hua founded a small catering service business, Delicious Dishes, in the inner Brisbane suburb of Highgate Hill. She commenced her business six years ago as a sole trader, providing a lunchtime delivery service using her own vehicle. Her business now employs 40 people, has a fleet of 10 delivery vans and provides a seven-day catering service. Ms Hua is the chief executive and has employed four managers. They are in charge of finance, marketing, administration (including staffing) and catering. The catering manager has two assistants, one of whom is responsible for catering during the week and the other on the weekend. They each have eight people working under them. There are also two delivery drivers who work during the week and one delivery driver who works on the weekend. The marketing department has a team of four people: one sales manager, one customer service person and two junior sales assistants. The administration team consists of six office staff, who are responsible for taking customer orders and completing all the necessary paperwork. The finance department has three assistants, who prepare and process the purchase orders, invoices, receipts and payments. Hua also employs a personal assistant, who works directly with her.

The structure of this business has been working well, but Hua is considering expanding her business. She is contemplating taking on a partner and expanding her operations in two ways. She plans to provide a dinner catering service and will increase the area of operations to include the southern suburbs of Brisbane.



Figure 3.13 Delicious Dishes

Questions

- 1 Draw an organisational structure for Delicious Dishes (before expansion) and **identify** the key levels of management.
- 2 **Identify** the type of structure that best describes the Delicious Dishes arrangement.
- 3 **Explain** the benefits of this type of structure for this business.
- 4 **Identify** and **explain** any problems this structure could have for the business.
- 5 **Describe** how the organisational structure would change if Delicious Dishes was to expand.
- 6 **Explain** the possible consequences that may impact on the organisational structure of the business if Caroline takes on a partner.

Organisational culture

Organisational culture is a critical element in defining a business. It plays a crucial role in shaping the behaviour in an organisation. The culture can be described as the personality of a business. Each business has a unique personality. It cannot be duplicated; it is exclusive to that particular organisation. It is a sustainable point of difference and is integral to a business's success. An organisational culture is the dynamics that make up a business (Figure 3.14).

What is organisational culture?

Organisational culture is a system of shared values and beliefs that contribute to the unique environment of a business. It is about how organisations do things and how the people in the workplace work together. An



Culture is how a business does things



Culture is a sustainable point of difference for a business



Culture is made up of shared assumptions, values and beliefs

Figure 3.14 Organisational culture

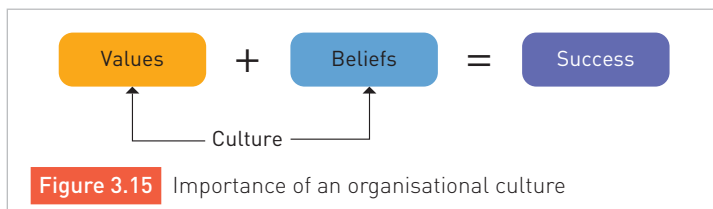
organisational culture is a powerful force that influences the behaviour of the group. It can dictate how they dress, act and perform their job in an organisation. Each organisation develops its own unique organisational culture, which acts as a guideline for workers to follow. It connects and integrates the members of a workplace and sets a business apart from its competitors. Organisational culture is different in every business. For example, the organisational culture of a large, profit-based business could be completely different to that of a small, family-owned business.

Importance of an organisational culture

It is important for a business to establish an organisational culture. It is a powerful force that affects the way an organisation thinks and behaves. An organisational culture is vital because it shapes and guides a business and helps it to achieve success (Figure 3.15).

Organisational culture should be evident in everything an organisation does, from hiring people to dealing with clients, developing products and services and dealing with challenges in the workplace. It should guide a business in everything it does.

An organisational culture creates a specific image for a workplace. It decides the way people interact with each other and can motivate people to perform. An organisational culture places all people within a workplace on the same platform and is useful to promote healthy relationships. It can create a sense of unity and ensure that everyone is treated equally. It sets a tone for how members should treat each other. The culture of an organisation should extract the best from each team member. It also provides a guide to how members of a business should interact with the external environment. The culture determines how to deal with customers, and sets a standard for what clients expect from a business. It creates a specific image for an organisation and sets it apart from its competitors.



Elements of organisational culture

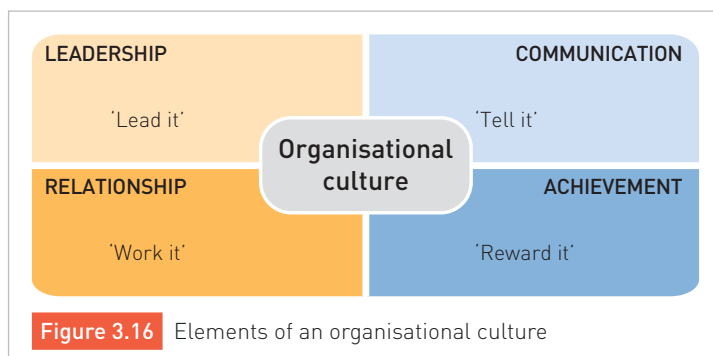
Each business has a unique organisational culture. The culture has nothing to do with the type of work a business performs; it is about the interaction between people in an organisation. Important elements of an organisational culture are shown in Figure 3.16.

Leadership: 'Lead it'

Implementing an organisational culture needs to start from the top. A business needs to have strong leadership to cultivate an awareness of its culture. There needs to be an alignment between the goals of the business and the people within it. This establishes a culture where everyone understands the purpose of the business and acts accordingly. It is the responsibility of leadership to develop a strong organisational culture.

Communication: 'Tell it'

The organisational culture must be communicated to team members, customers and other stakeholders in a business. In a business, people matter, so culture and communication skills must be a central focus. Communication skills are the greatest driver in establishing a workplace culture. The ability to communicate effectively will develop a positive rapport and establish a strong working relationship. Good communication needs to take place on all levels within an organisational structure. It will foster and develop a very strong organisational culture.



Relationship: 'Work it'

Another important element of organisational culture is relationships between team members. Fostering relationships in a business is about creating a culture that values collaboration. A business should encourage team members to work together, support each other and communicate regularly. This will build a strong culture of respect between employees; and when workers feel respected, they tend to perform better. This leads to better outcomes for a business.

Achievement: 'Reward it'

Most people have a fundamental need to feel appreciated. If employees are recognised and rewarded for their achievements in a workplace, it shows that they are valued. This is crucial to building a strong organisational culture. When employees are valued, their job satisfaction is high and therefore their motivation to work will be high. This leads to greater productivity and positively impacts on the success of a business. A business must celebrate achievement and give recognition to those who are responsible in order to build a strong organisational culture.

Developing an organisational culture

How can a business create a strong organisational culture? Here are four steps to help you get started.

Step 1: Start with a purpose

Firstly, you need to establish your organisational culture by referring to the business's vision and mission statement:

- Why does the business exist?
- What does the business do?

Your answers should be authentic, inspirational and aspirational.

Step 2: Determine the values and beliefs

Next, you need to ensure that all members are on the same page with regard to values and beliefs. This includes everyone from the owner to the managers and employees. You need to write down your values and beliefs and make sure everyone is aware of them and understands them.

Step 3: Lead by example

The culture of an organisation will be shaped by the leader. The leader needs to lead by example and communicate the culture clearly. The leader must continually reinforce the values and beliefs of the business to instil the culture of the organisation.

Step 4: Treat people well

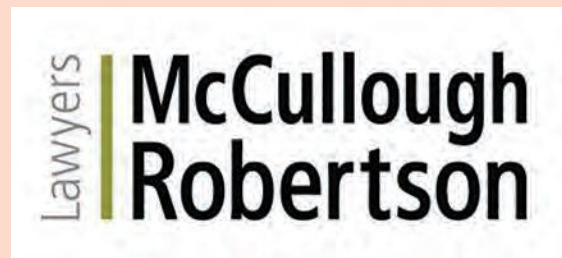
Finally, you must cultivate a culture by treating people well. The people in an organisation must be valued to reinforce and build a strong organisational culture.

GAINING INSIGHT



A leading Australian business

McCullough Robertson is a leading Australian law firm. It has established a reputation for providing first-class advice that comes from a deep understanding of how external factors can affect its clients' business and personal interests. This pragmatic business approach ensures McCullough Robertson can provide the best possible outcome for all who work there, and it will see the firm continue to protect, grow and plan with its clients well into the future (Figure 3.17).



All images courtesy McCullough Robertson

Figure 3.17 McCullough Robertson Lawyers

Our DNA

Our DNA

At McCullough Robertson, you can expect more. It's what sets us apart and sees us work alongside clients that know it's what you do outside of the boardroom that makes a difference. We know it too.

We unlock new opportunities for our clients, creating meaningful and enduring partnerships for today, and tomorrow.

We empower our clients, extending beyond our expertise in the law. Because at McCullough Robertson, we know there's more to success – and to life – than a legal outcome.

That's why when you work with us, you get a team of professionals aligned with industries who understand it takes more than the law to move ahead. We truly believe it's our business to understand our clients and give them the support they need when they need it, because empowering them to go further is what drives us to go further.

Our history

Unlocking success. Together

We're a big firm without the attitude. We unlock new opportunities today, creating meaningful partnerships that endure well into tomorrow.

Nurturing relations that deliver solutions worth celebrating.

After 90 years, McCullough Robertson is still growing and evolving. The firm continues to provide commercial solutions for its clients – individual clients as well as organisations – to see them through their most critical challenges.

Through hard work, good management and strong client relationships, McCullough Robertson has grown from serving the state's primary producers to become

Queensland's largest law firm, expanding from a strong agribusiness focus to numerous other practice areas. McCullough Robertson delivers solutions that challenge industry norms and contribute to shaping a future legacy for all legal professionals.

McCullough Robertson has significant reach across Australia, including Brisbane, Sydney, Newcastle and Melbourne, as well as regional and international hubs

Our values

Our values

Always putting our clients first and finding ways to elevate their business defines who we are and how we go about doing business.



GENEROSITY



COMMERCIAL
FOCUS



COMMITTED



DOWN-TO-EARTH

We recognise the best way we can serve our clients is by serving our people. We pride ourselves on being an Employer of Choice that supports and enables our people to have successful and sustainable careers.

At McCullough Robertson, we don't just commit to encouraging and nurturing our employees – regardless of gender, age or background – we follow through on it.

Our expertise

We provide commercial solutions for our clients to see them through their most critical challenges. Using

deep industry knowledge, foresight and technical excellence, we provide the best possible outcome across these areas.

QUESTIONS 3.2

- 1 **Explain** the term 'organisational culture'.
- 2 **Explain** how you could identify or find out about the culture of a school or a business.
- 3 **Explain** the benefits of having a positive organisational culture in a business.
- 4 **Identify** and **explain** four key aspects of establishing an organisational culture.
- 5 **Explain** the relationship between an organisational culture and an organisational structure.
- 6 Consider this statement and determine whether it is valid: 'The organisational culture of a business is the responsibility of management.' **Explain** your reason.
- 7 **Describe** the organisational culture in each of the following situations:
 - a All employees must address each other by their last names – for example, 'Mr Jones', 'Ms Smith'.
 - b All employees must follow a formal dress code and are reprimanded if they do not follow it.
 - c Every Friday, the business provides a free catered lunch for all employees.
 - d The manager is available to staff by appointment only.
 - e Employees are able to access social media at any time throughout the day using the business's facilities.
 - f Employees are allocated specified dates for holidays throughout the year, and these dates cannot be changed.
 - g Employees' work hours are flexible and can be negotiated with management.
- 8 **Create** an infographic that **communicates** the key aspects of the culture of your school to all stakeholders. Refer to pages 28–9 of Chapter 2 for guidance on creating an infographic.

Role of leadership and management in business

Key learnings

You will learn the following about the role of leadership and management in business:

- framework of leadership and management – POLC
- leaders and managers.

The role of leadership and management in business is an important factor in making an organisation successful. It is the process of influencing people to perform assigned tasks willingly, efficiently and competently. A framework that businesses can use for leadership and management is POLC (Figure 3.18). This is a process that requires four functions to be performed: planning (P), organising (O), leading (L) and controlling (C). The POLC model outlines a process in which each step builds on the one before. First is to plan, then organise according to the plan, lead others to work towards the plan and finally control the plan by evaluating its effectiveness. Each step must be performed properly to achieve success.

Plan

The first and most important step in the POLC framework is to establish a plan. Planning requires setting up goals and objectives and determining a course of action to achieve them. It requires understanding the challenges the business may face so that future business conditions can be forecast. There also needs to be an awareness of the environmental circumstances that impact on a business. Plans must be regularly reviewed and adjusted based on their performance to remain on track. There are three key levels of planning.



Figure 3.18 The POLC framework

Levels of planning

The three levels of planning are strategic, tactical and operational planning (Figure 3.19).

Strategic planning

Strategic planning is the process of determining a desired future and then planning steps to achieve it. The strategic plan usually has a long time frame – over three to five years – and generally includes the entire organisation. It is often based on the fundamental reason for the business's existence, which is linked to its strategic documents (vision and mission statements).

Tactical planning

Tactical planning creates a blueprint for a business's strategic plan. It is the plan that includes steps or tactics needed to achieve the goals defined in the strategic plan. A tactical plan is usually a short- to medium-term plan, over one to three years. It is the 'how' part of the plan, and answers the question, 'How can goals be accomplished within the designated limits?' The tactical plan is intended to make the strategic plan happen.

Operational planning

Operational planning sets out the specific actions required to achieve strategic and tactical plans. They are over a short time frame – daily, weekly, monthly or yearly. Operational plans provide a clear and detailed picture of what needs to be achieved. An operational plan generally addresses four key questions:

- Where are we now?
- Where do we want to be?
- How do we get there?
- How do we measure our progress?

The operational plan supports and links the strategic goals to the tactical goals.



Figure 3.19 Levels of planning

Organise

Organising is the second step in the POLC framework and is the process of identifying and allocating the necessary resources to action the plan. These may be physical, human, capital or time resources. It is a process of organising and arranging the framework that the plan will work within. It also includes distributing the resources and organising people according to the plan. The aim in the organising phase is to maximise the returns with minimum expenditure.

The steps needed in the organising phase include:

- creating the framework by allocating resources to ensure the objectives are achieved
- deciding how to organise the implementation of the plan
- allocating roles and responsibilities and the processes to be followed.

Lead

The third stage in the POLC framework is the 'lead' phase. Leading is directing, influencing and motivating people to perform. It is inspiring others to take action to work to achieve a common goal. In order to be effective, leaders must understand the people they seek to lead. This includes their personalities, values, attitudes and emotions. Leaders must be able to motivate their team in a way that will energise them to be productive and efficient in achieving the plan. An effective leader must also be able to communicate the direction of the plan to team members.

Control

The last stage in the POLC framework is control. Controlling is about supervising the process and ensuring that the performance does not deviate from the plan. It is about measuring performance against goals and plans. Controlling involves three key stages:

- 1 establishing standards
- 2 monitoring performance
- 3 taking corrective actions.

Effective controlling requires the establishment of standards to achieve the plan. It means controls must be put in place to ensure that the expectations of the plan are achieved. The performance then needs to be monitored to check it does not deviate from the established standards. This includes taking necessary corrective actions to achieve success.

QUESTIONS 3.3



- 1 **Distinguish** between the four management functions of *planning, organising, leading* and *controlling*.
- 2 **Determine** how you could apply POLC in your own day-to-day school life.
- 3 **Explain** the difference between planning and organising.
- 4 **Explain** the difference between leading and controlling.
- 5 **Determine** whether the following tasks involve one or more of *planning, organising, leading* or *controlling*.
 - a Rewarding staff for high performance
 - b Preparing a monthly duty roster for employees
 - c Ensuring all employees are completing their designated tasks
 - d Increasing product price by 5 per cent
- 6 Complete the table below by **identifying** the level of planning and **explain** the reason for your decision.

Activity	Identify level of planning	Explain reason
A clothing manufacturing business automates its production line by installing robots and other technology.		
A large-scale car manufacturing business is planning to expand its operations by increasing the size of the production plant.		

Activity	Identify level of planning	Explain reason
A manager implements monthly production meetings to check progress of manufacturing.		
A new furniture retailer that sells home office furniture plans to be the leader in its industry in 5 years.		
A small-scale business plans to expand its business and build a new warehouse.		
A department manager decides to complete monthly stocktakes to ensure adequate supplies are available to customers.		
The production manager of a wholesale distributor requires 50 pallets of product by the end of the day.		
The research and development team are required to develop a new product for the business to sell by the end of the year.		
The marketing department of a medium-scale mature business is required to design a new logo for the business.		
A government business enterprise decides to become fully privatised within a 3-year time frame.		
A large-scale retail clothing business needs to reprogram its computer system to accommodate a new accounting system.		
The office manager of a small real estate business decides to introduce staff to more positive customer relations techniques.		

- 7 A sales manager of a medium-scale business requires the sales department to increase sales by 10 per cent over the next six months. **Explain** how this manager would use planning to assist them achieve this goal.

GAINING INSIGHT



Silver lining for Silvery?

Silvery Co Pty Ltd is a sports manufacturing and distribution company that has been in operation for 15 years. It is known for expanding the skate and street culture in Australia. It started out as a distributor and later expanded to having its own manufacturing capabilities along with distribution of well-known brands. In the last three years, it has achieved 1.5 per cent growth. In comparison with other manufacturing businesses in the same industry, Silvery Co Pty Ltd is the second lowest producer in Queensland. The business employs 450 people, and many of them have been with the company since its inception.

To improve its current situation, the company's research and development unit developed a new product that it hopes will revolutionise the skating industry. The business produced a prototype and tested it on the market with enormous success. However, the company's production and distribution systems could not keep up with the demand. The company decided to outsource the manufacturing of the new product. This reduced the profit Silvery Co Pty Ltd received.



Age fotostock/Cultura/Eugenio Marongiu

Figure 3.20 Skateboard manufacturing

The demand for the new product continued to grow, and industry experts believe this new product will replace existing products on the market. The executive management of Silvery Co Pty Ltd believes that

outsourcing the production did not take full advantage of the earning potential of the new product.

Questions

- 1 **Determine** how the levels of planning relate to the decisions made at Silvery Co Pty Ltd.
- 2 The executive management of Silvery Co Pty Ltd has decided to expand its operations and become a global business. To assist the company with

strategic planning, complete a SWOT analysis on the business.

- 3 **Interpret** the SWOT analysis to **draw conclusions** about the implications for expanding the operations of the business.
- 4 **Create** a short business-report extract for the executive management of Silvery Co Pty Ltd that **communicates** your analysis and interpretations about the future global expansion.

Leadership and management roles in business

A business's success will depend on the leadership and management within. A champion business will begin with a powerful leader who inspires the team to be number one. To achieve this, the leader will recruit the right members to help lead and manage the business to perform and achieve its goals. These people are invaluable when it comes to formulating and communicating strategic directions as well as motivating team members.

The main leadership and management roles in a business are those of the owner, director and manager. They are the catalyst that makes all the elements of a business work. Other significant roles in a business are the entrepreneurs and 'intrapreneurs'. They are the visionaries who are the key drivers in a business.

Owners

A business owner is the person (or one of them, if there are more than one) who owns a business with the aim of meeting a need or want in society, and in doing so receives the profits (or bears the losses).

Description of a business owner

A business owner sets the vision and strategies for the business. They communicate this to their team so that together they can work to achieve the goals of the business. The owner establishes the culture of the business. The owner sets the standard of how things get done and by whom, and makes the tough decisions. The business owner is also the planner providing solutions to business challenges and giving direction to team members. The owner understands the importance of the team they will be working with, and consequently hires, trains and coaches the members of their business team.

Directors

A business director is a person from a group of managers who has been appointed to determine and implement a particular area, program or project related to the business.

Description of a business director

A director is a manager of managers. They provide leadership as well as direction for a business. A director is responsible for establishing and maintaining strategic documents, such as a vision and mission statement, for a business. They provide direction to the managers of a business. A director has greater legal responsibility and makes decisions that impact long-term prosperity of a business. Directors are controlled by the owner of a business, but it is a director who is responsible for appointing and dismissing managers.

Managers

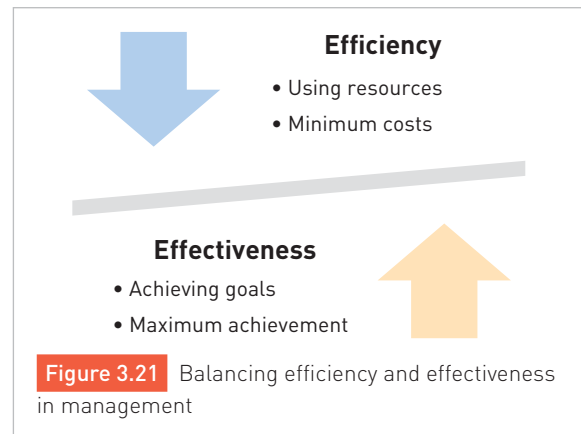
A business manager is a person in charge of a certain group or task in a business.

Description of a business manager

Managers of a business are employed to supervise the business on behalf of its owner/s. They are responsible for implementing business plans and strategies to reach the goals of the business. They are responsible for the actual

operations of the business. A manager supervises employees with the intention of balancing the efficiency and effectiveness of operations in a specific area (Figure 3.21).

It is important that managers balance efficiency and effectiveness to achieve optimal organisational performance. The manager of the business sets goals for the group and decides what needs to be done to achieve those goals. They organise the work into activities and select the resources needed to accomplish the task. The manager establishes appropriate targets and assesses the performance through appropriate measures. Most importantly, the manager inspires, motivates and encourages the people in the organisation to achieve visionary goals.



Summary

The leadership and management roles in business can be summarised as shown in Figure 3.22.

Entrepreneurs and 'intrapreneurs'

Entrepreneurs and 'intrapreneurs' set themselves apart from other leaders in a business. They are passionate people who have the courage to face new challenges. They are visionary, they see an opportunity in the marketplace and they have the passion and drive to turn it into a reality. The main difference between the two is that an entrepreneur starts their own business, whereas an intrapreneur works within the limits of a business. Here is a comparison between an entrepreneur and an intrapreneur (Table 3.2).

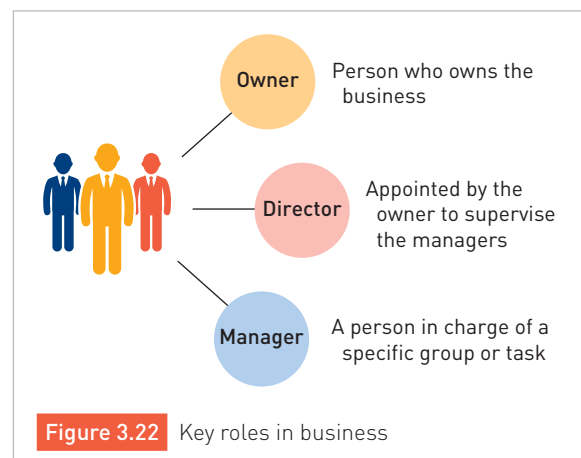


Table 3.2 Comparison between an entrepreneur and an intrapreneur

Comparison	Entrepreneur	Intrapreneur
Features	A person who establishes their own business based on their own new idea or concept	A person employed by a business who is innovative and creates a new idea or concept for the business
Resources	Uses own resources	Uses resources that are readily available to them from the business in which they are employed
Capital	Raises capital independently	Financed by the business in which they are employed
Risk	Assumes all the risks	Risks are accepted by the business they work for
Works for	Independent – found anywhere their vision takes them	Dependent – works within the confines of an organisation

Entrepreneurs

An entrepreneur is an individual who is a leader and an innovator of new ideas and business processes, and who has the skill set and courage to take a risk and turn a concept into a reality. An entrepreneur recognises an opportunity that others don't.

Intrapreneurs

An intrapreneur is an entrepreneur inside a business who uses entrepreneurial skills without experiencing any of the risks. They are able to use the resources of the business they work for to turn their concept into a reality.

In good company: Successful Australian entrepreneurs share the best advice they ever received

Intrinsically driven to innovate, find solutions, create new things and be the best, entrepreneurs are a special breed. But being successful often relies on more than just motivation and ingenuity. Usually, behind a great business person is great advice. Whether it is from a mentor, loved one, or educator, entrepreneurs often have wisdom to fall back on in times of need. *Business Insider* recently reached out to successful entrepreneurs about the best advice they've ever received. Here's what they had to say.

David Rohrsheim, general manager of Australia and New Zealand at Uber

'In order to become a genius, you must first risk being seen as a fool.'

Rohrsheim says: I learned that from my Stanford MBA strategy professor, Bill Barnett.

Most business ideas in the world are rather generic and even being a category winner may not be life-changing. The truly crazy ideas are the ones that pay off, because by definition nobody else is doing it. But the crazy ideas are also the most likely to fail – and that's when all your friends say, 'I told you so'. There are always plenty of people in Australia who can tell you why your idea will fail.

Karen Stocks, managing director at Twitter Australia

'Figure out what it is you stand for, go and stand up for it.'

In a career development session back in 2005, Russell Hewitt (the then CEO of Vodafone Australia) and I were discussing my next steps and mapping out advice on leadership. He told me: 'Figure out what it is you stand for, go and stand up for it, and make sure people know you stood up for it.'

Naomi Simson, founder and CEO of RedBalloon

'Goals without routines are wishes; routines without goals are aimless.'

At the start of the RedBalloon journey, Naomi learned this from Verne Harnish in [the] *Mastering the Rockefeller Habits* book, and applied it to her business. Purpose; knowing your numbers; and rhythm. Naomi implemented many of the practices Verne preaches, one of which being famously known as the BHAG (Big Hairy Audacious Goal) which has been celebrated at significant milestones at RedBalloon.

She says: 'The most successful business leaders have a clear vision and the disciplines (routines) to make it a reality.'

Janine Allis, founder of Boost Juice

'Listen more than talk.'

Allis says: I have been like a sponge in business from day one, and spend my time even now, listening to successful people and their approach to business and life. I could write pages of things that I have learnt on hiring people, driving profit, making people accountable for their actions, creating culture etc. But really this all gets down to listening, so the best advice I have heard is listen more than talk and that is from my husband Jeff, who has always been a voracious appetite for learning.

When you are meeting with someone to get their advice or mentoring always take a pen and paper and write down what you are learning. How do you repay these people, is to actually try what they say, read what they suggest as this is the greatest respect you can give them. Everyday no matter how senior you are in a business there is always things to learn and often they come from the most unexpected places.

Daniel Flynn, co-founder and managing director of Thankyou

'Leadership is learning, just in front of more people.'

Flynn says: I was discussing leadership with my good friend Andy when he dropped this piece of absolute gold.

There is a common misperception of those in leadership ... that they 'have it all together' and 'know everything', but the reality is, just like everyone, they are learning. This thought reminds me to stay humble. I know that there's always something I can learn. As Thankyou continues to pioneer, we won't always get it right, but we will always learn, and some of the greatest lessons come from making mistakes and picking yourself back up again.

Jodie Fox, co-founder of Shoes of Prey

'You can be whatever it is that you want to be.'

Fox says: This was the best advice I ever received, from my dad. Education was really prized in my family and I was the first of us to go to university. When I was young my dad used to talk about all the amazing possibilities in the world and the potential that I had to achieve them, because I had the chance to get a higher education.

James Spenceley, CEO of Vocus Communications*'Don't worry about the things you can't control.'*

Spenceley says: Someone once told me not to worry about the things you can't control and instead, focus your energy on what you can. All that wasted energy that would have come to nothing can create tangible outcomes when you put it towards influencing the things in your power to control. This advice taught me to be laser focused on the things that really matter and it has really helped our business to thrive.

Nicolette Maury, managing director of Intuit Australia*'Be the best version of yourself.'*

Maury says: The best advice I ever received is 'be the best version of yourself'. So, don't try to be someone else and model yourself on other people, especially those you see as successful. Instead, focus on identifying and nurturing your own strengths, and being true to your values and personal integrity. Ultimately, being the best version of yourself is about self-awareness and authenticity. At Intuit we encourage people to bring their whole selves to work and, for me, this captures being the best version of yourself.

Eugene Trautwein, vice president of worldwide customer support at Commvault*'Put yourself in the other person's shoes.'*

Trautwein says: One of my earliest mentors taught me the value of active empathy in all things Business. The old adage 'Put yourself in the other person's shoes', the importance of taking on another party's circumstances and influences and then utilising this to build an understanding of their perspective. With this unique insight you have a great opportunity to help your customer with their challenges as well as lead and motivate your teams.

Source: Adapted from an article by Sarah Kimmorley, *Business Insider Australia*, www.businessinsider.com.au/in-good-company-15-successful-australian-entrepreneurs-share-the-best-advice-they-ever-received-2015-9

QUESTIONS 3.4

Using the information from the article above, answer the following questions:

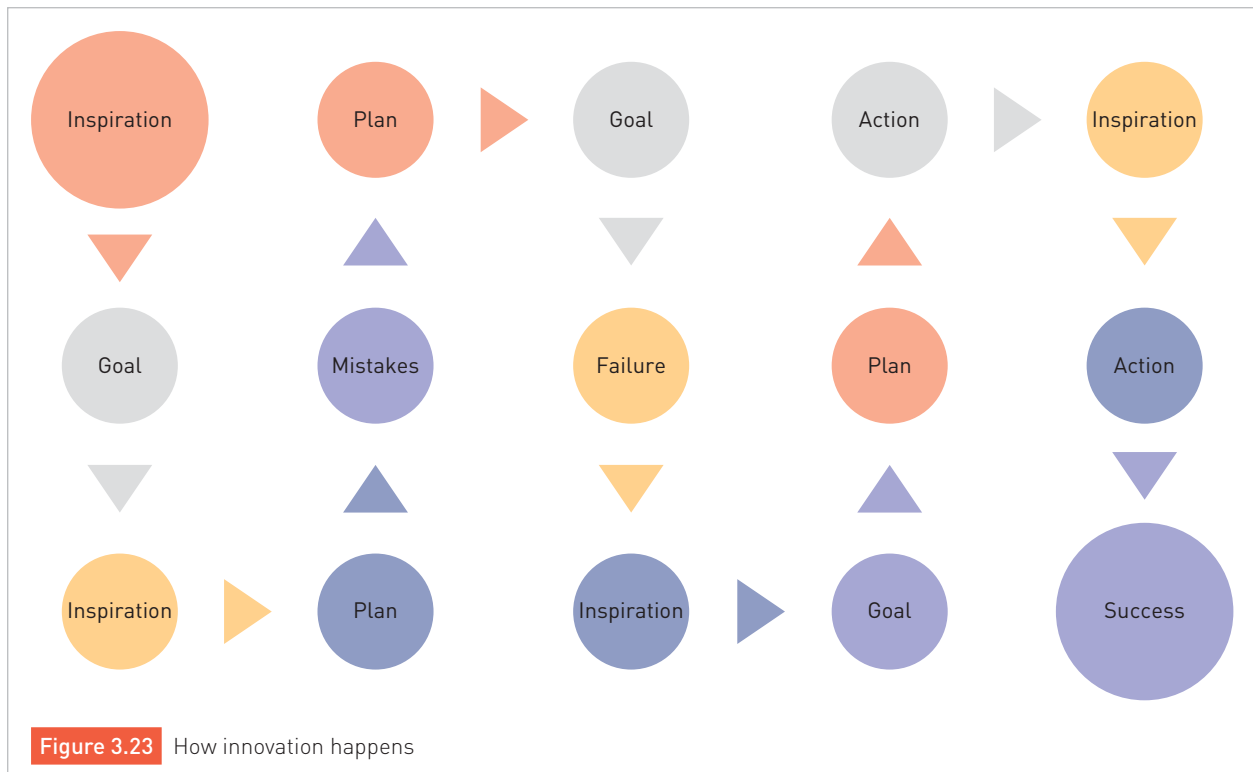
- 1 **Identify** entrepreneurial traits that are evident in the people profiled.
- 2 **Explain** David Rohrsheim's statement, 'In order to become a genius, you must first risk being seen as a fool'. **Identify** how this could relate to his business, Uber.
- 3 **Explain** what Naomi Simson means by saying, 'Goals without routines are wishes; routines without goals are aimless'.
- 4 Janine Allis's advice is to 'listen more than talk'. **Explain** what she means by this and how it could be useful advice for a business leader.
- 5 **Explain** why Daniel Flynn says that 'leadership is learning'.
- 6 Eugene Trautwein suggests that to be an effective leader, you should 'put yourself in the other person's shoes'. **Explain** what Trautwein means by this.

How to become an entrepreneur or an intrapreneur

The world is filled with entrepreneurs and intrapreneurs who had an idea and turned it into a concept. To become an entrepreneur or an intrapreneur, a person needs to have the traits outlined above plus:

- a great idea
- a plan of action
- endurance.

Can you make it happen? Entrepreneurs and intrapreneurs are 'dreamers who do'. They take a hands-on approach for creating innovation and start something new – an idea, process, product or method. They have the determination and endurance to face obstacles and challenges (Figure 3.23).



QUESTIONS 3.5



- 1 **Explain** the role of an owner in a business.
- 2 **Differentiate** between the role of a business owner and a business director.
- 3 **Explain** the role of a manager in a business.
- 4 **Differentiate** between the role of a business owner and a business manager.
- 5 **Compare** and **contrast** an entrepreneur and an 'intrapreneur'.
- 6 Is a home business or a micro-business considered an entrepreneurial business? **Explain**.
- 7 **Explain** the possible barriers for an 'intrapreneur' in a business.

GAINING INSIGHT



Tech cricket tool works on muscle memory



If you're batting in a game of cricket and want to avoid an LBW or you've often stared down the pitch at an intimidating googly, you need the unique training tool, Techshot. We chatted to Queensland's company founder Will Prowse about his incredible training aid for cricket which works on the body's muscle memory.



Figure 3.24 Techshot alerts the user when their body is not in the correct batting position.

So tell us about your idea ...

Techshot is a unique training tool for cricket, specifically for batting. The product draws on the principles of resistance training to train the fundamental late striking position. The late striking position is the most efficient body position in cricket. A player that has struck the ball in this position, will hit the ball with relative ease and maximise power and timing. All high performing batsmen look to get into the late striking position as much as possible, at the point of contact with the ball. The position is very unnatural and unique to cricket, so the average batter or even the advanced player can have difficulty training their body positioning, and the late striking position can easily be forgotten without repetitive practice. Through its innovative design, Techshot alerts the user when they do not position their body in the correct position. Repetitive use can convert the late striking position to muscle memory. Techshot will also include an online training program to support users to get the most out of the product, as well as incorporate the idea into specialised training sessions for amateur cricketers.

How will the Advance Queensland Ignite Ideas funding help your idea to develop?

The Advance Queensland Ignite Ideas Fund will allow for a more direct and obstacle-free path for international commercialisation. The Fund will help reduce the unit cost price of the product by establishing more direct



Figure 3.25 Techshot product

Techshot, <https://techshotcricket.com/>

associations with suppliers and manufacturers, and improve manufacturing efficiencies. Lowering the unit cost will remove the barriers of entry into international, and particularly, sub-continental markets, which is the key element for international growth. The Fund will also open up international networking opportunities, help establish distribution chains and help develop an online training resource. Furthermore, the Fund will allow for demonstrations of the product in regional Queensland to help promote the product and improve the standard of cricket state-wide.

Let's say I'd like to work for your company. What do I need to know?

Techshot is a company in its infancy, with an ambition to be a major player in the field of sports training products. As the company continues to grow there will be job opportunities in the areas of product design, supply and distribution, marketing and social media and coaching. Expressions of interest are welcome.

What are the benefits of being an entrepreneur in Queensland?

Queensland is definitely a great place for entrepreneurs, as there are so many like-minded individuals around; you just need to turn a few stones to uncover them. When I first looked to build a prototype of my idea, I had no clue where to start or where to look. After a little bit of digging and asking the right questions, I found that there was an abundance of professionals in the fields of industrial design, prototyping and supply and distribution that were more than willing to help me out. Queensland also has some great initiatives like the Mentoring for Growth Program that can point entrepreneurs in the right direction or validate their ideas, as well as a number of funding schemes like the Advance Queensland Ignite Ideas Fund and other support funds for young entrepreneurs. There are definitely a lot of support resources in Queensland if you are proactive and believe in your idea.

Source: Queensland Government

Questions

- 1 What is the product that Will Prowse has developed?
- 2 **Explain** the support that Will Prowse received from Advance Queensland Ignite Ideas.
- 3 What are the benefits of being an entrepreneur in Queensland?

Leadership styles

Effective leadership is a key element of a business. It can guide a business to maximise productivity and achieve business goals. Leaders are invaluable in providing strategic direction in a business. They build a team and inspire, motivate and encourage people. There are two important elements in leadership:

- a *leader*, who is a person who commands a group of people
- a *team member*, who is someone who belongs to a specific group of people.

Leadership is the major factor that brings everything together in a business; without it, all other business resources are ineffective. Leadership is about getting a team to execute a specific vision.

There are different styles in leadership, but there are similar character traits that leaders share.



Leadership style is the way in which a person leads other people. Every leader has their own unique style of leadership. A leader needs to develop an appropriate leadership style that suits the function of the leader, the team members and the situation. The most common types of leadership style are described in figure 3.27.

Which is the right leadership style?

There is no one 'right' way to lead. A leader should choose the most effective approach by considering:

- the skill level and experience of the members of their team
- the work involved (routine, or new and creative)
- the organisational environment (conservative, innovative, changing)
- their own preferred style.

Good leaders may use a variety of styles according to the people and work.

Authoritative

An authoritative leader is one who dictates and enforces the operation of all activities. They have full control over the team and they make all decisions and give all directions (see Figure 3.28).

Description of an authoritative leader

An authoritative leader is in complete control and rarely considers the opinions of their team members. All team goals and strategies will be developed solely by the authoritative leader. The leader dictates and directs team members without any meaningful participation. Team members can feel resentful, undervalued and unmotivated under an authoritative leader. They may even rebel against this style of leadership. This style of leader is confident in making decisions based on their ideas and judgements and does not accept advice from others. However, an authoritative leader can be beneficial in making decisions quickly and in the best interests of the group.

An authoritative leader exhibits certain attributes. They are:

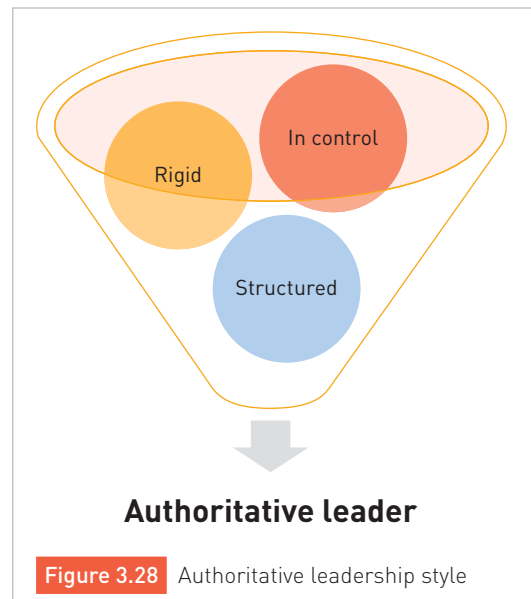
- *controlling* – the leader tells and enforces
- *intimidating* – the leader is inflexible
- *regimented* – the leader is organised and very strict.

Situations in which this style is effective

This style of leadership is effective in situations where total control is essential and there is minimal room for error. It can also be effective when a team has little experience and requires close monitoring until they become familiar with the work.

Situations in which this style is ineffective

An authoritative approach can be ineffective as there is minimal input from team members. This can demoralise a team and negatively affect productivity and satisfaction levels. This style of leadership also reduces compliance and can lower achievement levels.



Example of an authoritative leader

Vaughn Beals, the CEO of Harley-Davidson in the 1980s, used an authoritative leadership style that helped the business become a leader in the motorcycle market. His authoritative approach helped to stabilise the company when the business was on the brink of collapse.

Charismatic

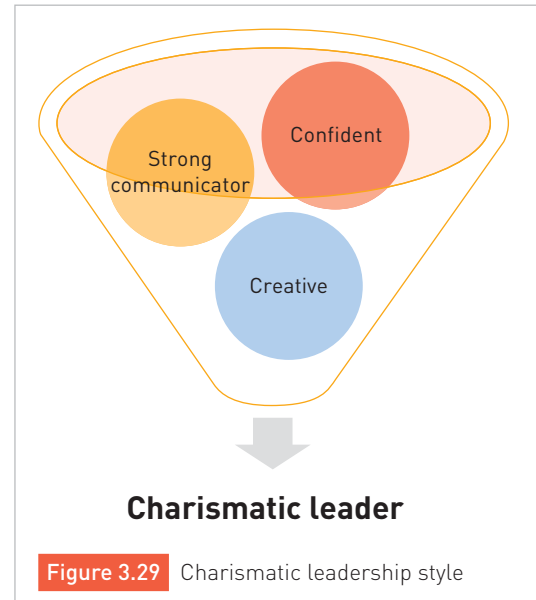
A charismatic leader is one who inspires and motivates others to follow based on their personality and charm (see Figure 3.29).

Description of a charismatic leader

A charismatic leader has the power to influence through their personality. They lead through example by demonstrating their enthusiasm. Charismatic leaders rely on their charm and are driven by their commitment and convictions. They are able to communicate and behave in a manner that inspires and motivates others. A charismatic leader often exhibits a high energy level and is very powerful. They often believe they can do no wrong and are invincible. However, a charismatic leader may be more focused on themselves and own ambition to the detriment of the team.

A charismatic leader exhibits the following attributes:

- *confidence* – they have powerful personalities that people are drawn to
- *communication* – they speak with confidence and charisma, and others listen
- *creativity* – they think outside the box and are not afraid to push the limits.



Situations in which this style is effective

This style of leadership is effective in inspiring people to work together to achieve a common goal. This style can have a positive effect on team members and increase achievement levels.

Situations in which this style is ineffective

This approach can be ineffective as there may be too much emphasis on the leader and not enough on the team. There could be a perception that the leader is too self-centred and does not focus on team members.

Example of a charismatic leader

Steve Jobs was an American entrepreneur, co-founder of Apple Inc., and a leader who could be described as exhibiting the attributes of a charismatic style. He had the ability to inspire people to perform at their highest level. Steve Jobs was a dynamic showman. His personality and his charisma inspired others to follow.

Bureaucratic

A bureaucratic leader is a person who relies on rules and regulations under a fixed hierarchy of authority (see Figure 3.30).

Description of a bureaucratic leader

Bureaucratic leadership is one of the oldest forms of leadership. It focuses on team members adhering to processes and fulfilling defined roles. A bureaucratic leader is a person who has rigorous rules and will ensure that team members follow the procedures precisely. They place emphasis on the need to follow every rule. Everything is done in an exact and precise way, working 'by the book'. This style of leadership focuses on authority and conformity. A bureaucratic leader relies on a strict and formal hierarchy. They achieve control over their team

members and operate in a command-style structure. They are leaders who exhibit a position of power and expect followers to obey. They lead by dominating and taking control.

A bureaucratic leader exhibits certain attributes. They are:

- *strict* – they adhere to rules and regulations
- *proficient* – they are task-focused and efficient operators
- *organised* – they command by control.

Situations in which this style is effective

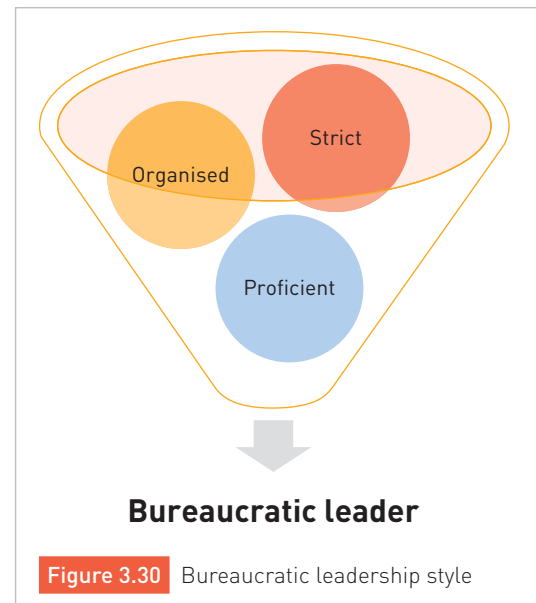
This style of leadership is effective when team members are willing and able to complete routine tasks following a set of rules and guidelines. Team members understand the procedures and can work effectively under a bureaucratic leader.

Situations in which this style is ineffective

This style of leadership is less effective for teams that rely on flexibility, creativity or innovation. It is an inflexible and rigid leadership style.

Example of a bureaucratic leader

A bureaucratic leader would be suitable for a manufacturing business where safety is a prime concern. Having a leader with this style would ensure that team members follow the rules, regulations and safety procedures strictly.



Authentic

An authentic leader is a person who establishes a relationship built on honesty and ethical foundations (see Figure 3.31).

Description of an authentic leader

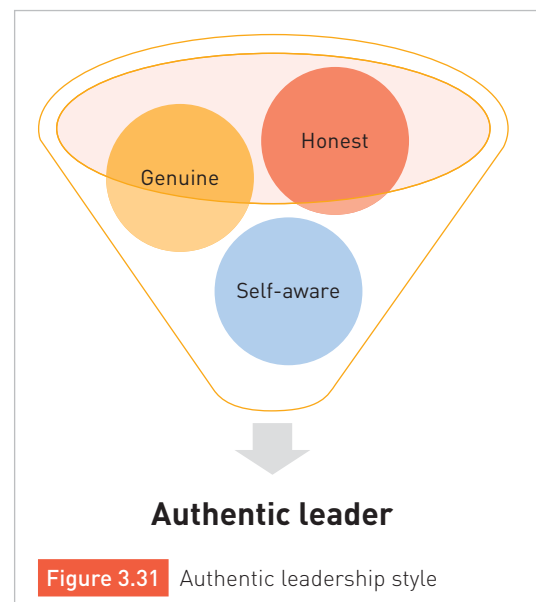
Authentic leadership is seen when a person takes the initiative and leads by example. They are self-actualised, or mature and autonomous, individuals who are aware of their strengths and limitations. They lead with their heart and not just their mind. An authentic leader is a genuine person who has strong values and a deep sense of purpose. They build legitimacy through relationships and empower team members. Their leadership is based on openness and they inspire team members by revealing a bit about themselves. They do not act one way in private and then another way in public. An authentic leader is real, honest and genuine. They display behaviours that gain the trust of their team members. They are not afraid to show their emotions and are not driven by power, money or ego. A person who exhibits this style of leadership values the input of team members and is sensitive to the needs of others. They treat team members as individuals and have a human-centred approach. They do not hide their weaknesses and are they take ownership when they make a mistake. An authentic leader has insight, initiative and integrity.

An authentic leader exhibits the following attributes:

- *honesty* – the ability to be truthful and straightforward
- *genuineness* – the ability to be sincere and real
- *self-awareness* – the awareness of their personality traits and values.

Situations in which this style is effective

This leadership style is effective in building positive and rewarding relationships between leaders and team members.



Situations in which this style is ineffective

This style of leadership may not be effective if a leader is worried or concerned about certain aspects of the business/process and conveys these concerns to team members. In this situation the authentic style could impact on team members' confidence in the leader and could hinder progress.

Example of authentic leaders

Warren Buffett, an American business magnate, investor and philanthropist, said his biggest mistake was buying US company Berkshire Hathaway – a \$200 billion mistake. He was willing to share his mistakes and was not afraid to talk about his failures. Another authentic leader is media personality and philanthropist Oprah Winfrey. She openly shared the traumas of her childhood and spoke about her hardships and how she overcame them.

Transactional

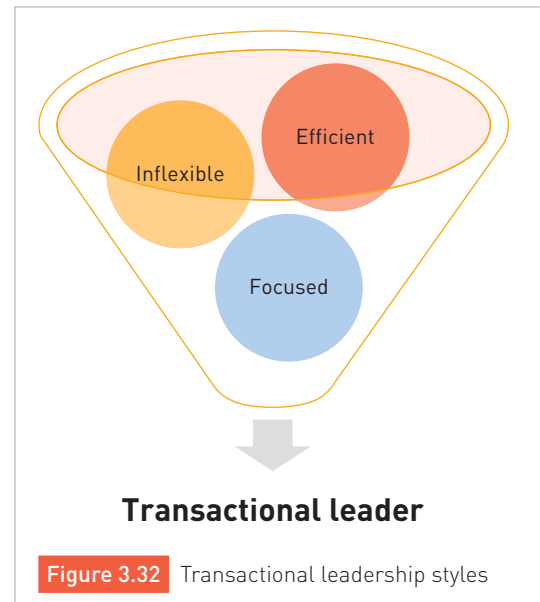
A transactional leader is a person who focuses on supervision and performance and values structure (see Figure 3.32).

Description of a transactional leader

A transactional leader focuses on the results. They lead by establishing a formal structure and implement rules and regulations that team members must adhere to. They set predetermined goals and measure success based on team members' performance. A transactional leader uses rewards and penalty systems to enforce standards. A transactional leader will review results, and retrain or correct team members if they fail to meet goals. In this type of leadership structure, team members are expected to totally obey their leader. Their job description is clearly defined, outlining their role and responsibilities.

A transactional leader exhibits the following attributes:

- *efficiency* – they revel in efficient systems, following rules and regulations
- *inflexibility* – they follow established procedures
- *focus* – they focus on the task and ensure it is achieved.



Situations in which this style is effective

A transactional leadership structure is suited to achieving short-term goals quickly. It provides clearly established procedures and the rules and regulations to follow. It is appropriate for a leader who is motivated by self-interest and team members who are motivated by external rewards.

Situations in which this style is ineffective

This type of leadership structure limits creativity. Team members can do little to improve their job satisfaction. They are rewarded on a practical level only, not on a personal level.

Example of transactional leaders

A person who exhibits the attributes of a transactional leader would ideally suit a military operation or lead large international projects that require rules and regulations to complete objectives. Bill Gates displayed some transactional leadership traits. He was an industry visionary and successfully moved Microsoft in the direction he saw the industry going. Bill Gates would visit production teams and ensure that they were following the correct procedures and understood the established goals. Bill Gates is now one of the richest people in the world.

Transformational

A transformational leader is a person who is visionary, and inspires and motivates team members to achieve (see Figure 3.33).

Description of a transformational leader

Transformational leaders are team-orientated leaders who expect team members to work together to create the best possible results. A true transformational leader will inspire team members with a shared vision. They are enthusiastic leaders who motivate team members through high levels of communication and visibility. Transformational leaders are inspirational. They motivate and encourage team members to achieve goals and provide support and recognition. This style of leadership relies on the leader having exceptional communication skills. They convey their visionary direction with precision and power and are optimistic, positive and enthusiastic. A transformational leader acts as a role model and holds themselves accountable for their actions. They build trust with their team members and in turn the team members develop confidence in their leader. They establish an excellent rapport with their team members and they have good conflict-resolution skills. A transformational leader usually possesses courage and confidence and leads by example. They create a clear vision and explain this vision in a manner that inspires team members to join in.

A transformational leader exhibits certain attributes. They are:

- *visionary* – they plan for the future with imagination and have clear ideas
- *inspirational* – they show creativity and encourage others
- *motivational* – they show a desire to achieve something and inspire others.



Situations in which this style is effective

A transformational leadership style is ideally suited to a situation where change is needed. The leader is visionary and will be able to take control and motivate the team members to move in a new direction.

Situations in which this style is ineffective

This style of leadership is least effective in an ad hoc situation where there is no direction or structure.

Example of a transformational leader

Nelson Mandela, South Africa's first black president, transformed a whole society and showed the characteristics of a leader that everyone aspired to. His style of leadership made him a great leader who inspired affection. He connected with a whole society and shared his vision.

QUESTIONS 3.6



- 1 List the leadership traits you have.
- 2 **Explain** what is meant by leadership.
- 3 **Create** a table identifying the key features of the styles of leadership.
- 4 What type of business situation would best suit an authoritative leader?
- 5 **Explain** the difference between a charismatic leader and a bureaucratic leader.
- 6 Work in small groups to complete the following tasks.
 - a **Create** a list of four people who are effective leaders. You could choose from any of the following areas: business, the sports and entertainment industries, politics or school leadership.
 - b **Identify** the leadership traits that each person displays.
 - c **Compare** the leadership styles of each person and identify similarities and differences.
 - d **Decide** which person is the most effective leader, and explain why.

Management

Management plays an important role in strengthening a workplace to achieve success. Effective management involves making the right decision, and choosing the right approach and management style to suit the situation. Management involves a manager and an employee.

- A *manager* is the person in charge in a business and controls the use of resources, including employees.
- An *employee* is a person who is hired to perform a specific job.

It is the responsibility of those in management to deal with the actual operation of a business. Management is about overseeing people and tasks in a business.

Key learnings

You will learn the following about management:

- what management is
- management styles.

How to become a better manager: 10 management practices of effective leaders

We all know that being good at your job doesn't guarantee that you're going to be a good manager. Many of us have learned this from personal experience – while most of us have had a horrible boss at some point, how many of us have been fortunate enough to work under a truly inspiring leader who knows how to motivate and get the best out of their team? And more importantly, how do you become such a leader?

Different management styles will best suit different contexts depending on the company culture, the size of the team or organisation, the nature of the work or industry and the particular personalities involved. There are some universals, however. Effective management is an art – but luckily, it is one that can be learned if you follow some basic principles. Here are some tips on becoming a better manager, starting right now:

1 Select the right people

It all starts with getting the best possible team in place – together, the whole can become greater than the sum of its parts. You need to select the right people for the right jobs, build a complementary team, and align your people with your organisational goals and culture.

Knowing how various roles will help to achieve your organisation's goals can help define the requirements against which you will interview and assess candidates.

2 Show empathy

Empathy is the ability to listen to people, relate to their emotional experience and let them know that you are doing so. Managers with high emotional intelligence can build rapport with and between people, leading to greater trust and transparency in the team.

3 Communicate clearly

Communication is the key to fostering transparency and building relationships built on openness, trust and honesty with your team. The first step in effective communication is to create the time and space for people to talk and to ask questions. Managers need to set clear objectives for both the organisation and its people to discuss and negotiate, let people know what support and resources they have access to, and to clearly link rewards to objectives.

Communication needs to flow in all directions, from managers to their staff, from staff to managers, and between team members. An effective leader is a good listener and fosters an environment where people can get to know each other and understand each other's strengths, weaknesses and communication styles. Good managers are open to input from their staff, and learn from their feedback.



Shutterstock.com/Monkey Business Images

4 Lead by example

Leaders need to take responsibility for the atmosphere they create and shape it with their own behaviour. This can be as simple as your posture and demeanour when you arrive at the office in the morning, or more systemic like outlining values and protocols for working with each other.

It's also important to practise what you preach. You can't expect your staff to work harder than you're willing to. Once in a while, roll up your sleeves and get your hands dirty.

5 Delegate

As a manager, it's important that you recognise that there are only so many hours in the day, and only so much that you can do by yourself. While you may find that it's faster to get things done on your own in the short term (particularly if you have a new or inexperienced team), in the long term you will save a lot of time by delegating meaningful projects to your team members. By doing this, you will also build their skills and help them reach their potential. However, delegation doesn't mean micromanaging.

6 Be positive and constructive

Providing timely and meaningful feedback to your staff is crucial, as is determining how best to give them this feedback. It's better to tell people what you want them to do rather than telling them what you don't want them to do. If you have to comment on poor performance, use actual observations to demonstrate the issue and talk about behaviours (which people can change) rather than criticise personalities or make value judgments.

7 Thank and reward your people

This area is often neglected but can't be overstated – it takes very little effort to thank someone, but it can make all the difference to how people feel on the job. After all, your team members are people, not robots! When it comes to rewards, it's important to provide rewards that people will actually find gratifying. For example, some people love to be taken out for lunch, while others might prefer time in lieu or more autonomy and responsibility. Many managers reward people in the way they themselves like to be rewarded, which is not always effective.

8 Develop your people

A manager is only as good as their team. The best way to coach your people is to help them focus on process rather than content. As a manager you will have people coming to you with issues and problems, but instead of getting bogged down in the detail, coach people. If you don't know where to start, here's a framework. Ask the person to:

- outline the problem
- describe the impact the problem is having
- explain what they've tried already
- define what an ideal outcome looks like
- explore the resources they might use to get there
- consider possible next steps
- have them try it; and
- come back to you with the results.

This turns the problem orientation into a solution orientation, as well as being a great learning opportunity and empowering the person to solve the problem themselves.

9 Encourage innovation

It's important for leaders to think outside the square and know when to take risks. By giving people the freedom to work through problems and solutions themselves, you will encourage innovation, creativity and resourcefulness.

10 Be flexible

Good managers have a flexible approach and are able to adapt to individual employees, allowing them to work according to their own individual style.

In addition, flexible workplace practices have emerged as an increasingly important priority for employees.

Great leaders know how to lead from the front and motivate their teams to perform to the best of their ability.

Source: Adapted from an article by Josie Chun and Zahra Campbell-Avenell at Career FAQs website. Careerfaqs.com.au is Australia's number 1 careers and course search website. Career FAQs is renowned for their expert career advice and resources, helping millions of people kickstart and advance their career each year.

QUESTIONS 3.7



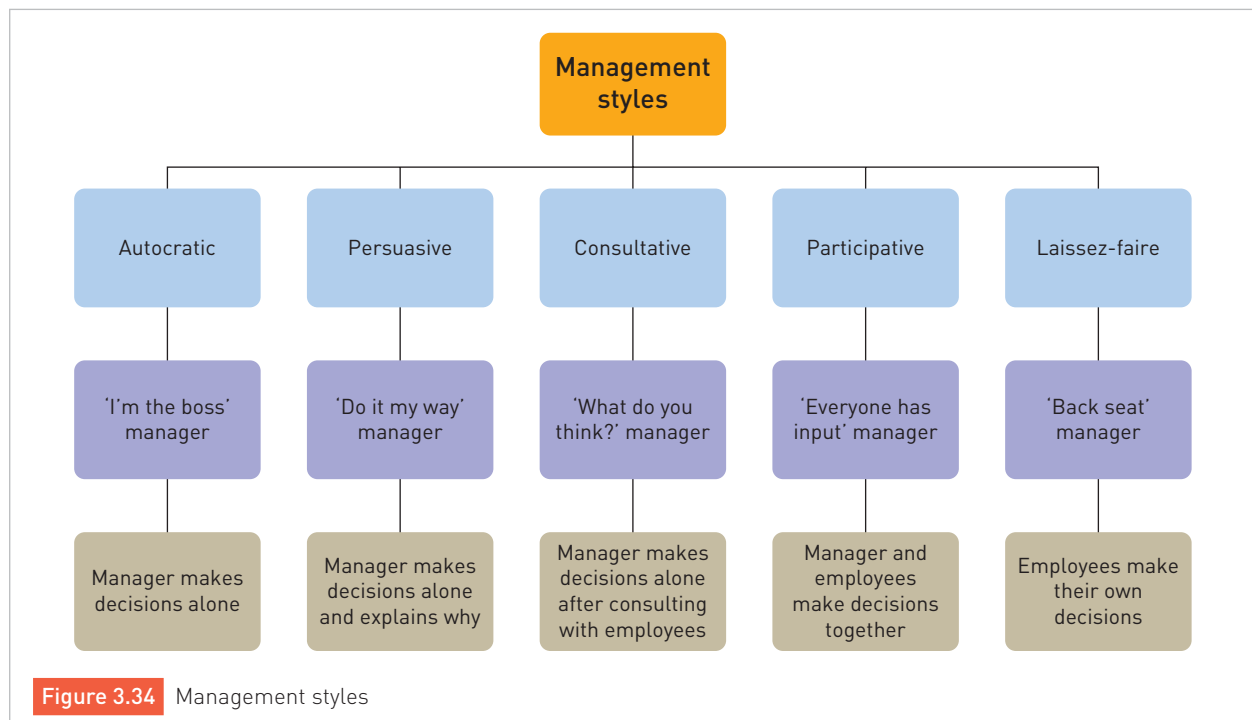
Use information from the article above to answer the following questions.

- 1 **Explain** the reason why a manager should show empathy.
- 2 Why should a manager seek feedback from staff? **Explain**.

- 3 The article states that a manager should 'lead by example'. **Explain** what this means.
- 4 **Explain** what 'delegation' means and why a manager should delegate.
- 5 It is suggested in the article that a manager should provide feedback to staff that is 'timely and meaningful'. **Explain** what this means.
- 6 **Explain** why rewarding employees is important.
- 7 **Outline** the steps recommended to empower staff members to solve problems.
- 8 What are the benefits of encouraging staff to be innovative?
- 9 **Explain** flexible work practices and provide an example that could be implemented in a business.

Management styles

There are a variety of management styles that exist, including autocratic, persuasive, consultative, participative and laissez-faire (Figure 3.34). As with leadership styles, the manager should choose the management style that suits the business, the employee group or the situation.



Autocratic

An autocratic style is a management style in which the person in charge has total authority and total control. It can be likened to a dictatorial style, where the person in charge has total power. The manager who adopts this style of management makes decisions based on their own beliefs and does not involve others. They make all decisions unilaterally. The manager has sole responsibility for all decision-making, controls every aspect of management and has total control over employees. They monitor and scrutinise the completion of each task closely. The employee must adhere to the guidelines and policies formulated by the autocratic manager. There is no reward or recognition given to the employees to boost morale or motivation. Under this management style, no one challenges the decisions made by the manager. There are some advantages of this type of leadership as all decisions are made quickly and there is tight control over the processes of the operations in a business. Autocratic management will be useful in situations where a business faces a crisis. Compared with other management styles, the autocratic manager will deal with the problem promptly as there is only one person required to make decisions.

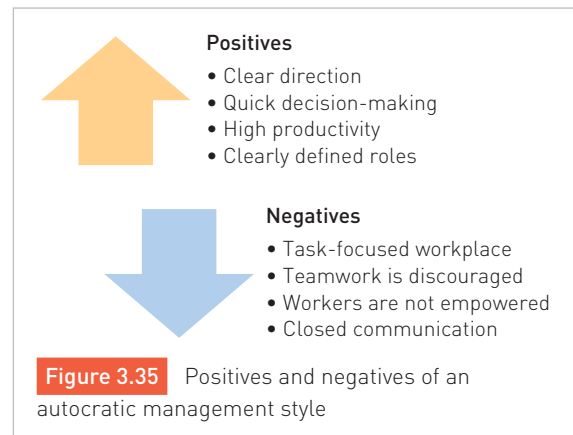
Key features of an autocratic management style

The key features of an autocratic management style are:

- The manager makes all decisions alone.
- Authority is centralised.
- The manager has total control over all aspects of management.
- It is beneficial for employees who require close supervision.

Positives and negatives of an autocratic management style

An autocratic manager promotes a system of high productivity and efficiency in a workplace. They expect employees to follow their commands and work without resistance. The autocratic management style has both advantages and disadvantages, as detailed in Figure 3.35.



Persuasive

A persuasive style is a management style in which management persuades others to follow their way of thinking. A persuasive manager maintains control over the entire decision-making process at all times. They spend some time discussing decisions with employees; however, the decisions still reflect the ideas and beliefs of the manager. This style shares many characteristics with that of an autocratic manager. The difference is that a persuasive manager will convince an employee of the benefits of their decision and that it is the best decision.

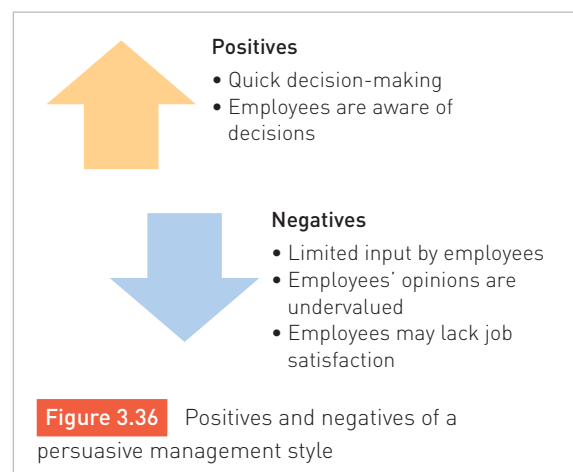
Key features of a persuasive management style

The key features of a persuasive management style are:

- The manager makes decisions alone but explains why.
- Authority is centralised.
- The manager maintains control over the entire decision-making process.
- It is beneficial for employees who require supervision.

Positives and negatives of a persuasive management style

A persuasive manager encourages some input from employees and shows some willingness to listen, but decision-making power still remains with the top management. The persuasive management style has both advantages and disadvantages, as detailed in Figure 3.36.



Consultative

The consultative style is a management style in which management consults with others before making a decision. This style focuses on using the skills, experiences and ideas of others in the workplace. The consultative manager involves employees in the decision-making process. They consider all alternatives before the final decision is made. However, the consultative manager still retains the right to make the final decision. This style of management does provide the employee with some level of involvement in decision-making and places some importance on employee contribution. It is an expensive and time-consuming method of making decisions as others need to be consulted first.

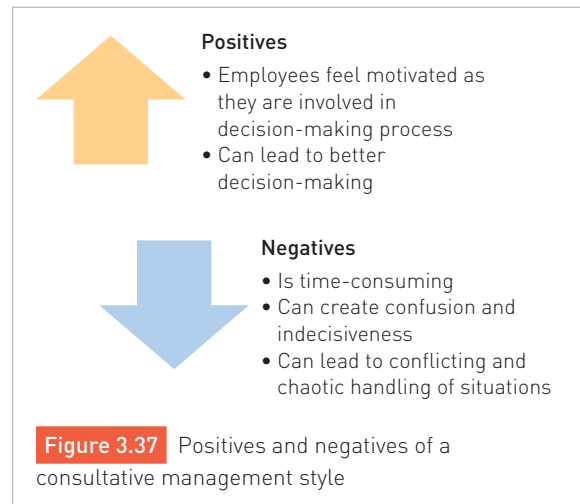
Key features of a consultative management style

The key features of a consultative management style are:

- The manager makes decisions alone after consultation.
- Authority is centralised but employees are considered.
- The manager consults during the decision-making process.
- It is beneficial for employees who like to give their input.

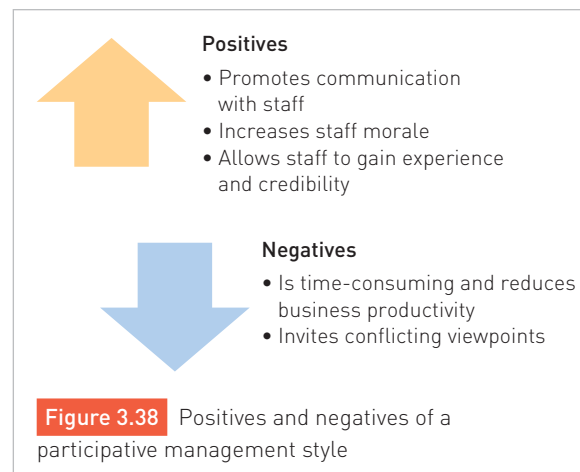
Positives and negatives of a consultative management style

A consultative manager encourages input from employees, but this is a time-consuming process that sees the manager making the final decision. The consultative management style has both advantages and disadvantages, as detailed in Figure 3.37.



Participative

A participative style (also known as democratic) is a management style that encourages the involvement of all stakeholders in the decision-making process. It focuses on the interaction between management and employees. Participative management allows employees to take responsibility and authority over work and makes them accountable for their actions. The participative manager includes employees in the decision-making, and encourages and values their input. The manager places importance on the opinions of others. This increases morale in the workplace as the employee feels part of the business. It also builds motivation and commitment of employees as they feel a sense of empowerment in the workplace. Under this style, employees are rewarded for their contribution and effort. A participative management style offers various benefits in a business. It instils a sense of pride and motivates employees to increase productivity to achieve their goals. Employees feel part of the team and they gain a wider view of a business. It increases job satisfaction and efficiency in operations. It also requires less supervision by management as there is greater emphasis on employees taking responsibility for their own work.



Key features of a participative management style

The key features of a participative management style are:

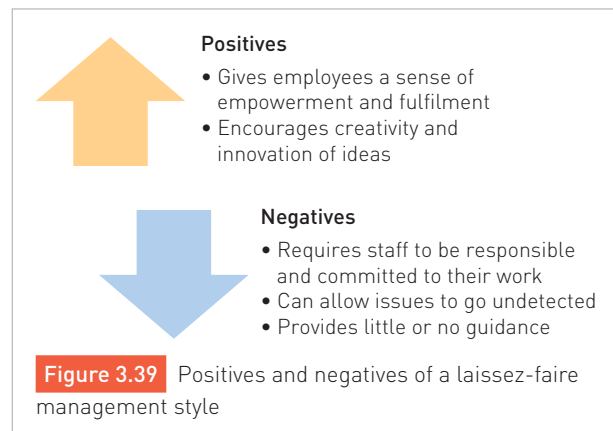
- The manager and employees make decisions together.
- Authority is decentralised.
- The manager encourages and involves others.
- It is beneficial for employees who are participative.

Positives and negatives of a participative management style

A participative manager encourages the contribution of employees and empowers them. This results in an increase in efficiency and improved morale and job satisfaction. The participative management style has both advantages and disadvantages, as detailed in Figure 3.38.

Laissez-faire

A laissez-faire style is a management style in which management provides little direction to employees. The laissez-faire manager leaves employees to do their job themselves, with limited or no supervision. The manager delegates decisions to employees and does not provide any feedback. This style of management requires employees who are highly skilled and experienced. They need to be self-motivated and willing to complete work without any supervision. The laissez-faire style is also known as a delegative management style, in which the manager delegates work and allows employees to make all decisions. This style of leadership can lead to the lowest level of productivity in the workplaces. There is a lack of monitoring from management, which can also lead to problems in terms of control. In addition, some workers may not be capable of this level of self-direction.



Key features of a laissez-faire management style

The key features of a laissez-faire management style are:

- Employees are left to make their own decisions.
- Authority is totally decentralised.
- The manager provides no direction.
- It is beneficial for employees who need no supervision.

Positives and negatives of a laissez-faire management style

A laissez-faire manager empowers employees to take full responsibility for their work. They may set their own goals and objectives and make their own decisions. There is limited or no control from management in this style. The laissez-faire management style has both advantages and disadvantages, as detailed in Figure 3.39.

QUESTIONS 3.8



- 1 In what way is the consultative style of management similar to the participative style?
- 2 **Outline** the situation in which the autocratic management style would be appropriate.
- 3 **Explain** the laissez-faire management style.
- 4 How do persuasive managers motivate staff to work?
- 5 For each of the situations below, **decide** which management style would be best suited.
 - a An employee appears to be having difficulty completing work tasks. Their performance has been declining rapidly. They have not responded to your efforts to be encouraging or your concerns for their welfare.
 - b Performance, and interpersonal relationships among staff, have been good. However, a new situation has developed and staff are unable to solve the problem themselves.
 - c You are considering a major change in the workplace, which needs to happen immediately. You are aware that some staff members will be resistant to the change.
 - d A team of employees have designed and implemented a new way of managing the distribution of products to customers. The owner of the business is pleased with this and agrees to implement the new system.

Chapter 3 review

This chapter introduced the fundamentals of business leadership and management and showed how organisations are structured. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

3.1 Short items

- 1 **Explain** why a business should create an organisational structure.
- 2 **Differentiate** between a simple and a functional organisational structure.
- 3 **Identify** the benefits of creating a functional organisational structure.
- 4 **Identify** the type of business structure that would suit a simple organisational structure. **Explain** your choice and why it would suit this business type.
- 5 **Explain** the various types of divisional organisational structures that a business could use.
- 6 What is an organisational culture?
- 7 **Explain** why a business should establish an organisational culture.
- 8 What impact does an organisational culture have on a business?
- 9 **Identify** the elements of the POLC framework.
- 10 How does the POLC framework benefit leadership and management in a business?
- 11 **Explain** the following roles in a business:
 - a owner
 - b director
 - c manager
 - d leader
- 12 **Differentiate** between an entrepreneur and an 'intrapreneur'.
- 13 **Identify** and **explain** the key features of the various leadership styles.
- 14 **Differentiate** between an authoritative and an authentic leadership style.
- 15 **Differentiate** between a transactional and a transformational leadership style.
- 16 **Identify** and **describe** the key features of the various management styles.
- 17 **Differentiate** between an autocratic and a laissez-faire management style.
- 18 **Differentiate** between a persuasive and a participative management style.
- 19 **Explain** the benefits for a business when a manager uses a consultative style of management.
- 20 **Explain** the benefits for an employee when a manager uses a participative management style.

3.2 Extended-response items

Using the inquiry process, complete the following tasks by referring to the topic:

- 1 Use the provided stimulus to select information relating to the organisational structure of the business to analyse the leadership roles in the business.
- 2 **Interpret** the relationship and patterns in the leadership roles to **draw conclusions** about the implications for the operation of the business.
- 3 **Select** information relating to the environmental factors to classify strengths, weaknesses, opportunities and threats (SWOT analysis).
- 4 **Interpret** the SWOT analysis to **draw conclusions** about the implications for Swoosh's competitiveness.
- 5 **Create** a short business-report extract to **communicate** strategic planning to the managing director of the business.

GAINING INSIGHT



Swoosh

Swoosh is a small business that provides a cleaning service in the Toowoomba region. Swoosh has 25 years' experience and employs over 70 people from the local area. The business provides a wide variety of services in the domestic cleaning industry.

Swoosh aims to provide a cleaner environment and to be recognised as a leader in 'green' cleaning. Swoosh operates as a family-run private company and has in place a vision that it strives to achieve through its practices (Figure 3.40).



'Our vision is to be the dominant residential cleaning business in our industry.'

Figure 3.40 Vision statement for Swoosh

Swoosh has established a positive mission statement, which is outlined in figure 3.41.

Our mission is to positively contribute to:

- ☒ Homeowners we service by delivering efficient and quality services
- ☒ People we employ by providing equitable and fair employment conditions
- ☒ A sustainable future by using environmentally friendly cleaning products.

Figure 3.41 Mission statement for Swoosh

Swoosh organisational chart

The business is organised into various sections (Figure 3.42) to ensure the efficient operations of the business.

The managing director is committed to workplace democracy and has established a culture that places

value on all employees. Swoosh is about employee ownership and participation, and focuses on meeting customers' needs. Employees design their own work arrangements by setting their own hours and managing

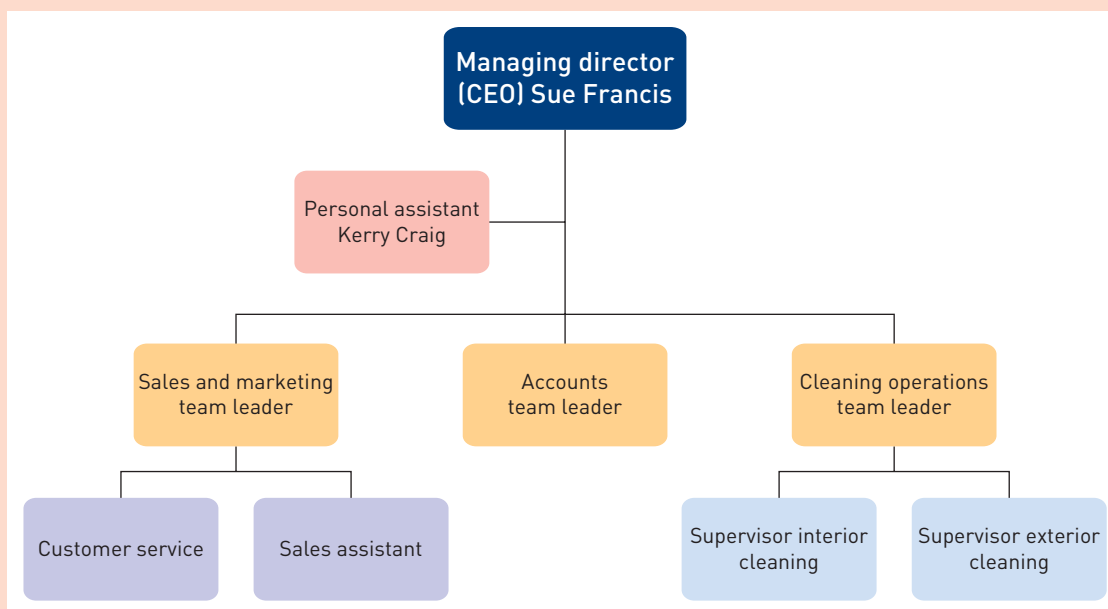


Figure 3.42 Organisational chart for Swoosh

their own work schedules. There are no managers at Swoosh. There are team leaders, but leadership depends on their performance over a six-month period. A leader who fails to maintain an acceptable standard will lose their team leader role and could face termination of employment.

Employees are provided with information about work standards and expectations. They are provided training to keep up with industry standards. The workplace environment is flexible and the managing director is involved in every aspect of the business.

Market factors

- Toowoomba is a city of Queensland located 125 kilometres west of Brisbane.

- According to the Australian Bureau of Statistics, the population of Toowoomba is 115 000 (2017).
- Toowoomba is the sixth-largest city in Queensland.
- The population growth rate of Toowoomba is very consistent and strong, ranging from 1.0 per cent to 1.76 per cent annually.
- The main occupations of people living in Toowoomba are: professional (20.8%), trade worker (13.9%), labourer (13.4%), administrative worker (12.6%).

Source: Australian Bureau of Statistics, www.abs.gov.au.

Industry factors

The following graph (Figure 3.43) represents segmentation in the cleaning industry for the Toowoomba region.

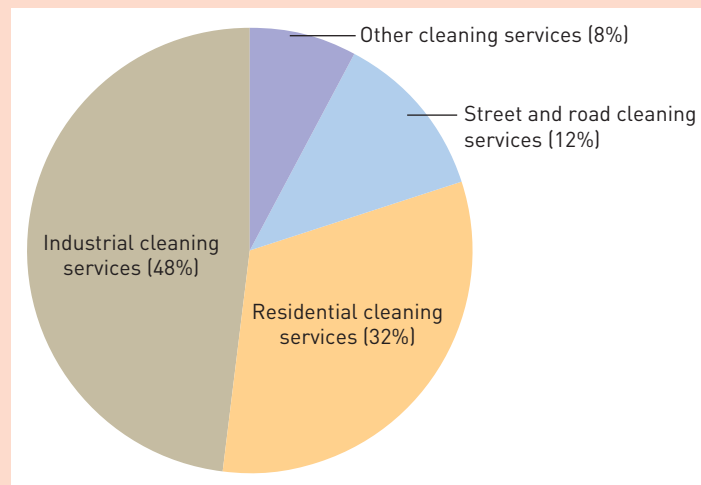


Figure 3.43 Cleaning industry segmentation for Toowoomba



Case study 1: Fundamentals of business

CJ's Island Pizza

SOURCE 1: About the business

CJ's Island Pizza is a beachside eatery located on North Stradbroke Island in the township of Dunwich. It is popular with both local residents and holiday-makers to the island and has become a 'must do' when visiting North Stradbroke. Established in 2011 by father and son, Charlie Jia and Solomon Jia, this business has built a reputation for exceptional food and friendly customer service.

CJ's Island Pizza is a family-owned business that is about creating an environment that people want to be part of. The heart of this business is the people. In a small town like Dunwich it is about building a brand that people will talk about and remember. This is what CJ's Island Pizza has established. It has created a culture that focuses on keeping the business and service personal. People come for the food and to share a conversation. This customer-centric approach is a big part of this business and has proven to be a winning recipe.



Charlie Jia

SOURCE 2: North Stradbroke Island

North Stradbroke is known as 'Straddie' or Minjerribah. The traditional custodians of this land, the Quandamooka people, have a relationship with the island that dates back thousands of years and their connection to it is still as strong today. Straddie is a subtropical island about 30 kilometres south-east of Brisbane, Queensland, and is the world's second largest sand island (see Figure C1.1).

The population on the island is small but the number of people grows significantly on weekends and during the holiday season. The island is only accessible by passenger or vehicular ferries from Cleveland. Tourism is a major and growing industry on the island.



iStockphoto.com/CraigRJD

SOURCE 3: Interview with the owner

David Foster, a regular visitor to the island and frequent diner at CJ's Island Pizza, interviewed the owners, Charlie and Solomon Jia, about their business and future plans.

David: How did you get started in this business?

CJ: We started our business in the midst of uncertainty surrounding the mining, tourism, Native Title determinations and increasing access concerns to the island. We took the leap, investing our own savings in August 2011.

David: What is the most rewarding thing about running your own business?

CJ: The most rewarding aspect for us is being involved in the island's community in many different aspects. We have created a number of jobs and training opportunities for the island's youth, sponsored and supported local projects ranging from school fundraisers [to] work experience excursions and community wildlife projects, but also we've given Straddie a much needed food service that was simply not available to locals or tourists on the island beforehand.

David: Have you set any goals for next year for your business?

CJ: Absolutely, over the next year we'd really like to implement a solid social media presence, which will help us to promote our business relevant to the many events and fluctuating times of 'traffic' throughout the year. Furthermore, we are currently training a 2IC, which will allow us more time to focus on the above-mentioned social media, but also increase what we offer as we evolve into what has become CJ's Cafe and Pizza.

Figure C1.1 Location of North Stradbroke Island

David: How do you plan to remain competitive with other food businesses on the Island?

CJ: Simply by providing a consistent and quality experience, that not only covers great-tasting food, but also a friendly and welcoming family business environment with superior customer service. This has kept us at the top of the list regarding places to eat on Straddie for many years, however we realise without evolving we will become stagnant, offering opportunity for our competition to catch up by attempting to replicate our existing business model.

For this reason, over the next year we really want to plan ahead to cater to the events and seasons on the island to provide appealing 'specials', and 'promotions' that value our locals specifically, while also giving visiting tourists a reason to stop by.

David: Where do you see your business in the next five years?

CJ: We see CJ's as becoming a must-visit location for tourists visiting the island, and the most reliable and quality place to get a coffee and some food. Over the next five years, when asked what you should do on Straddie, it will be, 'Definitely go on the gorge walk, have a swim at Cylinder Beach, cool down with a gelati from the gelati shop afterwards, take a drive out to Brown Lake, and then stop in at CJ's afterwards for some delicious pizza or a fresh juice as you watch the sunset'.

David: What obstacles will you have to overcome?

CJ: With the closure of the sand mines on the island, we're finding that most miners and their families are moving away from the island for other employment opportunities. With this comes a sense of urgency for all business and the local economy to transition to a tourism-based economy. While continuing to look after our locals who are customers year round, we must promote ourselves to a wider audience, at the right times, to ensure those visiting the island, from all over Brisbane and beyond, know even before they arrive that they can't leave Straddie without visiting CJ's first. Due to our location being adjacent to the ferry terminals, where 99 per cent of tourists pass through to commute to and from the island, we also acknowledge that we are quite often the last stop for Straddie visitors. The island's reputation and appeal can be won or lost by us and other businesses in our area, so we believe it is crucial to maintain a high standard of service. This not only benefits us, but the greater good of tourism, Straddie's reputation and the survival of our island's economy.



Figure C1.2 CJ's Island Pizza owner, Charlie Jia

SOURCE 4: Customer feedback and reviews

CJ's Island Pizza has established a Facebook page to connect and communicate with customers (and potential customers) and as a means of promoting the business. They use it as a way to talk to and get direct feedback from their customers. It provides a means of gathering customers' reviews and feedback (Figure C1.3).



All images this page: Charlie Jia

Figure C1.3 Customer feedback and reviews

CJ's Island Pizza has used social media to personalise its business through postings, personal tidbits, conversations and interactions with reviewers. The Facebook page is also useful to post relevant information such as menu updates and trading hours and to offer incentives and promotions (Figure C1.4).



Figure C1.4 Facebook posts

SOURCE 5: Competition

Places to eat on North Stradbroke Island

Visitors to the island are encouraged to bring their own food supplies due to the limited shopping facilities available. However, the island provides a number of eateries (Table C1.1) that cater for both locals and tourists.

Table C1.1 Competition on North Stradbroke Island

Business	Location	Type of business
Dialba Oysters	Amity Point	Sells shucked oysters to the public and restaurants
Rufus King Seafoods	Amity Point	Fresh local prawns, crabs, oysters, bugs and fish
Seashells Café	Amity Point	Fresh island seafood
CJ's Island Pizza	Dunwich	Traditional and gourmet pizzas and side dishes
Island Fruit Barn	Dunwich	Homemade cakes, fresh fruit, vegetables and gourmet groceries
Skip's Snackbar	Dunwich	Burgers, fish and chips, fresh sandwiches/rolls, ice creams
Straddie Bakery	Dunwich	Freshly baked sourdough, sliced bread, cakes and slices
2DLite	Point Lookout	Gourmet food, including sushi, rice paper rolls and fresh salads
Fins 'n' Fries	Point Lookout	Locally caught fish and chips
Fishes Café	Point Lookout	Local fresh fish, crab and oysters plus special steak and rib options
Oceanic Gelati	Point Lookout	Homemade Italian ice creams, coffee, fresh juice and smoothies
Prawn Shack	Point Lookout	Seafood including prawns, bugs, crabs, oysters, mussels and fish
Sisco's Philly Cheez	Point Lookout	Homestyle burgers, hot dogs and breakfast
Whales Way	Point Lookout	Seafood restaurant from local suppliers

SOURCE 6: Business support

Support for CJ's Island Pizza

The South East Queensland Indigenous Chamber of Commerce (SEQICC) is a leading Indigenous business membership organisation that was established in 2006. It was formed by a group of visionary Indigenous business leaders who wanted to see Indigenous business owners come together and share their knowledge. SEQICC is a not-for-profit organisation that is committed to supporting Indigenous business owners through building capability, fostering trade, advocating and creating wealth. SEQICC promotes CJ's Island Pizza in its Indigenous Business Directory (IBD; see Figure C1.5).

South East Queensland Indigenous Chamber of Commerce

Home Indigenous Business Directory Membership News Events Contact About

South East Queensland Indigenous Chamber of Commerce » Business Directory » CJ's Island Pizza

Business Profile - CJ's Island Pizza

CJ's Island Pizza

Business Overview

Situated on North Stradbroke Island, CJ's Island Pizza offers a range of delicious pizzas, prepared fresh each day from the pizza base up. Open **4pm DAILY** and located in Dunwich, a CJ's pizza is a **"MUST DO"** when visiting North Stradbroke Island.

Please visit the CJ's Island Pizza Facebook page for our menu, weekly deals, island news, and customer feedback ("Like" us)

Products/Services:

Across the counter sales, pick up or delivery, CJ's continues to build its reputation for excellent food and great customer service. Delicious Traditional and Gourmet Pizzas as well as an assortment of side dishes and snacks including BBQ Spare Ribs, Lasagne, Chicken Wings, Potato Pots and Pizza breads.

CJ's offers a discounted catering service (10 or more pizzas) and happy to discuss your event, your needs and your budget.

PHONE
07 3415 2445

BUSINESS ADDRESS
Shop 1
7 Ballow Road
DUNWICH, Stradbroke Island
Queensland

Carbon Media Community Leadership Solutions

Charlie Jia

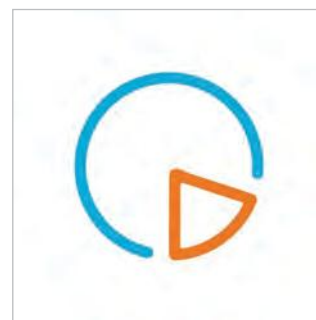
Figure C1.5 SEQICC page

The Queensland Government also provides support and networking for Indigenous business owners that Mr Jia could access. Indigenous Business Australia (IBA) provides financial assistance, expert advice and training programs to start and grow a viable and sustainable business.

SOURCE 7: Future for CJ's Island Pizza

CJ's Island Pizza is a success story. In a small community with a population of fewer than 2000 people, CJ's Island Pizza has become a popular, well-known and frequented eatery. To further the success of this business, the owners have made the following changes:

- expanded operations to focus on providing more cafe food options.
- changed the name to CJ's Cafe & Pizza and updated its logo (see Figure C1.6)
- changed trading hours to accommodate the new food services available.



All images this page: Charlie Jia

Figure C1.6 New business logo for CJ's Cafe & Pizza

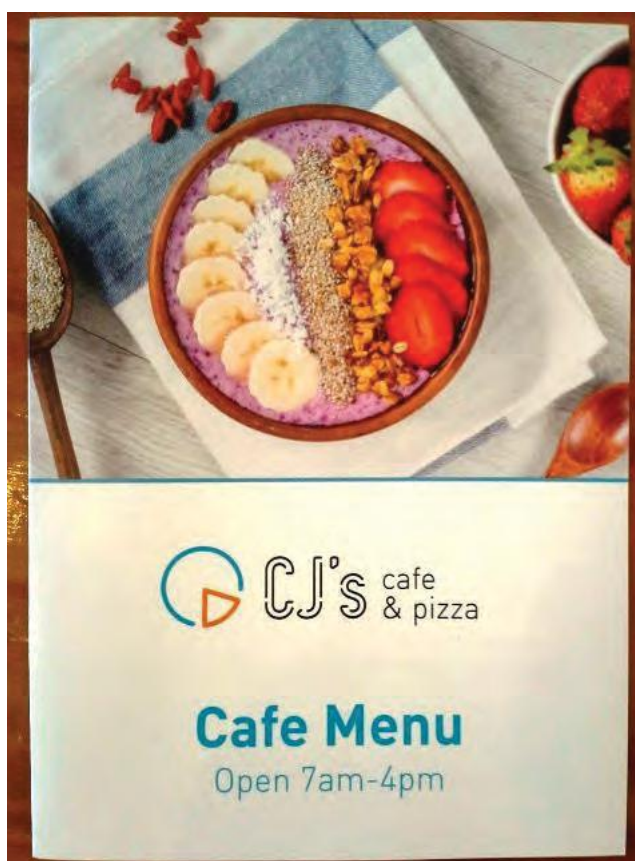
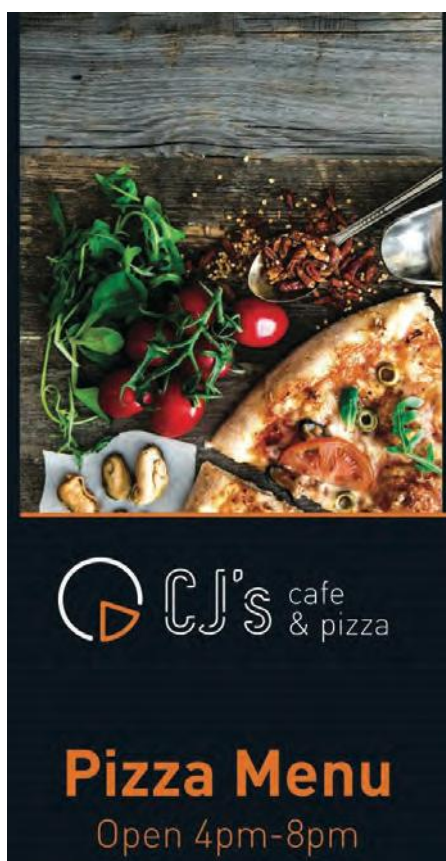


Figure C1.7 New menus for CJ's Cafe & Pizza

Questions

Apply the inquiry process to answer the following questions.

- 1 **Describe** the business situation of CJ's Island Pizza, including the internal and external environment factors and the position in the business life cycle.
- 2 **Explain** the strategic planning implemented by the business.
- 3 **Select** data and information relating to the environmental factors for the business to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis).
- 4 **Interpret** the relationships and patterns in the SWOT analysis and **draw conclusions** about the implications of the position in the business life cycle.
- 5 **Evaluate** the strategic planning implemented by the case study business to make a judgement; using the criteria of competitiveness and effectiveness.
- 6 **Create** a short business-report extract for the management of SEQICC to communicate future strategic planning for CJ's Island Pizza.

Unit

1

Business creation

Topic 2

Creation of business ideas

THE CREATION OF BUSINESS IDEAS



Seed stage in the business life cycle



Idea leads to a start-up business

NEW BUSINESS IDEAS



Humans are competitive by nature and new business ideas must also be competitive in order to progress through the life cycle



Strategies employed by business owners will impact the viability of business ideas and success of start-up businesses

COMPETITIVE ADVANTAGE



The more sellers of a similar product or service, the more competitive the environment



Differentiation can be based on product, price, quality and service

MOTIVATION FOR START-UPS AND NEW IDEAS



Identified needs



Opportunity in the market



Passion



Creating value



Changing the world



Being in control



Making money

DRIVERS OF INNOVATION

Drivers of innovation, by employment size, 2014–15		Persons				
		0–4	5–19	20–199	200 +	Total
		%	%	%	%	%
 Profit related reasons		59.8	66.8	64.9	67.6	63.1
 Competition, demand and market-related drivers						
	Be at the cutting edge of the industry	33.3	39.0	43.0	42.0	36.6
	Increase responsiveness to customer needs	28.9	40.2	48.8	49.3	35.5
	Ensure the business' products are competitively priced	16.1	23.5	32.5	30.6	20.8
	Increase or maintain market share	21.0	35.1	40.3	36.7	28.6
	Establish new markets	23.4	25.1	28.6	24.3	24.6
	Increase export opportunities	3.5	3.9	5.3	8.8	3.9
	Any of the above competition, demand and market-related drivers	58.1	67.1	70.8	67.5	63.0
 Production and delivery drivers						
	Increase efficiency of supplying/delivery goods or services	18.6	25.2	37.0	39.6	23.3
	Improve quality of goods or services	17.0	25.5	37.7	31.8	22.6
	Improve IT capabilities or better utilise IT capacity	15.3	20.7	29.2	28.9	19.0
	Increase capacity of production or service provision	11.1	12.2	17.8	17.3	12.3
	Any of the above production and delivery drivers	34.7	44.1	57.1	60.6	40.9
 Reduce environmental impacts		5.6	9.3	8.6	15.9	7.4
 Improve safety or working conditions		11.2	18.7	19.7	29.8	15.1
 Response to government regulations		6.7	7.7	10.6	13.9	7.5
 Adherence to standards		8.9	15.4	19.3	19.4	12.6
Other reasons		2.4	1.6	0.4	0.7	1.9

PROTECTING IDEAS

Some ways to protect business ideas include



Copyright



Trademark

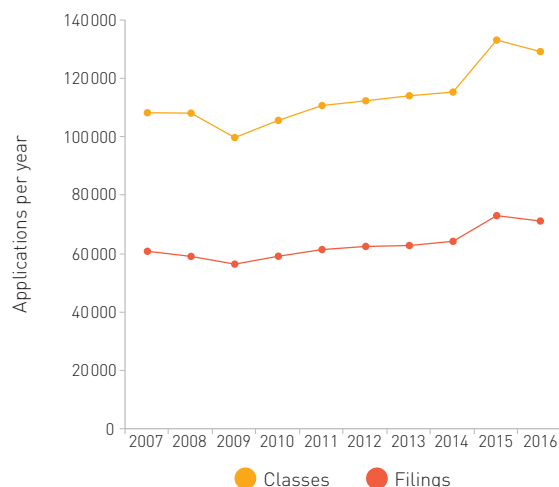


Patent

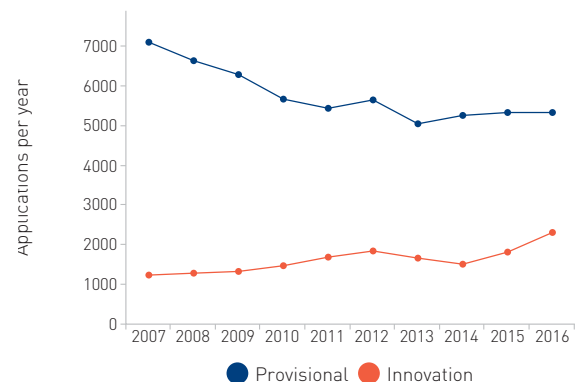


Registered designs

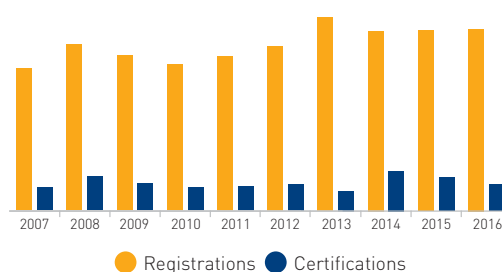
Trademark classes and applications filed, 2007–2016



Provisional and innovation patent applications, 2007–2016



Design right registrations and certifications, 2007–2016



4

IDEAS AND INNOVATIONS

What you will learn

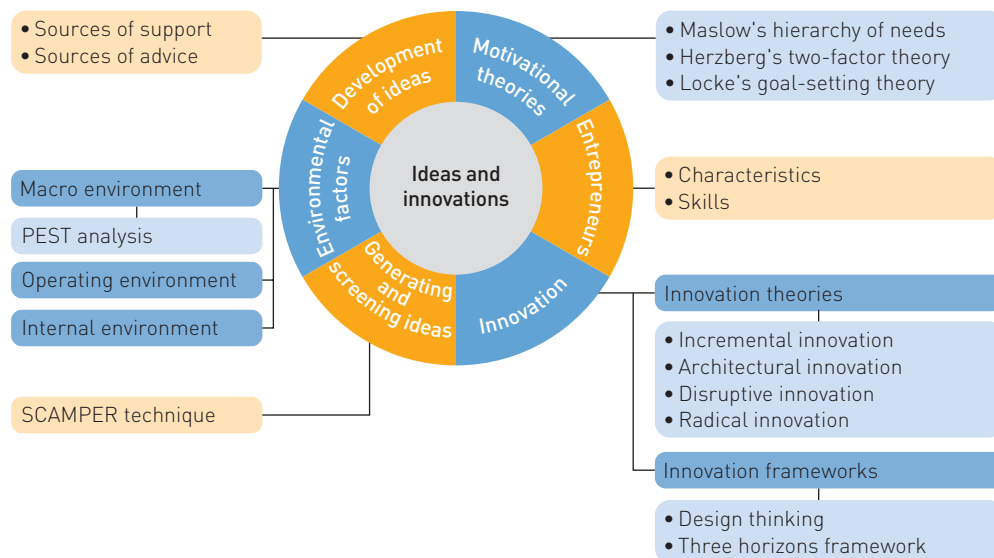
All businesses start with an idea. The ability or motivation of a person to see how this idea can become a business drives entrepreneurship and the opportunities for new business. A business in the seed stage of the business life cycle may start with an idea for an invention or an idea for innovation. The invention is the creation of a product for the first time; innovation is the value that is added to an existing product or service and occurs when an original invention is improved upon, or a significant contribution is made to the existing product, process or service.

This chapter will provide you with the opportunity to:

- **describe** business facts, features and characteristics that influence the creation of business ideas
- **explain** the skills and characteristics of entrepreneurs, motivational theories, innovation theories and the available sources of support for business ideas
- **select** data and information relating to business ideas to **analyse** the political, economic, socio-cultural and technological forces (PEST analysis) and **draw conclusions** about the implications of business ideas
- **evaluate** business ideas to **make decisions** about the competitiveness and efficiency of innovations
- **create** responses to communicate business ideas to stakeholders.

The analytical tools used in this chapter are:

- PEST analysis
- SCAMPER technique.



Key skills

In this chapter you will have the opportunity to develop the following 21st-century skills:

• creative thinking:	– generating and applying new ideas	• critical thinking:
– innovation	– identifying alternatives	– analytical thinking
– initiative and enterprise	– seeing or making new links	– problem-solving
– curiosity and imagination		– intellectual flexibility
– creativity		

- communication:
 - effective oral and written communication
 - using language, symbols and texts
 - communicating ideas effectively with diverse audiences
- collaboration and teamwork:
 - relating to others (interacting with others)
 - participating and contributing
 - community connections
- personal and social skills:
 - management (self, career, time, planning and organising)
 - adaptability/flexibility
- information and communication technologies (ICT) skills:
 - accessing and analysing information
 - being productive users of technology.

(Source: Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

GAINING INSIGHT



Open Cloud Communications: A new idea for internet access

FOCUS QUESTION: What motivates the creation of new business ideas and innovations?

Open Cloud Communications is a Bundaberg-based communications business that is committed to bringing the very best products and services to its clients. Tired of slow Internet, customer service based outside Australia, and not getting what he was paying for, Luke Baker, the founder of Open Cloud Communications, could have waited for the NBN to roll out to him. Instead, Luke created an alternative to meet his needs and those of the community he lives in. He started a communications business in 2016 and quickly realised that he was not the only one frustrated with how poor the connectivity had become. There was a lack of accessible ports in Bargara, and those who were lucky enough to gain access to a port were stuck with an almost unusable service during peak periods.



Open Cloud

Figure 4.1 Business ideas and innovations can present themselves when a need is not being effectively met by the market.

Luke has lived for much of his life in regional areas. Every time he goes back to the city, he is reminded not only of why he loves living in regional areas, but also of the many benefits regional people miss out on that those in the city enjoy and even take for granted. One of those things they take for granted is reliable Internet, fit for the digital age.

Luke has 'always been interested in business and likes to think forward and see how he can capitalise on where things are going to move to'. Mobile phones are an example of a business that cropped up in response to

a new technology. Old thinking cannot deliver the needs of consumers to new technology. In the same way, Luke identified that 'old thinking' and copper cables cannot deliver the Internet needs of all Australians.

The bandwidth usage in Australia has continued to grow exponentially despite the plateau to growth in the number of consumers. Identifying this, Luke saw a need to move the technology and disrupt the monopoly of the market held by outdated Telstra infrastructure.

The ideation stage lasted about 18 months for Luke. During that time, he investigated, researched and developed his ideas. He explored and found the answers to questions that so many consumers ask:

- Why is the Internet so bad?
- How can I fix it?
- Why is there no incentive for anyone else to fix it?

Realising that it was not economically viable or feasible to re-dig and lay all new cables, Luke investigated wireless technology. This was never going to be satisfactory for the mass market: while the 'last mile' (the section of the cable that is wired directly into the customer's home) was easy enough to do, the 'back haul' (sending network data by an out-of-the-way route, including taking it further than its destination, in order to get the data there sooner or because it costs less to do so) is expensive in a regional area as there are fewer options. Thus the biggest challenges in the model were making the idea viable – taking into consideration the cost of back haul – and creating a network with less congestion.

As a business owner who operates his entire business out of the cloud, Luke saw a need in the market and a business opportunity: to offer a wireless Internet network that is 100 per cent independent of the NBN and other Telstra networks. This Ezi-Web service is Australian owned and operated, offering customers confidence in its reliability and their access to support.

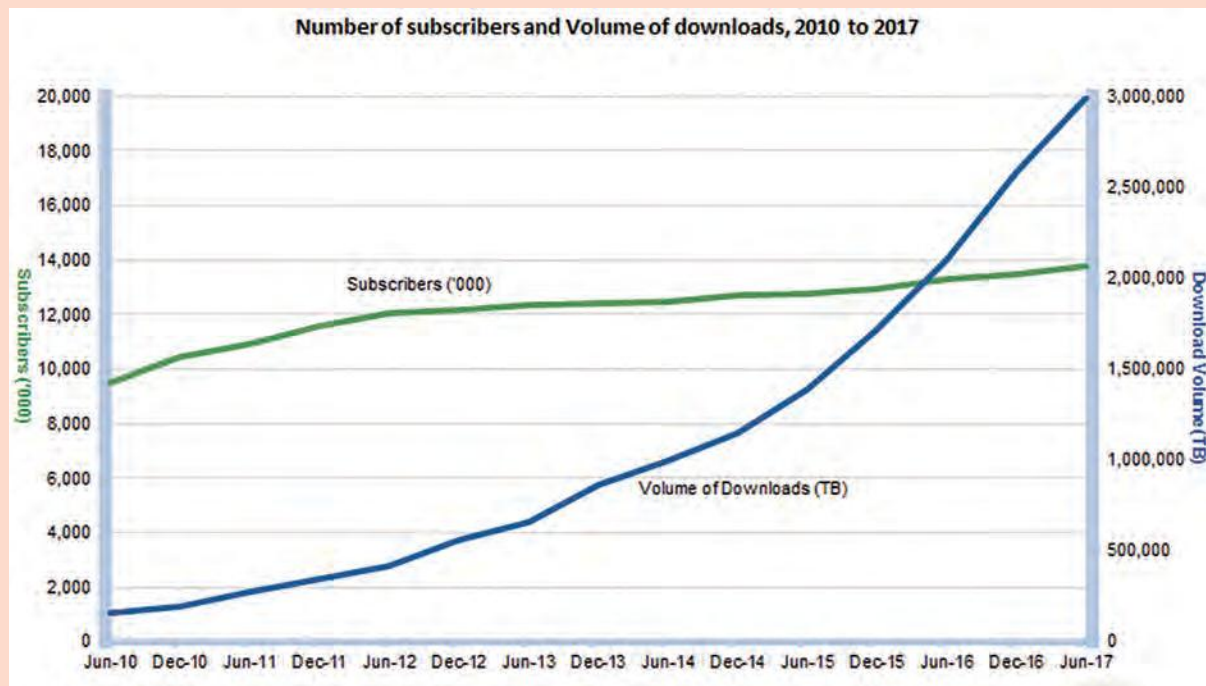


Figure 4.2 Subscriber growth has remained steady while the volume of downloads has increased significantly, identifying a need in the market for new thinking and a new idea towards Internet service providers.

Source: Australian Bureau of Statistics, Cat. No. 8153.0. CC BY 2.5 AU licence.

Open Cloud Communications has provided an innovative way to meet the Internet needs of the market in Bundaberg. While providing 'fixed-wireless' coverage in Bundaberg may seem easier than in some other places because of the small number of potential users and the proximity of most homes, experts predict similar technology will continue to improve substantially in the coming years. As Luke Baker sees it, he has found an idea and an innovation that is 'a once-in-a-lifetime opportunity to get a real foothold in the market'.

Questions

- 1 **Describe** the business opportunity that Luke Baker saw.
- 2 **Describe** the characteristics and skills that Luke Baker has displayed in the creation of Open Cloud Communications.
- 3 **Explain** the motivation Luke had to provide an alternative to the NBN.
- 4 **Explain** the difference between the product and service Open Cloud offers in comparison to the NBN.

Business opportunities

Key learnings

You will learn about the motives of entrepreneurs through examining:

- potential business opportunities
- reasons for finding business opportunities.

While a business opportunity or the idea to solve a problem can come from anywhere, the ideas for a new business **invention** or **innovation** usually do not just suddenly appear. Often, ideas stem from a person trying to solve a specific problem or to achieve a particular goal. This idea or solution becomes a potential business opportunity with the feasibility of this idea along with the skills, motives and characteristics of the entrepreneur needed for business success.

Invention: the creation of a product for the first time

Innovation: occurs when an original invention is improved upon, or a significant contribution is made to the existing product, process or service

QUESTIONS 4.1



Go to The New Hustle Movie and watch *The New Hustle*, which is about three successful Australian start-ups.

- 1 **Describe** the business idea, innovation or invention that each of the three Australian start-ups featured in *The New Hustle* has been responsible for.
- 2 **Identify** the problem that needed solving or the opportunity that each entrepreneur saw in the market.
- 3 **Brainstorm** the possible motives of each entrepreneur to make the business opportunity they saw into a successful start-up.
- 4 List the common skills or characteristics that each of these three entrepreneurs describe about themselves or each other.

Whether a new invention or an innovation, the motives or opportunities to find new business ideas can come from a number of areas, including:

- *the desire to solve a problem* – an idea for a business often comes from the desire to find what is missing and then fix it, or from finding an answer to a problem that hasn't yet been solved. For example, when Drew Houston forgot his USB stick one day, his solution to the problem was, 'I really need to make my files live online'. This was the beginning of Dropbox
- *needs of the target market* – this may include bringing a good or service to a new location, creating a new good or service that fulfils an identified need of the target market or a response to a change in consumer needs. For example, Ben Chaung and Phillis Chan, Melbourne lawyers who moved to New York, spotted a gap in the online retail market and started Big Apple Buddy, turning over US\$2.5 million annually. After identifying a need in the market and a demand for US tech products, they started onselling products that had launched in the US but had not officially gone on sale in Australia or the rest of the world
- *an ability to outperform the competitors* – new business ideas can stem from an identified ability to provide an existing product at a lower price, with better service or with superior quality and features. For example, Open Cloud is a Bundaberg-based communications business that identified a problem in communities that were waiting for the rollout of the NBN. Open Cloud's Ezi-Web service offers completely wireless Internet that rivals the NBN and provides high-speed Internet access in an area that is not yet NBN ready
- *changes in fashion or tastes* – continually changing trends, seasons and influences on the market lead to the creation of new products to satisfy the desire of consumers to keep up to date. Many businesses come and go to cater for changing fashion needs, but now business ideas in the fashion industry have evolved to offer something innovative or creative, not just the latest fashion trend. For example, 10life is a monthly shopping subscription service that makes shopping easy for men. This subscription model taps into changing fashion trends and the desire of subscribers to keep up
- *the desire for self-employment* – many start-ups stem from the desire of a person to create their own financial gain, enjoy flexibility and take control of their employment. Others are the result of an inability to secure alternative employment.



Figure 4.3 Business ideas can be inventions or innovations and aim to solve a problem or make a process more efficient.

GAINING INSIGHT



Unemployment motivates growing number of WA workers to start own small business

Pauline Rumley considers it a blessing in disguise that she was laid off from her job at a mining company four years ago.

She had worked there for 14 years and admits to initially feeling 'a little lost' after her retrenchment.



Irena Ceranic ABC News © ABC 2017

Figure 4.4 Pauline Rumley, with her son Bobby, says starting a business was challenging but worthwhile.



Irena Ceranic ABC News © ABC 2017

Figure 4.5 Ms Rumley set up a play centre in Joondalup after losing her job at a mining firm.

But it soon enough gave her the motivation she needed to start her own business – a children's play centre in Joondalup.

'I think I had been stuck in the role for a while and needed new inspiration', she said.

'Taking the time out with a redundancy and then trying to figure out what I wanted really has been wonderful. I just wouldn't look back.'

The idea came from Ms Rumley's love of children and the flexibility it would give her to spend more time with her family.

But starting a business, a world away from her previous career, was not easy.

'I love being with the kids all day, it's been amazing, but going from a big income to a little income was initially very hard to adapt to', she said.

'But knowing I could drive this business to earn enough money to support my family has been wonderful.

'It's been challenging but worthwhile ... I wouldn't change it for the world, I love working for myself.'

'Courage and good ideas'

Ms Rumley is one of a growing number of people considering taking their job into their own hands,

with the Chamber of Commerce and Industry (CCI) saying a trend seemed to be emerging.

'Since the global financial crisis, if there's an increase in the unemployment rate, there's a following year increase in the number of businesses being registered', CCI chief economist Rick Newnham said.

'So we wouldn't say that it's a direct cause, but there's certainly a correlation there between unemployment and business registrations.

'It is a positive sign for the entrepreneurial spirit that exists within WA.

'People are finding themselves unemployed but then have the courage and good ideas to go and start a business.'

Side project becomes full-time career

Sandra Spasojevic was made redundant twice last year.

It was the push she needed to turn a side project into a full-time career, and she now runs her own public relations business.

'I came to realise that I didn't have security working for someone else', she said.

'I used to think having a full-time job was security but then [after] being made redundant twice, I thought the security that I'm going to have is working for myself and knowing what my income is going to be based on how much work I do.

'I think personally it's the best thing that has ever happened to me and I have turned a really negative situation into something really positive.'

The Small Business Development Corporation said the number of people attending its business skills workshops after taking a redundancy had risen in the last 18 months.

'We are pleased to see that people in this situation who are new to the world of small business ownership are taking the right steps to learn what they need to know about running a business, before they spend any money on their new career choice', WA's small business commissioner David Eaton said.

'They have nest eggs and want to use the money wisely to create their own jobs.'

The CCI advised those thinking of doing the same to research their chosen sector first and seek some training on how to run a small business.

Source: Irena Ceranic, ABC News, 29 March 2017 © ABC 2017

Questions

- 1 **Describe** the environmental factors that led to the creation of the businesses in the article above.
- 2 **Explain** the motives of each of the business owners in the article above.
- 3 **Discuss** whether you consider these business ideas to be inventions or innovations, and if the business owners are entrepreneurs or not.

Environmental factors

Key learnings

You will continue to learn about the environmental factors that influence the creation of business ideas through examining:

- macro environment factors
- PEST analysis
- operating environmental factors
- internal environmental factors.

As introduced in Chapter 2, the environmental factors are internal, operating and macro factors. In ideation, these internal and external factors can affect the viability, growth and sustainability of business ideas and start-ups.

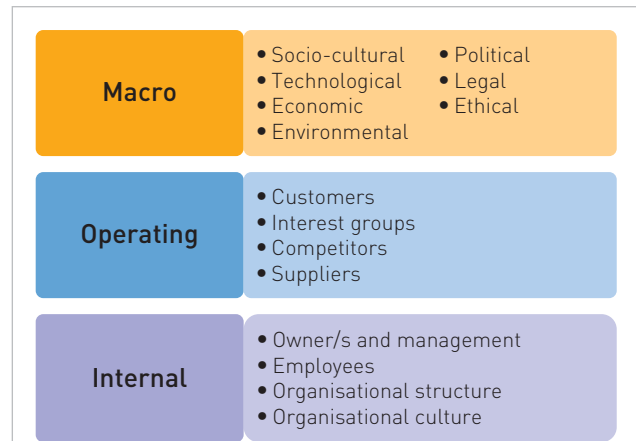


Figure 4.6 Internal, external and macro environmental factors, as addressed in Chapter 2, can all affect the creation and viability of business ideas.

Macro environment

The macro environmental factors that may influence the creation or feasibility of business ideas are those over which the business has no control. Potential business owners, entrepreneurs and innovators must be aware that these factors can affect the viability of all businesses and business ideas. When taking a business idea to the start-up phase, the impact of the seven factors addressed in Chapter 2 – socio-cultural, technological, economic, environmental, political, legal and ethical considerations, often referred to as STEEPLE – must be considered. Specifically, when looking at ideation or the formation of new business ideas, the impact of these environmental factors on the viability of a business idea is analysed in an environmental scan. It can also be from completing such scans that innovations and new business ideas are generated for existing businesses in the growth, maturity or post-maturity stages of the business life cycle. It may be from necessity that an innovation is needed to meet a new legal or regulatory standard, or a change in exchange rates may affect the viability of manufacturing a product.

ANALYTICAL TOOL



The tool: PEST analysis (macro environmental factors)

A PEST analysis is a simple tool used to analyse the political, economic, socio-cultural, and technological factors or changes in a business environment. In this context, it helps a business to understand the macro or external environmental forces of change and to take advantage of the possible opportunities that they present. Variations of the PEST analysis, including PESTLE and STEEPLE, will be used in later chapters.

How to use the tool

A PEST is completed with an environmental scan. Within this scan, each of the environmental factors are analysed with consideration to the specific business idea or situation. The questions asked in each factor may change depending on the location and situation surrounding the business idea and can be broad or specific. When analysing business ideas, the questions in each factor for the business idea under analysis will revolve around the viability of progressing the business idea to the start-up stage.

Visit MindTools for more focus question ideas or to explore the PEST analysis in greater detail.



Activity

Complete a PEST analysis tool for one or more of the following business ideas:

- a new tour guide in your local area to showcase your region to tourists
- a new coffee shop out of your garage for locals in the area
- a new childcare service for shift workers, offering babysitting 24 hours a day.



Operating environment

As explained in Chapter 2, the external operating environment comprises the factors that directly influence the operations of a business. It consists of stakeholders that are outside of the business's internal structure and that impact on how the business functions. At the ideation phase, it is important to consider these stakeholders and how they will respond and contribute to the development of the business idea. For example, the business idea must establish a customer base for success and for sustainability of the business. Keeping customers happy and loyal will ensure the business idea can successfully progress from the seed to the start-up stage of the business life cycle, and that the business has long-term viability. These external stakeholders can also influence the creation of new ideas, or innovations to existing products and services, based on their changing needs and impacts on the business.

Internal environment

The internal environment for a start-up business is generally made up of one person or very few people. It is the easiest of the environments to control at the ideation stage and includes employees, managers, location and business structure. When an entrepreneur or business founder is turning a new business idea into a start-up business, they must carefully consider how they will legally structure their business; where they will be located; and how they will manage operations and staff. These factors will all have a significant impact on the viability of the business idea and will be continually revisited as the business grows and progresses through the business life cycle.

EMERGING TECHNOLOGIES



Persollo instant checkout

Persollo is an instant checkout e-commerce platform for brands and influencers that are looking for ways to monetise their content and increase conversion.

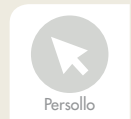
Persollo enables brands and influencers to convert social and digital media engagement into sales in less than 15 seconds. Persollo bypasses online shops and cumbersome shopping carts, capitalising on impulse purchasing behaviour at the point of interest, ultimately optimising conversions. Designed for mobile and social media, the tech allows click-through payments straight from social networks, digital magazine, video, blog and through the key influencers.

Source: <https://persollo.com/faq>, 'About us'

Questions

Go to the Persollo website and read more about the platform, then answer the following questions.

- 1 **Describe** the business idea of Persollo.
- 2 **Describe** the macro environmental factors that contributed to the creation of Persollo.
- 3 **Create** a SWOT analysis to **analyse** the strengths, weaknesses, opportunities and threats of a new business adopting an emerging technology such as Persollo.



GAINING INSIGHT



Australian inventions

The Aborigines – Australia's first inventors

Long before English colonisation, Indigenous Australians were already leading the world. Aborigines were first living in Australia about 50 000 years ago. Aboriginal people were the first peoples to use ground edges on stone cutting tools and the first to use stone tools to grind seeds, everyday tools which were developed only much later by other societies.

A unique Australian invention, the boomerang, had many uses and purposes. The genius and aerodynamics of the boomerang make it one of humanity's greatest inventions. The boomerang is known as an aerofoil, a surface which is designed to lift by making use of air current. A boomerang has the profile of a bird's wing with the upper surface being greater than the one underneath. This characteristic produces a

difference in pressure which generates lift when the boomerang is thrown through the air.

The woomera, a type of spear thrower, is another well-known hunting tool. The woomera, attached to a spear, propels the spear quickly over distance. Until the invention of the self-loading rifle in the 1800s, the woomera with spear was the fastest weapon in the world.

In modern times, Aboriginal people have contributed to Australia's reputation as a nation of innovators. David Unaipon made significant contributions to science and literature and to improvements in the conditions of Aboriginal people. In 1909 he patented an improved handpiece for sheep-shearing and his many other inventions included a centrifugal motor, a multi-radial wheel and a mechanical propulsion device.

Based on the principle of boomerang flight, Unaipon anticipated the helicopter as early

as 1914. He gained a reputation at the time of being 'Australia's Leonardo' for his promotion of scientific ideas and is commemorated on Australia's \$50 note.



Go to Australian inventions to have a look at more of the inventions that Australians have been responsible for.

Source: © Commonwealth of Australia, CC BY 3.0 AU licence

Questions

- 1 **Describe** the environmental factors that led to three Australian inventions you explored.
- 2 **Explain** some of the challenges that may have been experienced during the development of these three inventions.



Figure 4.8 David Unaipon – 'Australia's Leonardo' – depicted on the \$50 note

Motivational theories

Key learnings

You will learn about the relationship between **motivational theories** and the creation of business ideas through examining:

- Maslow's hierarchy of needs
- Locke's goal-setting theory
- Herzberg's two-factor theory.

In business, motivational theories help us to understand why employees, consumers, suppliers and competitors behave in certain ways, and what rewards encourage or discourage certain actions. Understanding what motivates each of the different stakeholders in a business environment, from the start-up stage through to post-maturity, is necessary to ensure the viability of the business idea and sustained stakeholder satisfaction. Motivational theories help to explain what drives the creation of new business ideas before they move into the seed or start-up stage. Whether as a business idea for a start-up or for a post-maturity business looking to renew its share in the market, motivational theories are applicable at all stages in the business life cycle.

The strategies that arise from these motivational theories can be used for a range of business purposes. They can motivate:

- entrepreneurs, 'intrapreneurs' and innovators to solve problems or identify gaps in the market
- businesses to meet the needs and wants of the market through the creation of new ideas and start-up of new businesses
- businesses to outperform competitors and maximise their competitive advantage
- consumers to choose one business over another and to generate customer loyalty
- employees to work for the benefit of the business in effectiveness, efficiency and quality
- employers to implement strategies for employee satisfaction and to establish themselves as an employer of choice.

Motivational theories: theories about the concepts and processes that describe the activation of goal-orientated behaviours in humans

Maslow's hierarchy of needs

Abraham Maslow's hierarchy of needs is a theory based on the understanding that all human beings have needs, and these needs can be ranked. This hierarchy identifies that there are needs that range from basic through to higher order needs and it is necessary to meet the more basic needs before the motivation to meet higher needs can exist.

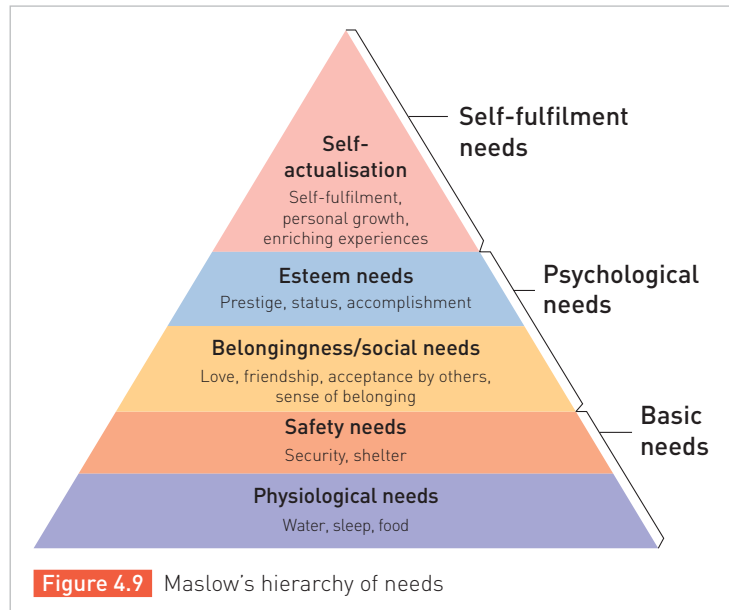
In business ideation, this means that the market must first satisfy the basic needs of consumers before it can focus on business ideas to satisfy higher order needs. Therefore, when looking for a business opportunity or a gap in the market, a potential business must determine what needs will motivate consumers to buy their goods or services, or to leave another business for theirs.

Maslow's hierarchy can be applied to business ideation, innovation, marketing strategies and human resources management. Understanding where stakeholder needs sit in the hierarchy enables a business to ideate the necessary products or services to satisfy their motivations.

From most basic to higher order, Maslow's hierarchy identifies the following categories of needs:

- *Physiological needs* are the most basic ones, like the need for food and water, and other biological needs. When they are not being met, the search for them may override all other urges. For example, supermarkets were initially established to provide access to all of a customer's physiological needs in one place.
- *Safety needs* become important once physiological needs are satisfied. They include the need to be safe, free from pain and secure. For example, insurance companies offer a service to help meet the safety needs of their customers to ensure their belongings are protected.
- *Social needs* include the need to bond, to be loved and to form lasting attachments with others. The desire for interpersonal attachment is a fundamental human motivation. For example, social networking sites have found great success by providing platforms for people to connect with family, friends and partners.
- *Esteem needs* are the desire to be respected by one's peers, feel important and be appreciated, including the need for status and recognition. For example, many tertiary education providers offer their particular courses and qualifications as an incentive to become recognised in a particular field.
- *The need for self-actualisation* is the need to reach your full potential, and includes the desire to master new skills, take on new challenges and behave in a way that will lead to being the best you can be. For example, self-help books and classes, and wellness retreats, are all products that seek to provide for the need of self-actualisation.

Understanding what people need and where their motivation to fulfil needs comes from gives a business insight into understanding its customers. The hierarchy is a way of thinking. In business ideation, innovators, entrepreneurs and businesspeople are motivated to meet the different needs of stakeholders within the market through new business ideas, new businesses or new approaches. For some serial entrepreneurs, their own esteem and self-actualisation needs drive them to continually ideate new products and business ideas for the market.



QUESTIONS 4.2



- 1 **Explain** how Maslow's hierarchy of needs impacts on the creation of new business ideas.
- 2 **Brainstorm** or **research** an example of a product or service that may have been motivated at each level of Maslow's hierarchy.
- 3 **Create** a simple infographic to **communicate** Maslow's hierarchy and the examples of business ideas motivated at each level.

Locke's goal-setting theory

In 1968, Edwin Locke, working with Dr Gary Latham, showed that clear goals and appropriate feedback motivate employees. Their study highlighted that working towards a specific goal with opportunities for relevant feedback is a major source of motivation. According to Locke and Latham, these specific goals need to be measurable, as well as sufficiently challenging that accomplishing them means something. The same principle applies to entrepreneurs, innovators and those who ideate new business ideas. Setting specific goals for a business idea or start-up contributes to higher and better performance; therefore, using goal-setting strategies such as SMART goals, as explained in Chapter 2 (pages 56–7), is an essential part of the ideation and start-up phase of a business and helps turn a business idea into a viable business opportunity.



Goals as motivational drivers

- Challenging but not overwhelming goals
- Clear and specific goals
- Give direction
- Provide feedback and recognition points in the form of smaller goals and objectives towards end goal



Goals as motivational detractors

- Non-existent or vague goals such as 'try your hardest'
- Fear of failure to reach unachievable or overwhelming goals

Figure 4.10 There is a clear link between the quality of specific goals and the motivation to achieve viability of business ideas.

GAINING INSIGHT



The challenges of goal-setting for change

On 23 April 1985, the Coca-Cola Company took the biggest risk in consumer goods history, announcing that it was changing the formula for the world's most popular soft drink. The Coca-Cola Company introduced reformulated Coca-Cola, often referred to as 'New Coke', marking the first formula change in 99 years. The company intended to re-energise its Coca-Cola brand, and the cola category, in its largest market, the United States.

One of the challenges in goal-setting is that the focus it brings can create a sense of tunnel vision. [When] Coca-Cola set the goal of reformulating its signature cola to make it sweeter and more competitive with Pepsi, the company's focus on that goal trumped researching whether or not customers wanted the product to change. As a result, the release of New Coke ... remains one of the biggest product failures in history. While a focus on goals doesn't always lead to spectacular failures, it can also lead to employees abandoning more mundane, but still necessary, tasks as they focus on the 'one big thing'.

Source: Steve Lander, 'The negative side of goal-setting theory', <http://smallbusiness.chron.com/negative-side-goalsetting-theory-74687.html>



The Advertising Archives

Figure 4.11 The impact of goals must be carefully considered.

Questions

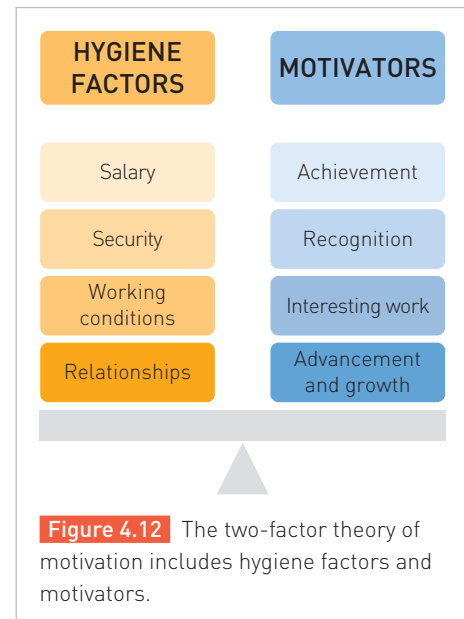
- 1 **Explain** the challenges faced by Coca-Cola during the attempt at innovation described above.
- 2 **Identify** and **analyse** the political, economic, socio-cultural or technological forces (PEST) that may have led to the decision by Coca-Cola to change their recipe.
- 3 **Research** and **discuss** other macro environmental factors that have led to changes at Coca-Cola since 1985.
- 4 **Discuss** why using a theory such as Locke's goal-setting theory may have changed the outcome of Coca-Cola's reformulation.
- 5 **Identify** three examples of SMART goals that a potential start-up business might set at the ideation phase.

Herzberg's two-factor theory

Frederick Herzberg's theory involved studying workers to try to understand employee satisfaction. From this study, Herzberg identified two factors that have an impact on the motivation of employees: hygiene factors – for example, working conditions, salary, safety and security of the job – and motivators such as achievement, recognition, increased responsibilities, advancement and growth opportunities. When considering business ideation, these factors can be applied to drivers or deterrents to ideation, and the performance of an entrepreneurial activity, in the same way Herzberg applied them to employee performance.

According to Herzberg's research, these factors both affect motivation, but they do it in different ways. The absence of hygiene factors motivates employees, entrepreneurs, innovators and the community to want these items back. When they are present and readily available, they are taken for granted and no longer serve as motivation; when absent, however, these hygiene factors drive stakeholders to seek to fulfil these needs.

On the other hand, motivators are factors whose presence motivates – for example, achievement motivates further achievement, and interesting work motivates greater drive and commitment to the workforce. Their absence does not cause any particular dissatisfaction; it just fails to motivate. In business ideation, the absence of hygiene factors in a particular location or business, or for a particular person, may motivate the creation of certain business ideas, while the presence of these hygiene factors and the presence of motivators will lead to ideation of varied business ideas and innovations.



GAINING INSIGHT



The motivations behind Gourmet Garden

Founded in Australia in 1999, Gourmet Garden is now a recognised global brand and was sold to McCormick's for US\$114 million in 2016. It has approximately 200 employees and a modern manufacturing facility on the Sunshine Coast. Australian agribusiness leader, Doug Shears, who is known for building up brands such as Uncle Toby's and Berri Juice before selling them on to strategic owners, was involved in the development of Gourmet Garden.

The motivation for Gourmet Garden arose when two Australian brothers (both food scientists) became frustrated with the short life of culinary herbs. This led them to develop the 'Eva Fresh' technology, which extends the natural shelf life of fresh herbs without the need for heat treatment or acidification. This technology was a response to a growing trend towards fresh food, and the motivation to continue to develop new products is seen in the ever-growing range that Gourmet Garden



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Figure 4.13 Gourmet Garden began because of a love of herbs and a dislike of waste.

produces and retails. Gourmet Garden has been a leader in innovation in its industry; its Lightly Dried product range, for example, is a world first.

The motivation to be sustainable and a market leader in the industry is evident in all the decisions that Gourmet Garden makes. For example, the company's headquarters, built in 2006, which houses the factory, laboratories and offices, boasts the biggest refrigeration plant of its kind, which is 50 per

cent more energy-efficient than a typical refrigeration plant. Rainwater is harvested from the rooftop, stored in four rainwater tanks and used both for fire protection and within the factory. A 40-metre 'green belt', surrounding the back of the site and equipped with a walkway and some 8000 native trees, was gifted to the community.

Gourmet Garden has grown from a small, privately owned company to a global success, exporting to more than 15 countries around the world and appearing on shelves in over 35 000 supermarkets across Asia and Europe and in countries including the United States, New Zealand, Canada and the United Kingdom.

Questions

- 1 **Describe** the business opportunity and environmental factors that led to Gourmet Garden's creation.
- 2 **Explain** the challenges faced by Gourmet Garden during the seed stage of the business life cycle.
- 3 **Explain** the levels of Maslow's hierarchy of needs that can be applied to the invention of the Eva Fresh technology and the Gourmet Garden Lightly Dried range.
- 4 **Explain** the motivation theories that can be applied to the development of Gourmet Garden's headquarters.



iStockphoto.com/baramee2554

Figure 4.14 The motivation for business ideas can come from different levels of human motivation, including necessity, demand and aspiration.

QUESTIONS 4.3



- 1 **Explain** the similarities between Maslow's hierarchy of needs and the hygiene factors in Herzberg's two-factor theory.
- 2 **Create** paragraph responses to **explain** the relationship between each of the motivational theories and business ideation.
- 3 **Research** an established business to find an example of one of the motivational theories in practice and **explain** how the motivational theory applies to its business idea.

Entrepreneurship

Key learnings

You will continue to learn about the motives of entrepreneurs through examining:

- entrepreneurship as a career
- the skills and characteristics of entrepreneurs.

Entrepreneurship, now considered as a career option and an avenue of postgraduate study, is the process of creating, starting and maintaining businesses that often involve initiative, innovation and risk. It is widely accepted and established that the best business ideas come about when entrepreneurs or innovators come upon a problem in their own lives for which they are motivated to find a solution. By addressing an issue or problem that is relevant to their everyday lives, entrepreneurs are deeply connected to the business idea, their mission, and the goals that solving the problem aims to achieve. Along with the ability to ideate possible solutions, potential or serial entrepreneurs must have the skills and characteristics to follow the business idea from conception through to the start-up phase.

Skills and characteristics

There is considerable research about the skills, characteristics and personality traits of entrepreneurs. The list of skills and traits continues to evolve with influences and advancements in the market; however, some universal and often unchanging characteristics have been identified. They are those that can be applied in any industry, or to any business idea that an entrepreneur is seeking to develop.

Passion

Passion is often considered the most important trait of a successful entrepreneur. Anyone with a new business idea must genuinely love their work and believe in the importance of their ideas and the problem they are aiming to solve.

Entrepreneurs must be willing to put in the extra hours needed to take their idea to start-up,

and then on to the growth phase, to make the business succeed. Passion is important in an entrepreneur as it means they get their success from more than the money a business idea or opportunity may generate, and their passion fuels the drive and determination required to be successful.

Motivation

Motivation is the reason behind why a person acts in a certain way. For entrepreneurs, motivation is the reason why they want to create something new, solve a problem, or renew and revitalise something already existing. Motivation is an essential characteristic and, while the specific motivations may differ from one entrepreneur to another, it is important that entrepreneurs have a reason to take risks, challenge ideas and keep trying. Motivation



is complimentary to the other characteristics and helps to ensure that an entrepreneur doesn't lose their drive or determination, and that their passion doesn't fade away when challenges are faced.

Confidence

Entrepreneurs must demonstrate intrinsic confidence in themselves and their ideas. They are confident with the knowledge that they have the abilities and the skills that will turn their business idea into a successful start-up; and that any failures they encounter will be progress on their journey to success.

Boldness

Entrepreneurs realise that every event and every situation is a business opportunity. They have the boldness to take risks on their ideas, to invent or to innovate when they know a job can be done more effectively or more innovatively. Bold entrepreneurs focus on finding creative solutions to problems or challenges, and are constantly generating new ideas.

Enthusiasm

Entrepreneurs are enthusiastic about their ideas, their passions and their abilities. They see opportunities and future advancements, often before anyone else does. This enthusiasm is sometimes exhibited as impatience, but entrepreneurs must exude passion and high energy to maintain their pursuits in turning opportunities and ideas into viable businesses.

Creativity

Entrepreneurs are always learning, designing, creating and thinking of new ways to repurpose or reintroduce products for new markets. Entrepreneurs often have the ability to come up with solutions that are the creative mixture of other items. Industries must constantly change and evolve to keep up with technology, changing stakeholder needs, demand and competition.

Determination

Entrepreneurs learn from their failures and are unwavering in their attempts to make their business ideas succeed. This means entrepreneurs will try again and again, until they find the solution to the problem or make their idea a success. Successful entrepreneurs have the determination to make their ideas reality, and generally do not believe that something cannot be done.

Discipline

Entrepreneurs are focused, and know they must stay focused to make their business ideas work. They have an ability to set clear and SMART goals and eliminate distractions in achieving their goals. Successful entrepreneurs will often spend seemingly endless hours working on their business ideas.

Interpersonal skills

Entrepreneurs must have strong interpersonal skills. They use these skills to interact effectively with others. Interpersonal skills include paralinguistics, and verbal and non-verbal communication. These skills are needed to sell the business idea. Successful entrepreneurs know the importance of effectively networking with people who not only have the ability to help their business in the immediate present, but may have the potential to help them in the future. Entrepreneurs also know how to recognise when they can help someone else's business ideas and provide value to others in their networks.

Adaptability

Entrepreneurs need to have the ability to respond when things don't go to plan, whether because of a failure, an unexpected outcome or a business setback. When they are in the ideation and start-up phase, many entrepreneurs perform all of the major business roles, including receptionist, bookkeeper and salesperson. Successful entrepreneurs are open-minded and are always looking for new and better ways to adapt their thinking. They are resourceful and are able to determine what they have to do and what they need, and adapt as needed to find ways to achieve their goals and objectives.

Take the BBC quick quiz, 'Would you make a good entrepreneur?' **Discuss** your results.



BBC quiz

Innovation

Key learnings

You will learn about the application of innovation theories through examining:

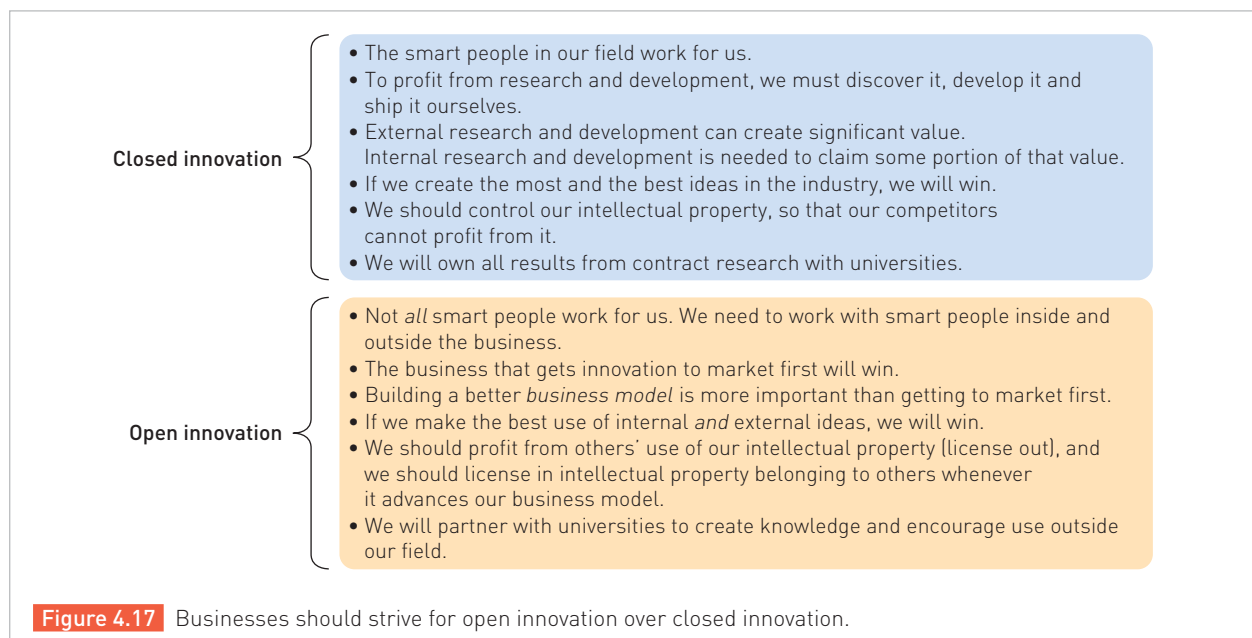
- open and closed innovation
- architectural innovation
- incremental innovation
- disruptive innovation
- radical innovation
- innovation frameworks.

The word ‘innovation’ is often seen as a buzzword or a catchy sales term, but in essence, as identified earlier in the chapter, innovation is actually adapting something existing, or contributing to it, to make it better. Over time, the definition and use of the term ‘innovation’ has evolved as innovators and entrepreneurs become more creative, better at predicting what the future might hold, and more prepared to take risks. Innovations can occur in a number of ways, and to any number of processes or products within a business. These innovations can be applied to the product, the process, the marketing or the organisational methods.



Open and closed innovation

Along with the ways in which innovation can occur, there are many theories about the processes that this innovation takes. Innovation is not a new concept in business; in fact, it has been happening throughout history, in every area of our life, and is the catalyst for human development. It is how those innovation theories are applied and the way information is used that categorises an innovation as open



or closed. A business needs to acquire information, support and advice from a variety of sources and cannot only rely on the expertise or knowledge of people within the business. Emerging technologies and access to information drive open innovation over closed innovation.

Society now reaps the rewards of those innovators who saw better ways to communicate, better ways to generate power, better ways to produce data and information, and were open with these innovations. It often appears that innovation is simply the response to an identified problem, but today's entrepreneurs and innovators are not only solving problems, they are predicting the problems of the future and innovating solutions before the problem arises.

GAINING INSIGHT



Innovation is problem-solving ... and a whole lot more



Follow the weblink to an article by Larry Miller in *Forbes* magazine. Read the article and answer the questions.

Questions

- 1 **Describe** the levels of innovation that are detailed in the article above.
- 2 **Analyse** and **discuss** the strengths and weaknesses of the mindset of the innovator at each level.
- 3 **Debate** the statement, 'All levels of innovation are no longer important to today's business ideas; instead, businesses should strive for level 3 and 4 innovation only.'

Innovation theories

Regardless of the level of innovation occurring, all businesses are constantly striving to be better than their competition, whether it is in reputation, customer satisfaction, product or service. While everyone can innovate or come up with new ways of doing things, finding the most effective way to innovate and bring innovation to a business idea is necessary to save time and money, to become a viable business opportunity and, ultimately, to make a profit. Behind all of the levels, types and approaches to innovation are **innovation theories** or the recognised methods or strategies that have been tried, tested and evidenced with anecdotal data.

Innovation is generally driven by market forces or emerging technologies. Figure 4.18 shows the innovation theory that applies depending on whether the market force exists or is new and whether the technology force exists or is new. While there are many innovation theories already in

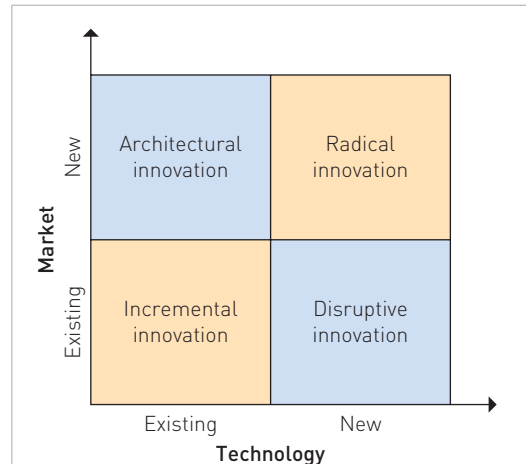


Figure 4.18 Innovation can be driven by both new and existing forces in the market and in technology.

Innovation theories: ideas regarding the technological, organisational, financial, and commercial activities necessary to create, implement and market new or improved products or processes

practice, and new theories are continuously being introduced through research and development, these are four key innovation theories that will be explored in detail:

- **incremental innovation**
- **architectural innovation**
- **disruptive innovation**
- **radical innovation.**

Incremental innovation

Innovation that occurs over time through a series of small improvements is called incremental innovation. Many businesses use incremental innovation to help maintain or improve a product's market position. Incremental innovation has become a common tactic in the consumer technology industry, as companies strive to regularly improve personal devices with customer-friendly features. This is the most common style of innovation and, while incremental innovation may not lead to the breakthrough products that change lives, it is the continual application of incremental innovation that improves the products.

The iPhone is an example of a product that has continued to undergo incremental innovation since its inception. Apple didn't invent the smartphone, but found ways to innovate this technology to make it more effective and more user-friendly with additions such as a much larger screen and the introduction of the app store. Incremental innovation often builds upon the basic or beginning platforms that a disruptive or radical innovation can present to the market.

GAINING INSIGHT



Incremental innovation of the razor

Shaving traces its history back to the dawn of civilization. In 3000 BC, early metalworking led to the first blades for removing body hair. 'Modern' shaving arrived in 1800s England with the creation of the first straight steel razor. This soon was followed by the first 'hoe-type' razor that puts a single blade perpendicular to the handle. The timeline continues and by the 1880s, the safety razor was invented.

By the 20th century, a salesman named King Camp Gillette helped create the first double-edged, disposable safety razor blade. High quality and low priced. Gillette are renowned as one of the great innovation leaders but in actual fact, the brand is a great example of a company that has used incremental innovation

to stay ahead of the competition. Gillette razors started life with a single blade but their product has evolved, adding different features and more blades as the company has sought to better meet customer needs.

Sources: Robert Brands, 'Gillette, shaving and the challenge of innovation', <http://www.innovationcoach.com/2010/06/gillette-shaving-and-the-challenge-of-innovation>; Emma Muckersie, '4 examples of incremental innovation in action', www.freshminds.net/2016/08/4-examples-of-incremental-innovation-in-action

Question

Discuss the statement 'Some question the value of innovation versus the marketing machine that drives it' in relation to Gillette's incremental innovation and the introduction of its new ProGlide five-blade razor.

Incremental innovation: innovation that occurs over time through a series of small improvements

Architectural innovation: taking the components of a product and reassembling or redesigning them in a new way to introduce to a new market

Disruptive innovation: innovation that happens when a smaller business with fewer resources is able to successfully challenge an established business in the

market by focusing on the market segment that is overlooked and then moving into the mass market

Radical innovation: involves the harnessing of new technology and a new business model simultaneously. It does not seek to take the market share of another business or product but rather to create an entirely new and currently non-existent market segment.



Figure 4.19 Gillette continually applies incremental innovations to the razor.

Architectural innovation

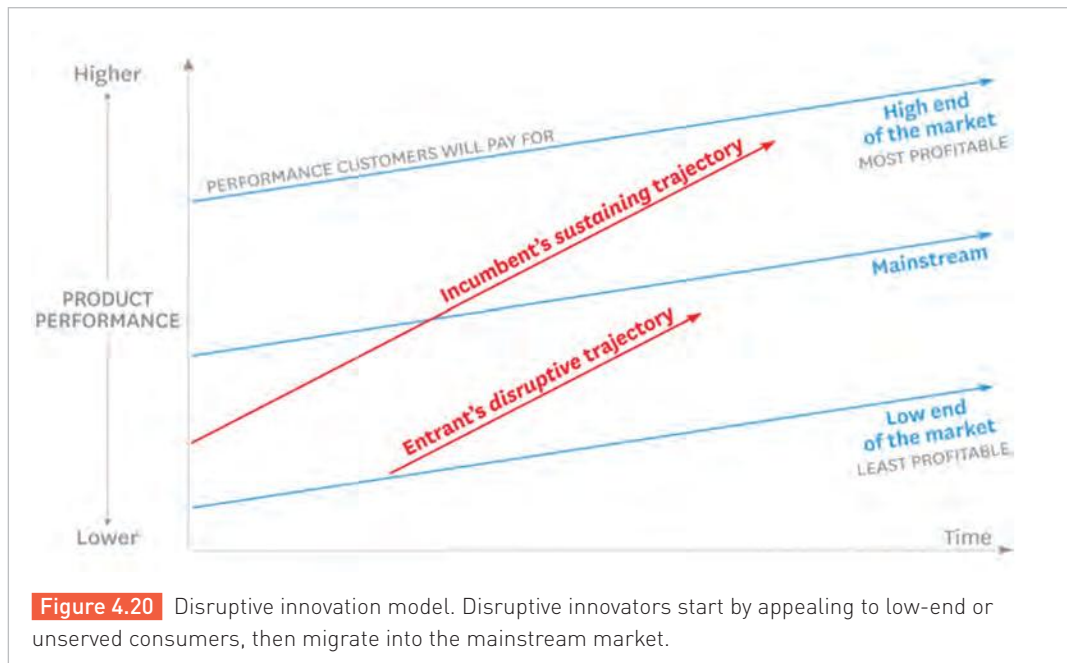
Architectural innovation is the process of taking the components of a product and reassembling or redesigning them in a new way to introduce to a new market. This means the core purpose or function of the product is relatively unchanged. This innovation theory focuses on bringing new markets and customers to an existing product or business idea and has a low risk involved. It is often simply a reintroduction of an existing or proven technology or idea. For example, the Dyson Contrarotator™ washing machine is an architectural innovation to the design of the washing machine. Changing the design from one drum, as in a conventional machine, to two that rotate in opposite directions created a new configuration of the system and an entirely different washing system.

Disruptive innovation

Disruptive innovation is the process whereby a smaller business with fewer resources is able to successfully challenge an established, **incumbent** business in the market. Clayton Christensen, a Harvard Business School professor, first used and defined the term ‘disruptive innovation’ in an article in which he explained that such disruption displaces established businesses, products or networks that lead a market by focusing on the market segment that is overlooked.

Focusing on this section of the market allows disruptive innovators to create a product with functionality that is more suitable for these overlooked customers, and frequently this offering comes at a lower price. Then, as they continue to develop and improve this new offering, they start to capture the mainstream market – and this is when disruption has occurred. It is important to understand that the distinguishing factor in Christensen’s disruptive innovation theory is that disrupters start by focusing on the lower-end or unserved consumers, and then migrate to the mainstream market. They do not build a position in a mainstream market and then attract other unserved markets. The diagram in Figure 4.20 contrasts product performance trajectories (the red lines showing how products or services improve over time) with customer demand trajectories (the blue lines showing customers’ willingness to pay for performance). As incumbent companies introduce higher-quality products or services (upper red line) to satisfy the high end of the market (where profitability is highest), they overshoot the needs of low-end customers and many mainstream customers. Entrants on a disruptive trajectory (lower red line) improve the performance of their offerings and move upmarket (where profitability is highest for them, too) and challenge the dominance of the incumbents.

Incumbent: in business, refers to a business that is already in position in a market



GAINING INSIGHT



Disruptive innovation: Netflix

Netflix launched in 1997 as a mail-order movie rental company. It first focused on a niche group of consumers who were willing to wait for the mail to get the movie they wanted, and then broadened into the streaming service.

The fact that disruption can take time helps to explain why incumbents frequently overlook disrupters. For example, when Netflix launched ... its initial service wasn't appealing to most of Blockbuster's customers, who rented movies (typically new releases) on impulse. Netflix

had an exclusively online interface and a large inventory of movies, but delivery through the U.S. mail meant selections took several days to arrive. The service appealed to only a few customer groups – movie buffs who didn't care about new releases, early adopters of DVD players, and online shoppers. If Netflix had not eventually begun to serve a broader segment of the market, Blockbuster's decision to ignore this competitor would not have been a strategic blunder: The two

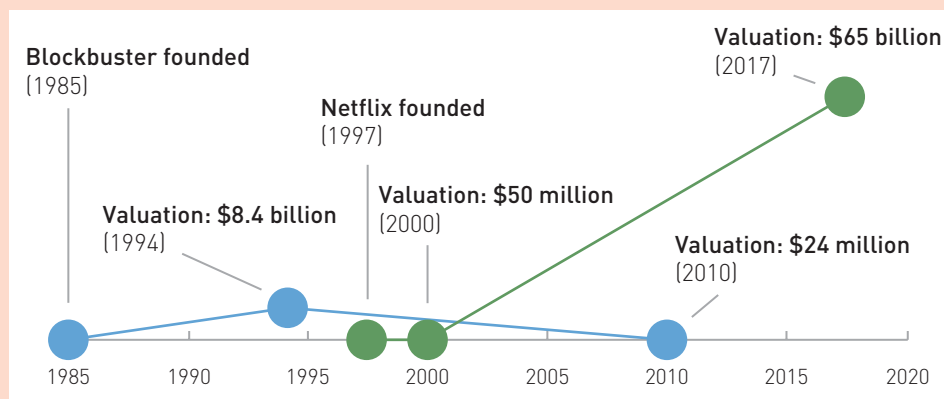


Figure 4.21 The disruptive innovation can be seen over time.

companies filled very different needs for their (different) customers.

However, as new technologies allowed Netflix to shift to streaming video over the internet, the company did eventually become appealing to Blockbuster's core customers, offering a wider selection of content with an all-you-can-watch, on-demand, low-price, high-quality, highly convenient approach. And it got there via a classically disruptive path. If Netflix ...

had begun by launching a service targeted at a larger competitor's core market, Blockbuster's response would very likely have been a vigorous and perhaps successful counterattack. But failing to respond effectively to the trajectory that Netflix was on led Blockbuster to collapse.

Reprinted by permission of Harvard Business Review (Exhibit) from 'What is disruptive innovation?' by Clayton M Christensen, Michael E Raynor and Rory McDonald, December 2015. Copyright © 2015 by Harvard Business Publishing; all rights reserved.

Radical innovation

Whilst some theorists suggest that disruptive and radical innovation are interchangeable terms, there is in fact a clear difference between innovation that disrupts an existing market and radical innovation, which creates an entirely new market of its own. These theories are often confused or misused as the other; however, unlike disruptive innovation, radical innovation involves the harnessing of new technology and a new business model simultaneously. It is the rarest and most high-risk of the innovation theories discussed.

Radical innovation focuses on the unprecedented territories, looking for ways to transform existing markets by providing something new to the world, by uprooting industry conventions and significantly changing customer expectations in a positive way. Radical innovation differs from other theories in that radical innovation doesn't seek to take the market share of another business or product but rather to create an entirely new and currently non-existent market segment.

For example, Amazon wasn't the first online store, but it created an online shopping platform that developed direct relationships with suppliers and offered unprecedented choice, scope and value. Through this, Amazon radically reinvented the traditional retail business model and the fundamental dynamics of how consumers shop.

INQUIRY



Inquiry task: application of innovation theories

Using the inquiry process explained in Chapter 1, you are to conduct an inquiry into one of the following innovations that either have occurred or are in development in a variety of industries. You will evaluate the innovation and make a decision about the applicable innovation theory and the market or technological forces.

- 1 Research and **select** one of the following innovations on which to conduct your evaluation.
 - a Amazon Dash Buttons
 - b Uber Eats delivery service
 - c Rekindle Candle
 - d Moley, the robotic kitchen
 - e Soccket soccer ball
 - f Autonomous cars and trucks
- 2 **Describe** the characteristics and features of the product or business you have chosen to investigate.
- 3 **Explain** whether technology or market forces drove the innovation you have investigated.
- 4 **Explain** which innovation theory is relevant to the innovation you have investigated. Use evidence to **explain** how the theory chosen is applicable and how the other theories can be discounted.
- 5 **Create** a short report extract of one or two pages to **communicate** to potential investors the features, forces and innovation theory applicable to the innovation you investigated.



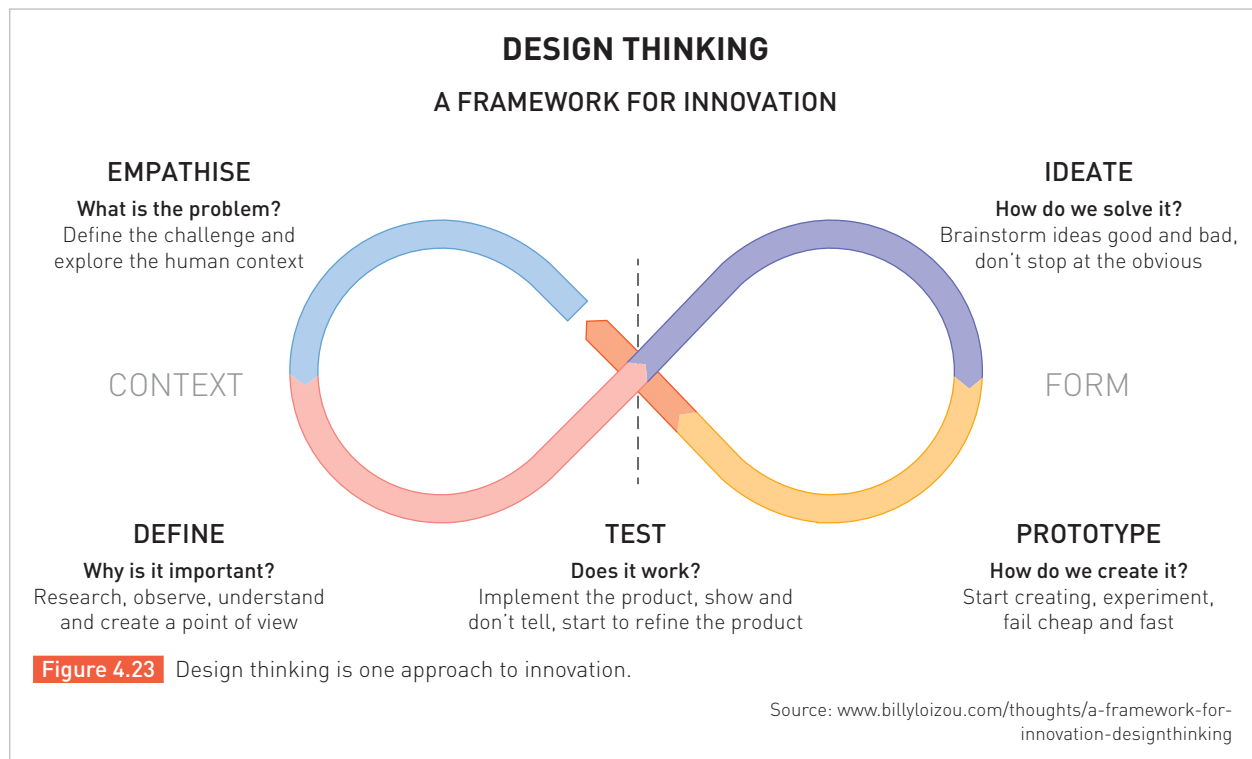
Shutterstock/Vladgarin

Figure 4.22 Innovation theories are fundamental to the creation of new business ideas.

Innovation frameworks

Different to an innovation theory, an innovation framework is a scalable platform that shows the processes involved in harnessing creative talents during research and development. This strategic approach provides a way to collect, collaborate and act on new ideas from inside an organisation. There are various innovation frameworks available to businesses, including the ‘ten types of innovation’ framework and the ‘innovation performance’ framework. Two more commonly used frameworks are ‘design thinking’ for innovation and the ‘three horizons’ framework.

Design thinking



Design thinking refers to a process used for developing creative strategies to resolve issues or problems. It is an approach used in a variety of situations, including professional design practice, business and social contexts. In innovation, design thinking is expressed as a structured five-step framework for understanding and pursuing innovative ideas and solutions. It is a human-centred and solution-focused framework and draws on logic, imagination, intuition and reasoning to explore possibilities and create desired outcomes that benefit the end user or customer. The five stages or steps are: empathise, define, ideate, prototype and test. Design thinking is a continual process, and these steps can be done in any order, unlike the four stages of the innovation process – ideate, define, design and develop – which need to be done in sequence. Steps are continually revisited throughout the process.

- *Empathise*: This involves getting to know the target market, listening to their needs and wants, finding out what they value and how they look at the world.
- *Define*: This step will bring clarity and focus to the goal. What exactly are you trying to achieve? What is the problem to be solved? Who are you addressing?
- *Ideate*: This involves brainstorming and thinking wide. What separates design thinking from other forms of thinking is the emphasis placed on not ignoring any ideas, even those that seem obvious or easy. Ideation then requires a short list of the best solutions to inform the development of the prototype.
- *Prototype*: The prototype stage helps to answer many of the questions about the solution or the short list of ideas.
- *Test*: This involves the seeking of feedback from users of the prototype, either the physical prototype, a demo or a test model – anything that the user engages with.

This approach to creative thinking and business ideas is not new, but it is revolutionising the way business ideas are generated, the way people work and how businesses operate. For new business ideas, using the design thinking process will be necessary at different stages, from ideation to start-up, and throughout the life cycle stages.

GAINING INSIGHT



What is design thinking and how can businesses use it?

Design thinking requires a cultural shift in your organisation.

Despite its name, 'design thinking' is not a principle exclusively used by designers. Although rooted in creativity, it's a technique that businesses use to solve particular problems.

John Oswald, the former business design director at Fjord, and now global principal of the advisory team at digital innovation consultancy, Futurice, describes design thinking as a cross-section of design, business and technology, brought together to solve human problems.

The term has become a bit of a business fad, he says, and to use it effectively takes more than just good ideas.

'At Fjord, this was interpreted loosely as the design rule of three', he explains. 'Design thinking will not solve the world's problems, but with the combination of thinking, doing and culture, you might just get there.'

The thinking: understand pain points

It's not enough to identify a problem – to solve it, you must understand why it's a problem for your users. 'The most important first step is not to leap to conclusions', says Simon Hill, chief executive of Wazoku, which creates software to help companies employ design thinking principles at scale.

'It's vital that you dig into the meaning of [the] data.'

This means spending time with consumers, or employees, to understand precisely what their problems are and why they exist.

IBM recently worked with Santander Spain on a mobile technology proposition for its employees. Rather than optimising its existing computer systems for mobile devices, Santander Spain's ambition was 'to change the way that work gets done', explains Justin Ablett, associate partner for financial services at IBM.

'It got to know its users – in this case, all employees in the organisation. It built personas and empathy maps, and observed the way that its people worked', he says. 'Once the business understood the current scenario, it then identified pain points, and from that started to imagine things that could help resolve them.'

For example, one niggle was claiming expenses, so IBM and Santander Spain built an app to improve that process.

The doing: a start-up approach to solutions

One of the common pitfalls found by businesses that try to apply design principles is getting stuck in the ideas phase, says Mr Oswald. 'For most [companies], there's no shortage of ideas. The difficult bit is making ideas actually happen', he says.

Mr Oswald recommends taking a lean, start-up approach to developing solutions: prototype an idea, test it, make it better, test it again, and make it better again.

'Launch quickly and iteratively; that way, you have a good handle on whether it's actually working – then you keep measuring it to make sure that it has got business impact, as well as people impact.'

He references something that he saw at Fjord, which, earlier this year, worked with a large home improvement retailer on a project to make DIY more accessible. Part of the scope was to launch digital services that 'met people where their needs were' – so in one initiative, it developed an app to help customers with their garden.

'It has flower and weed recognition, and – quite intelligently – cuts through the whole product catalogue to show the user things relevant to their garden', Mr Oswald explains.

There's room for improvement as well, as Fjord and the client collect insight from customers about what works and what doesn't.

The culture: ripe for innovation

'For design thinking to be successful, there needs to be a cultural transformation', says Mr Ablett.

IBM has taken a number of steps to cultivate design thinking into its culture, including increasing the number of designers on its workforce from one for every 33 coders, to one for every eight.

He says that companies need to give teams dedicated space to do this kind of creative, and often risky, work.

'You also need to empower the people responsible for those areas, because they have to be able to break the rules a little bit.'

Source: Lucy Douglas, 'What is design thinking and how can businesses use it?', *The Telegraph*, 16 October 2017, © Telegraph Media Group Limited 2017

Questions

- 1 **Describe** the features and characteristics of design thinking.
- 2 **Explain** why businesses are adopting this framework as an approach to innovation in their business.
- 3 **Analyse** and **discuss** the impact that design thinking might have on the culture of a business.

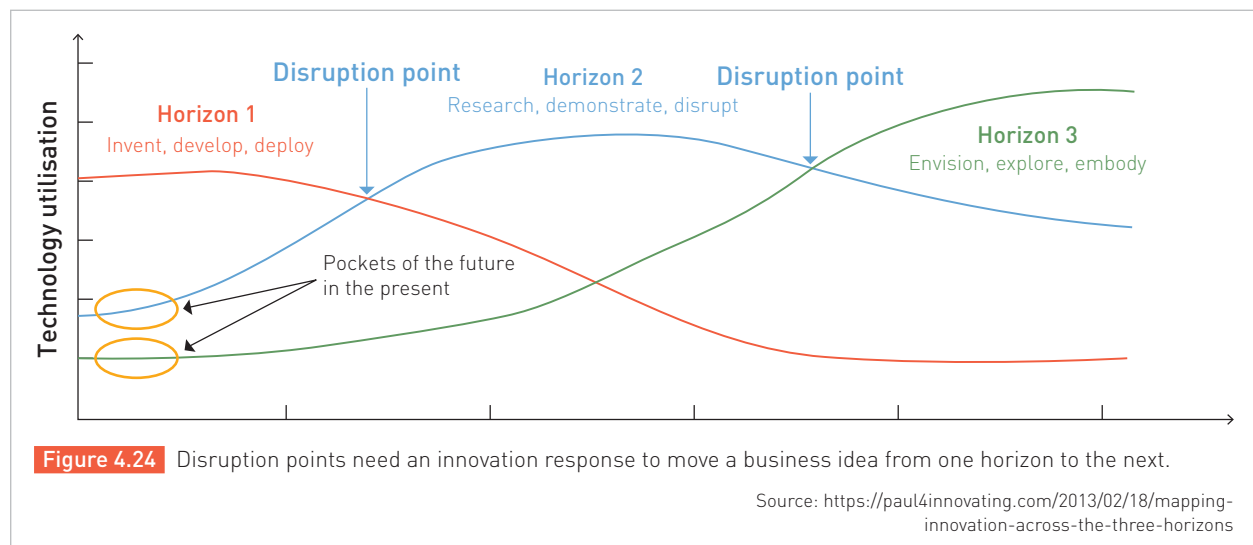
Three horizons

The three horizons innovation framework is used to determine how well the business idea will be able to deliver value and fit into an overall business strategy as time goes on.

The horizons, in an innovation context, are as follows:

- *Horizon 1* – exploiting current ideas and products (core business activity and incremental innovations to improve current offerings)
- *Horizon 2* – extending the business with new ideas that build on the core ideas but provide new value
- *Horizon 3* – exploring new future ideas that could change the business but aren't ready yet.

As a business progresses through the stages of the business life cycle, it will notice that customer tastes, technology, competition and the market all change. This will require the business to continue to innovate and create ideas. When these innovations or new ideas take the place of current ideas, disruption points occur, where one horizon is replaced by another and the business idea or business remains viable. If the business fails to move to the next horizon at the point of disruption, it will move into a decline state.



QUESTIONS 4.4



- 1 **Describe** the features and characteristics of the three horizons framework.
- 2 **Explain** why businesses might choose to adopt this framework as an approach to innovation in their business.
- 3 **Analyse** and **discuss** the similarities and differences between design thinking and the three horizons framework.
- 4 At what stages in the business life cycle would design thinking for innovation and the three horizons framework be relevant as strategies for innovation? **Explain** your decisions in a paragraph response or a short oral presentation.

Developing and screening ideas

Key learnings

You will learn about the strategies used to generate and screen business ideas through examining:

- the SCAMPER technique.

Developing new business ideas or innovations to existing business ideas is a continuous strategy, no matter what stage of the business life cycle a business is at and no matter what innovation theory or framework is used. The task of generating and screening these new ideas for viability can be a challenge to any entrepreneur, innovator, business owner or employee. As discussed earlier, these ideas do not generally just appear; there is a problem or stimulus that helps in the generation of the solutions, ideas or business opportunities.

These problems or stimuli can be identified through the application of motivation theories, innovation theories or by applying specific and tried techniques to evoke creative thinking. One of these techniques is called the SCAMPER technique. This useful tool, first introduced by Bob Eberle, is the organisation of a number of brainstorming questions originally created by Alex Osborn.

ANALYTICAL TOOL



The tool: the SCAMPER technique

A SCAMPER is a technique used to brainstorm ways to innovate or develop a product. SCAMPER stands for: Substitute, Combine, Adapt, Modify, Put to another use, Eliminate and Reverse. For each of these elements, there is a set of specific questions to evoke creative brainstorming and analysis of knowledge. Many of the questions it uses were created by Alex Osborn, but Bob Eberle developed the mnemonic.

How to use the tool

To use the SCAMPER technique, you select an existing good or service and then go down the mnemonic and respond to each of the questions regarding each element (see Figure 4.25).

For more focus question ideas, or to explore the SCAMPER technique in greater detail, go to MindTools.



Activity

- 1 Complete the SCAMPER technique for one or more of the following existing business ideas to generate potential innovation ideas:
 - a bluetooth speaker
 - a pair of rubber thongs
 - a vegetable spiraliser
 - a digital camera
 - a compost bin
 - a caravan.
- 2 Once you have completed the SCAMPER, **analyse** each idea to **select** a short list of the ideas worth developing further.
- 3 **Create** a paragraph response with a visual representation to **communicate** one of the business ideas from the short list to a focus group of potential customers.



Development of business ideas

Key learnings

You will learn about the sources of support and advice for the development of business ideas through examining:

- research and development
- government support

- mentors
- networks and professional associations
- grants and funding.

Research and development plays an important role in the success of a business. Therefore, in order to effectively develop a business idea into a viable start-up, research and development should be included. This ensures that the business idea has an identified market and will provide a new or improved product to meet the needs of this market. During the investigative process of research and development, business owners or potential start-ups will have access to an endless supply of information. This information is designed to support the development of ideas, and includes books, Internet sites, television shows, industry associations, chambers, government departments and business professionals.

Sources of advice and support

Along with the endless supply of information, there are many sources of targeted business advice and support offered at industry, state and federal levels. These are designed to help entrepreneurs and prospective business owners develop their ideas beyond the ideation stage. These sources include those outlined below.

State government support

The Queensland Government offers a comprehensive suite of resources with everything relevant to developing a business idea and starting a business in Queensland. It provides links to support and clearly explains everything from the ideation phase to start-up, including financing, legal structures and IT support. There are also resources and tools that can be used to grow and develop a business, including marketing toolkits, readiness quizzes and grant application information.

Go to Business Queensland and Advance Queensland to look at the types of support and advice offered to business ideas and start-ups in Queensland.



Federal government support

Federal government resources are similar to those offered specifically for businesses in Queensland. The federal government offers a simple access point for information, tools, templates and checklists to help any business in Australia. This resource covers everything from the idea to development, running the business and managing exit strategies.

Visit Business.gov.au and look at the initiatives and support offered by the federal government.



Grants and funding

Local, state and federal governments offer a range of grants and funding opportunities to help support the development of new ideas, innovation and business growth. For example, this financial support might take the form of a grant, which is funding provided for a specific application, and usually related to a particular industry sector or community, to stimulate economic growth. Some grants are specific to certain stages of the business cycle, such as developing a product, completing a research fellowship or installing new systems to promote efficiency. Another avenue to receive financial support is through rebates. These are partial refunds or payback incentives offered in areas where the government is trying to stimulate growth or encourage particular practices. For example, an energy rebate is available to regional businesses that adopt energy-efficiency practices.

Business mentors

Mentoring refers to the relationship between an experienced businessperson (the **mentor**) and a less experienced business owner or employee (the mentee). Business mentors provide valuable support at all stages in the business life cycle. In the ideation phase, a mentor can provide important feedback, encouragement and support as the business idea is developed into a viable start-up option. Mentoring can be informal – with friends, family or business contacts providing support and advice when requested – or it can be part of a formal program run through government or industry associations.

Mentor: a person who provides advice, support and guidance to another person who has less experience

Industry associations

Industry associations are organisations that support businesses, employees or members of a particular industry. They may offer some information and services free of charge, but, in most cases, you need to become a member of the association and pay a fee to access the full range of information, resources and services on offer. In business ideation, joining the association relevant to the industry can give credibility to an idea, and it is also an excellent way to begin a database of key stakeholders. For example, the Small Business Association of Australia is an association with resources, support and advice for those new to business or needing support in their business journey.

Visit the Small Business Association of Australia website to have a look at the support it offers.



Start-up communities

A start-up hub or collective community is formed when a group of individuals or businesses interact with one another, either in physical proximity or online. Start-up communities can be formed on the basis of stages in the business life cycle, industry of product, location, economic activity or technology features. The primary aim of start-up communities is to provide support that boosts creativity and collaboration. These hubs or collectives, as they are often known, generally encompass the network of interactions among people, businesses and their environments. These start-up communities or entrepreneurial spaces are rapidly appearing in new and varied locations and are constantly innovating, expanding and diversifying to meet the needs of new business ideas and their founders.

GAINING INSIGHT



The Innovation Centre Sunshine Coast Pty Ltd

The Innovation Centre Sunshine Coast is located at the University of the Sunshine Coast campus at Sippy Downs, Queensland. Upon opening in 2002 as a not-for-profit company, the Innovation Centre quickly became a central hub for innovators, entrepreneurial start-ups and high-growth companies.

The IC has a purpose-built 1700-square-metre facility, a dedicated support team, incubator/accelerator programs, collaborative events, 300 Mbit/s internet connection, video studio, prototyping lab, meeting

rooms, mentor panel, professional partners and access to awesome facilities and talent at the university.

With an extensive network of local and international connections, the Innovation Centre provides a highly supportive ecosystem that enables businesses to take a viable product or service to the world with confidence. One of the most successful regional innovation centres, the Innovation Centre Sunshine Coast has assisted over 200 resident members since 2002 and created over \$60 million in economic value for the Sunshine Coast.



The Innovation Centre

Figure 4.26 The Innovation Centre Sunshine Coast (IC) is a central hub for innovators, start-ups and high-growth companies.

Industry/professional association: an organisation established and run by industry representatives and/or professionals, providing support and advice to members, and advocating for their industry to other stakeholders

Chapter 4 review

This chapter introduced the innovation theories and entrepreneurial motivations that lead to the creation of business ideas. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

4.1 Short items

- 1 **Explain** what the terms 'ideation' and 'business opportunity' mean.
- 2 **Explain** the difference between an invention and an innovation.
- 3 **Explain** Maslow's hierarchy of needs.
- 4 **Explain** the types of innovation driven by technology and market forces.
- 5 **Describe** the factors of a PEST analysis and how each one influences the creation of a business idea.

4.2 Interpretive items

- 1 **Describe** a well-known business that has successfully innovated its products and introduced a new business idea in order to attract a new share of the market.
- 2 Using your knowledge of entrepreneurship, **describe** the skills, characteristics and motives a serial entrepreneur is likely to possess.
- 3 **Describe** how competitors, suppliers and interest groups in the operating environment affect business ideas.
- 4 **Explain** the importance of innovation and entrepreneurship in Australia.
- 5 **Explain** the first place a person wanting to start a business in Queensland should go for support and advice, and why.
- 6 **Explain** why using known and accepted theories such as those explored in motivation or innovation is relevant to business development and ideation in today's modern market.

4.3 Extended-response items

- 1 **Create** a 3–5 minute multimodal response to **explain** three reasons why a person might be motivated to create a new business idea.
- 2 **Create** a written extended response in the form of a business letter to **communicate** a business idea to a potential investor. Attach a visual representation of the prototype or idea with your letter.
- 3 Read the case study carefully and **create** paragraph responses to each of the questions that follow.
 - a **Describe** the business idea behind Mexia.
 - b **Describe** the entrepreneurial characteristics demonstrated by Dean and the team at Mexia.
 - c **Explain** the sources of support and advice that Mexia had access to while in the seed-stage of the life cycle.
 - d **Explain** the inefficiency or gap that Mexia identified in the marketplace.
 - e **Explain** the innovation theories that have been implemented or could apply at Mexia.
 - f **Research** Mexia online and **decide** at what stage in the business life-cycle it is now positioned. **Justify** your decision with evidence you have collected.

GAINING INSIGHT



Mexia: the integration experts



Mexia

Figure 4.26 Mexia is the 'glue' between the large IT platforms that enterprise customers use.

The name Mexia comes from 'Message Exchanging Integrated Architectures', but Mexia is not an acronym. It's a brand name. Mexia specialises in writing the

software that connects platforms together in real time. For example, a big bank might have a core banking platform in a data centre that stores customer data (address, account balances, transaction history etc.) and a customer management platform (customer details, banking products they use etc.) in the cloud. Mexia is the glue or 'middleware' between the systems that allows the platforms to connect. Mexia generally doesn't have anything to do with the systems themselves; rather, it sits in the middle of an organisation's IT environment and glues everything together for the benefit of the customer experience, efficiency and effectiveness.

Mexia's founder, Dean Robertson, was a technical specialist in a niche middleware technology from Microsoft that few people in the market understood and even fewer knew how to use to best advantage. As a result, this middleware technology, which Dean loved and was good at, had a bad reputation. Dean saw this lost opportunity for customers to get the benefits of middleware technology, and resolved to start a business focused exclusively on the business problem that this Microsoft technology addressed. Mexia meets a boutique specialisation in a niche middleware area. Dean often says, 'We are an inch wide but a mile deep', to indicate how specialised is the role that Mexia fulfils.

This is a very technical field of software and very hard to get right. As Mexia was very good at what it did from the very beginning, the business grew quickly and with relative ease. There were only a handful of companies in Australia that had a similar specialisation, and Mexia started in Queensland, where there was no direct competition. In addition, Mexia joined the Queensland Government-funded iLab program only six months after its founding. Dean reflects, 'This business incubation environment was the single reason we survived the first two years, in no small part because I was introduced to a panel of experienced business mentors who volunteered their time to sit around a boardroom with me and run fake 'board meetings' once a month'. This enabled Dean to look objectively at the growth of Mexia and ensure it stayed at the top of its field.

Mexia's target market consists of large customers on Australia's eastern seaboard with an IT budget of greater than \$50 million. They need this so they can afford the \$500 000–\$1.5 million project budgets required to succeed with middleware. They include banks, insurance and superannuation companies,

large retailers and manufacturers – anyone with lots of data, generated through highly repeatable processes that can be automated by middleware platforms, which would otherwise be done manually through data entry or not integrated at all. The technology on which Mexia was founded was considered by many to be old, so, when the cloud trend began, Mexia was at risk of being left behind as its customers increasingly chose the equivalent cloud technology rather than the technology Mexia was good at. So Mexia embarked on an internal transformation program to become deeply specialised in the cloud middleware technologies, too. This required Mexia to change the way it marketed, sold and delivered solutions, as well as the type of staff it needed to hire. Mexia was recently awarded Microsoft Australia's 2017 Partner of the Year for the industry-leading work it is doing in the market using Microsoft cloud technologies.

This is not Mexia's only accolade. The business was also listed as the eighth best place to work in 2017 (up from 10th the previous year) because of the way it recruits, onboards, leads and manages its team. Dean says, 'We have several counterintuitive aspects to Mexia, including calling our team "unicorns" because they technically don't exist, but do if you really believe in them. We also have a "Choose your own adventure" program, where the staff can get a pay rise whenever they can demonstrate their skill levels are at the level required by our "Unicorn Framework".' This, along with the fact that Mexia invests heavily in its annual Christmas party, when it flies staff and partners to a beachside location for a weekend of all-expenses-paid fun and relaxation. Dean believes that 'this large investment (more than \$100 000 this year) generates such an incredible amount of cultural goodwill that we feel it an essential part of our cultural events calendar'.

4.4 Activities

- 1 **Create** a table to **communicate** to potential start-up owners the advantages and disadvantages of each type of support or advice available to them.
- 2 Use a technology application to **create** a flowchart that demonstrates the progress of an idea from inception through to development in the seed stage of the business life cycle.
- 3 **Create** a PEST analysis to **analyse** the macro environmental forces of a new business idea that you have identified as a potential business opportunity.

5

THE VIABILITY OF IDEAS

What you will learn

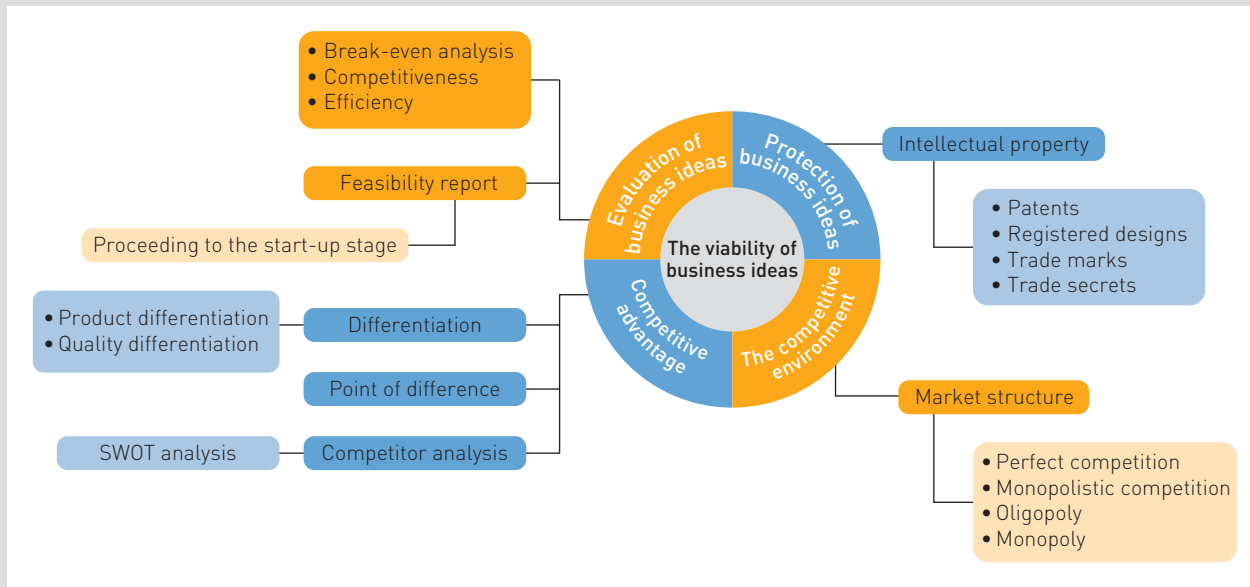
Humans are by nature competitive: we compete for everything – resources, jobs, food, awards and sporting success. In business, competition occurs and drives businesses to be competitive on product, price, quality and service. Due to this competitiveness, businesses must protect their ideas and the unique elements of their competition advantage.

This chapter will provide you with the opportunity to:

- **describe** the characteristics of the dynamic environment in which business ideas and businesses compete
- **explain** intellectual property protection, differentiation, competitive advantage and point of difference
- **select** data and information relating to competitors of a business idea to **analyse** the strengths, weaknesses, opportunities and threats (SWOT analysis) and **draw conclusions** about the implications of ideas
- **evaluate** business ideas using criteria to **make decisions** regarding viability and progressing to the start-up stage of the business life cycle
- **create** responses to communicate the viability of business ideas to stakeholders.

The analytical tools used in this chapter are:

- SWOT analysis
- break-even analysis.



Key skills

In this chapter you will have the opportunity to develop the following 21st-century skills:

• creative thinking	– creativity	• critical thinking
– initiative and enterprise	– identifying alternatives	– analytical thinking
– curiosity and imagination	– seeing or making new links	– problem-solving

- intellectual flexibility
- communication
 - effective oral and written communication
 - using language, symbols and texts
 - communicating ideas effectively with diverse audiences
- collaboration and teamwork skills
 - relating to others (interacting with others)
 - participating and contributing
 - community connections
- personal and social skills
- management (self, career, time, planning and organising)
- adaptability/flexibility
- information & communication technologies (ICT) skills
 - accessing and analysing information
 - being productive users of technology.

(Source: Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

GAINING INSIGHT



FOCUS QUESTION: How do you ensure protection and viability of ideas in competitive markets?



All images courtesy Something for Catering

Figure 5.1 The viability of ideas in the food truck and on-site catering industry requires versatility and a point of difference.

Something for Catering is an offsite catering company that services weddings, corporate events and festivals. Its unique food and beverage van has been specifically designed to incorporate both food service and bar operations, bringing a unique mobile catering venue to events. Based on Queensland's Sunshine Coast, the van travels far and wide to locations across south-east Queensland and northern New South Wales. Something for Catering took the business idea of traditional catering services and innovated the offering to become a more viable and competitive business in a highly saturated market.

The founders of Something for Catering are a group of long-time friends and passionate hospitality professionals. They saw the opportunity to create a unique events concept with the addition of an events specialist, chef, sommelier and front-of-house professionals to the traditional 'off-site' catering model. One of the founders, Brent Colautti, says, 'Honestly, all I did originally was see a gap in the market that I knew I had the skills to fill. I knew there had to be a way to serve



Figure 5.2 Something for Catering founders, Brent Colautti and Sam Cook

restaurant quality out of a stunning 8-metre mobile commercial kitchen to any amount of people anywhere.'

Brent focuses on the marketing strategy, staff recruitment and systems to increase the efficiency of Something for Catering, rather than trying to protect the business model. There will always be competition in the hospitality and events industry, so the competitive advantage Something for Catering has in the market is its versatility: 'We are a lot more versatile than our competitors ... we can set up and manage bar operations for a 40 000-person festival and on the same day do two 150-person weddings. I don't think many businesses, if any, are doing that.' Brent also states that the staff are an important element in the business, as a company that has a talented team of motivated individuals is always going to be competitive in its industry.

While the initial seed stage, and finding the capital to build a fully functional kitchen and bar on wheels, was challenging, the group of friends pulled

together to generate the necessary investments and recruit stakeholders who believed in the vision. Something for Catering is now well renowned throughout both the region and the industry, and continues to differentiate itself through versatility, working closely with local farmers, fishers and artisanal producers to create a tasty menu that is also seasonal and sustainable.

Questions

- 1 **Describe** the business opportunity that Brent Colautti and the founders of Something for Catering saw in the market.
- 2 **Explain** the unique approach that Something for Catering offers to the food van market.
- 3 **Explain** how Something for Catering might protect its unique business idea to minimise the possibility of competitors copying its approach.
- 4 **Explain** why there are advantages to competition, particularly in the food-truck or catering industry.
- 5 **Analyse** two potential competitors for Something for Catering using a SWOT analysis.
- 6 Using the criteria of competitiveness and efficiency, **evaluate** the strategies used by Something for Catering to differentiate itself in the market.
- 7 **Evaluate** the viability of a business like Something for Catering operating in your region.

Protection of business ideas

Key learnings

You will learn about the concept of intellectual property through examining:

- patents
- trade marks
- registered designs
- trade secrets.

Once a business idea has been formulated and sources of advice and support have been consulted, the beginnings of an action plan will be in place to progress the idea from simply a concept to a development. Before taking an idea to market or publicising it, entrepreneurs and potential business owners must protect their new business ideas. The idea may be a new invention, a radical innovation or an improvement on existing products and services in the market. It is best to keep a new business idea confidential until it is protected. If the idea is being developed or discussed with other stakeholders, it can be beneficial to use confidentiality agreements to prevent the idea being disclosed without permission or made public before the necessary protections are in place.

In Australia, as soon as an idea or creative concept is documented on paper or electronically, it is automatically protected by **copyright**. The *Copyright Act 1968* (Cth) protects the original expression of ideas, but not the ideas themselves. This means an idea is not protected from the independent creation of a similar work based on the same idea. A copyright notice with the owner's name and the date is not necessary in Australia, but placing it on business resources such as the business website can help prove your ownership of the copyright and act as a deterrent to blatant copying of the idea. Copyright most commonly applies to works of a creative nature, for example music, visual art and written works. To adequately protect the unique elements of a business, whether an idea, a design or anything that can be uniquely associated to a particular brand, product or service, it is necessary to protect **intellectual property**.

Intellectual property

Intellectual property is property of the mind. It is the intangible items or proprietary knowledge that a person or business creates and owns. Intellectual property can be an invention, a trade mark, a design, a brand or the application of an idea. In the world of business, the creator of intellectual property is not necessarily the owner. The ownership of intellectual property is dependent upon contractual arrangements, especially with

Copyright: the automatic protection of the original expression of ideas, but not the ideas themselves – covers, for example, the work of visual artists, musicians, writers and video and film makers

Intellectual property: the property of the mind, intangible items or proprietary knowledge that a person or business creates and owns

employees, suppliers, distributors and manufacturers. Generally, an employer owns all the intellectual property that an employee creates during their normal employment activities.

Often, this intellectual property comprises the elements that are unique to the business and give it a point of difference in the market. From the business name to the processes a business uses in production of goods, there will be things that a business can leverage when it owns the unique rights. Protection of intellectual property may be through **patents**, **trade marks**, **registered designs** or **plant breeder's right**. Those businesses that choose not to seek formal protection of their intellectual property through these channels may adopt the use of **trade secrets**. A trade secret is proprietary knowledge that is kept confidential and can help a business maintain its competitive advantage and the viability of its business idea. For example, KFC's secret blend of herbs and spices is considered a trade secret.

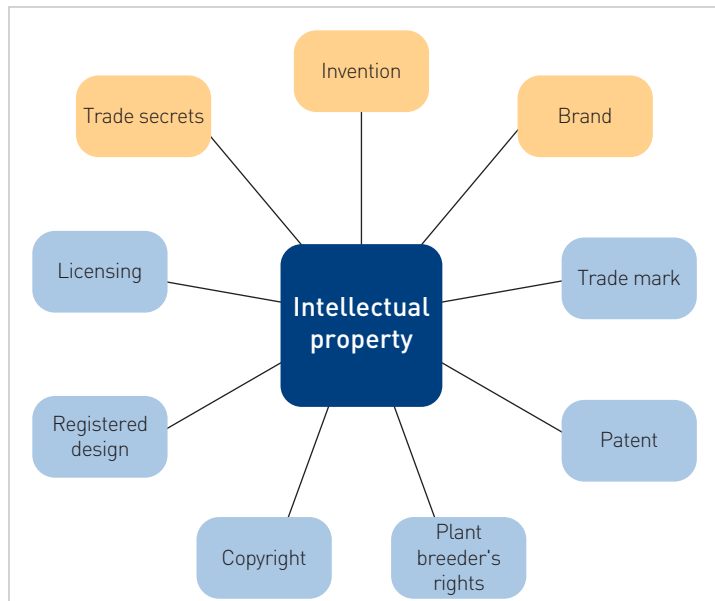


Figure 5.3 Businesses in the seed stage need to take appropriate action to protect their intellectual property.

GAINING INSIGHT



Why you need to be careful what you take with you when leaving a company



Shutterstock.com/Andrey_Popov

No-one can take away your knowledge and your skills. These, just like your good looks and happy outlook on the world, are yours to keep.

Other information specific to your work, more properly called intellectual property, is owned by your employer and can't be taken with you when you depart.

But just what is yours and what is the company's?

Two recent cases in Australia highlight the dangers and subtleties of identifying what belongs to whom. Online labour marketplace companies Freelancer and Airtasker are

Patent: a patent is a right granted for an invention (standard patent) or innovation (innovation patent) that is new and has not been disclosed in the market before

Registered trade mark: protects brand names, logos, original sounds and scents, and even aspects of packaging

Registered design: protects the visual appearance or design of the product and grants the owners the exclusive rights to commercially use, license or sell the design

Plant breeder's right: the exclusive commercial rights for a registered variety of plant

Trade secret: any valuable business information that is not generally known and that efforts are made to keep confidential as a competitive advantage

brawling over who came up with the concept for the Like a Boss ad campaign. Freelancer, headed by high-profile entrepreneur Matt Barrie, says the Airtasker campaign is so similar to its own advanced plans that it can't be a coincidence.

It notes that staff formerly at Freelance are now at Airtasker. The second case involves a database of customer details. Fashion startup Showpo is suing rival online retailer Black Swallow and a former staff member. Joellen Riley, professor of labour law at the University of Sydney, can't comment on specific cases but says there are some basic principles which apply.

Your know-how

The first is that you can take your own skills and know-how away with you.

'But you can't take any valuable property that you created in the course of your employment,' she says. 'That belongs to your employer.'

She says Australian employment contract law principles generally favour the employer's ownership of valuable intangible property.

'Even something as mundane as a telephone list can be subject to copyright,' she says.

'There are plenty of cases about client and customer lists. Copying them to take with you is definitely forbidden. Drawings, plans, designs – any embodiment of ideas – can be protected by copyright.'

The Copyright Act allows a court to award damages for a flagrant breach of copyright.

'It is not only the employee who leaves with valuable client lists or copyright material that has a problem,' says Riley.

'The new business employer can be required to surrender up or destroy copies of the material, and give an account of profit made from its use.'

Here are three basic principles:

1. Employees have a duty to their employer. This prevents them from acting in any way that competes with the employer.

'So spending time while you are still employed, gathering up information and copying client and supplier lists ... is a breach of your employment contract,' Riley says.

'If you take stuff like that away with you to a new business, your former employer can seek an order that you must surrender up, or destroy, all copies of things you have taken.'

'Even if you create something yourself while you are in a job, it belongs to your employer. So

a set of drawings for an ad campaign will belong to the employer of the designer – not to the designer her/himself.'

2. An employee must keep their employer's information confidential.

'And this duty carries over to the time after you leave,' she says.

'The kinds of information that has regularly been found to be confidential includes information about client preferences, contract arrangements with suppliers and sponsors.'

3. Non-compete clauses in employment contracts. This means that departing employees cannot work for a rival for a period of time.

So long as the non-compete period is not unreasonably long, Australian courts have been willing to grant injunctions stopping people from going to other jobs for a period of time.

However, arguing over who owns what can be an exercise in futility in a world where information and ideas travel quickly and far and wide across digital platforms and social networks.

Mike Haywood, the founder of LiveHire, a platform which creates pools of pre-qualified candidates for companies, says companies can get too caught up playing defensive when they should be focussed 100% on delivery and their clients.

'You rarely win a footy game by flooding the backline and the game of business is no different,' he told *Business Insider*.

'Ideas are 1%, execution is 99%.'

Haywood says companies should think more about how they retain great employees, and build an environment around how work gets done as a team productively, rather than trying to protect ideas from spreading.

'If another company does what you were saying you were going to do, it's your own fault for procrastinating,' he says.

The definition of intellectual property is changing

And the whole notion of intellectual property is changing, according to Anthony Mitchell, co-founder and chairman of strategic leadership firm Bendelta.

Traditionally, content rights have been licensed or sold according to geographic area. However, these borders mean little in an online world.

'Similarly, the notion of what it means to be an employee has radically changed,' says Mitchell.

'Apple leveraged this paradigm shift brilliantly when the key contributors to the success of the

iPhone have been the app developers who've created the content – none of whom are employed by Apple.

'Rather than focus on developing and protecting their IP, they managed to convince third parties to lend theirs to them.'

Putting aside the detail of individual employment contracts, Mitchell says the changing nature of work has two major implications.

'Firstly, it's harder to find things that are protectable when you can find most things online somewhere,' he says.

'Secondly, when your reputation as an employer is available to the world, you may think

twice about just how litigious you want to be – especially if your chances of winning are slim.'

Chris Pash, *Business Insider*, 3 Feb 2017, <https://www.businessinsider.com.au/why-you-need-to-be-careful-what-you-take-with-you-when-leaving-a-company-2017-2>

Questions

- 1 **Explain** the three criteria that make an idea patentable according to the article above.
- 2 **Discuss** whether the staff that moved from Freelancer to Airtasker have acted according to intellectual property guidelines.
- 3 **Create** a one-page flyer to inform new staff of their rights and obligations regarding intellectual property.

Patent

There are two types of patent protection in Australia – a standard patent and an innovation patent. These patents are for the protection of a new invention or a new innovation that has not previously been disclosed to the market. A patent is essentially the exclusive protection for the owner of the invention or innovation to make or sell the product and to license others to make, use or sell the invention or products made using the invention or innovation. Commercial use or even exhibition of an invention before a patent application has been filed may prevent a patent from being awarded.

In Australia, patents are granted by IP Australia in accordance with the *Patents Act 1990* (Cth). A standard patent lasts for 20 years for an invention, or 25 years for the protection of a pharmaceutical substance. Innovation patents only last up to eight years and are generally for inventions with a shorter market life. For example, computer-based inventions might be superseded by newer innovations or technologies as time goes on, so an innovation patent is more appropriate.

Table 5.1 A quick guide to innovation patents versus standard patents

	Innovation patent	Standard patent
Your invention must:	Be new, useful and involve an innovative step.	Be new, useful and involve an inventive step.
The application should include:	A title, description, up to five claims, drawings (if applicable), an abstract and forms.	A title, description, any number of claims, drawings (if applicable), an abstract and forms.
A patent is granted if:	The application satisfies formality requirements (note: a 'granted' innovation patent cannot be enforced unless examined).	The application is examined and found to satisfy the relevant requirements of the <i>Patents Act 1990</i> .
Examination:	Optional. Examination can be requested by you or anyone else.	Mandatory. The relevant requirements of the <i>Patents Act 1990</i> must be met before a patent is granted. Can only be requested by the applicant.
Certification:	Is given if the innovation patent complies with the relevant requirements of the <i>Patents Act 1990</i> in examination. Only after certification can the patent be enforced.	N/A
Publication in the Australian Official Journal of Patents:	At grant and again at certification.	18 months from earliest priority date and again at acceptance.
Protection period:	Up to eight years if annual fees are paid.	Up to 20 years if annual fees are paid (or up to 25 years for pharmaceuticals).
How long does the process take?	Approximately one month for grant. Six months for examination if you make a request.	Six months to several years depending on circumstances.

Source: 'Quick guide to innovation versus standard patents', IP Australia, © Commonwealth of Australia, CC BY 4.0 International licence

Registered designs

A registered design is used to protect the appearance of a product but not the way the product works. Registered designs are covered by the *Designs Act 2003* (Cth) and must be for a new or distinctive design that is recognisable. Registered designs give the owner of the design the exclusive rights to commercially use, license or sell it. Registered designs can apply to the shape, configuration, pattern and ornamentation that give a unique visual appearance to a business and its products. For example, the pattern on a team uniform can be a registered design.

The owner of a registered design can be an individual, a company, an association or a partnership. This may be the person who conceived the design, the employer of the designer, either by contract or employment, or a person who has been assigned the design in writing. A registered design last for five years and can be renewed for a further five years once only, so the maximum duration of a registered design in Australia is 10 years.

Trade mark

1 What is a trade mark?

- 1.1 A trade mark is a sign that distinguishes one trader's goods/services from those of other traders.
- 1.2 Under Australian trade mark law you are able to register a wide range of different signs as trade marks, including words, letters, signatures, numerals, aspects of packaging, logos, colours, shapes, sounds and even scents!
- 1.3 A trade mark provides different rights than a registered business or company name, or a registered domain name. Each of these other registrations provides you with rights under the various laws of Australia, but infringement is often difficult to prove, much less enforce.

2 Why register?

- 2.1 Although not compulsory, trade mark registration will provide you with valuable monopoly style rights in your brand. Importantly, these monopoly rights could be used to prevent other persons or entities using a name or logo which is substantially identical or deceptively similar to your brand for the same or similar goods and services.
- 2.2 Registered trade marks can be recorded as valuable assets on your balance sheet and are capable of being licensed, sold and even used as security in commercial transactions.
- 2.3 Registered protection for your brand will serve to increase the value of that brand and enable you to effectively license it/them to relevant partners and to take action against unauthorised users who might seek to 'free-ride' on your brand and reputation.
- 2.4 Enforcing 'unregistered' trade mark rights is significantly more difficult (and hence also often more expensive) than enforcing registered trade mark rights.

3 Selecting robust and valuable trade marks

- 3.1 To be capable of registration a trade mark must be distinctive. Broadly speaking this means that your mark must not be descriptive of your goods/services. We would be pleased to advise further on this point if requested once you have decided upon the mark you wish to seek registration for.
- 3.2 Note, the benefit of obtaining rights in a word mark is that it provides protection for those words used in any logo, whereas rights in a logo trade mark are limited to that logo.

Source: Moulis Legal

Figure 5.4 Professionals can assist with intellectual property (IP) advice or legal representation.

A trade mark identifies the particular goods or services of one business as distinct from those of another business. Registering a trade mark gives a business exclusive rights to commercially use, license or sell its trade mark. This means that no one else in Australia can commercially use the trade mark within the class of goods and services it is registered under. Trade marks are covered by the *Trade Marks Act 1995* (Cth) and can include logos, words, letters, numbers, colours, a phrase, sound, scent, shape, picture, aspect of packaging or branding – or any combination of these.



Figure 5.5 In Australia there are 363 registered trade marks for bottles, including the bottled water brands Voss and Nutrient Water and mouthwash brand Listerine.

Registering a business, company or domain name does not give you exclusive rights in the way registered intellectual property does. If you register a business, company or domain name, you do not automatically have the right to use that name as a trade mark. Protecting trade marks also helps to protect the identity of goods and services, and prevents others from imitating the brand or its products. Registered trade marks are protected in all Australian states and territories for 10 years, and can then be renewed indefinitely with the renewal fees due every 10 years.



IP Australia

Go to IP Australia and look at some more iconic Australian trade marks.



Figure 5.6 Some well-known trade marks in Australia

GAINING INSIGHT



The first registered trade mark in Australia: PEPS



Figure 5.7 The trade mark for the top of the PEPS tin in 1906 was the first registered trade mark in Australia.

On 2 July 1906, the day on which the then *Commonwealth Trade Marks Act 1905* came into operation, more than 750 applications were lodged.

PEPS, a product for coughs, colds and bronchitis, became the first federally registered trade mark in Australia. It was registered by Charles Edward Fulford of the Peps Pastille Co. from Leeds in England.

As advertised in a 1907 newspaper PEPS were 'a wonderful breathing medicine in soluble tablet form. PEPS cure coughs and colds by making the cough easy, natural and painless and by destroying the germs. You simply take a little PEP from its silver paper wrapping and let it dissolve on the tongue, or crush it between the teeth. This releases the pine essences imprisoned in the tablet, and immediately the nasal cavities, the throat, the lungs and

bronchial tubes are filled with the healing breath of the rich pine woods.'

The PEPS trade mark, that was used to distinguish their brand, was a rounded rectangle designed for the top of a tin. The shape contained the word 'PEPS' along with a descriptive blurb that read 'for coughs, colds & bronchitis'. The tin also included instructions

that read 'one pastille as required. See book for more full directions. Keep lid closed'. An illustration of a pine forest was also included. This pine forest was included in the logo to reflect one of the key ingredients in the cough drops – the pine extract.

Source: IP Australia, www.ipaustralia.gov.au © Commonwealth of Australia, CC BY 4.0 International licence

Trade secrets

A trade secret is different from a trade mark and cannot be registered. A trade secret is proprietary knowledge and it is up to the business to protect its knowledge and its trade secrets. Common law provides protection for infringement of trade secrets, and breach of confidentiality agreements; however, proving a breach of confidentiality can be complex and costly. Trade secrets do not stop another business from inventing the same product or process and they do not give exclusive rights over knowledge. Businesses also must be aware of the risks when employees with trade secrets or knowledge leave the business.

GAINING INSIGHT



How much should you spend on trade marks and patents?

It's important to check to see if your company name already exists

Next week I launch a new company and think I have an idea with the prospect of commercial success. I've expended a non-trivial sum on a dotcom address that's intended to become the brand of the business. How should I protect these assets?

In the early stages of launching a business, most entrepreneurs don't have the capital to invest tens of thousands of dollars in IP protection. And it's hard to know when a patent or trade mark is actually necessary.

In my first business, Posse, I thought our idea was revolutionary. My shareholders urged me to engage a patent attorney to see if we could protect the concept. We spent more than \$8000 and countless hours working with the lawyer to draft a provisional patent application and search patent databases. Back then I didn't understand the need for this, but our investors considered it important, so I pushed ahead.

Eleven months later, the business idea changed, and we pivoted to quite a different model. The patent attorney called to remind me our provisional patent was about to expire. We'd

need to pay \$70 000 to \$80 000 to register a full patent in key countries.

When I explained that the patent wasn't relevant any more he suggested we meet for coffee. We discussed the new business direction and he suggested we start again with the new concept.

I felt stuck: I'd already sunk costs into a patent. I knew that shareholders valued patents, so I agreed to another \$8000 and another provisional patent we'd never use.

Register trade mark

This time I'm launching on a tighter budget. I want to protect my IP as much as I can without overinvesting too early.

First I looked into trade marks. I found searchable databases for every major jurisdiction online and looked up my name. There are a couple of companies with the same name as mine but in very different industries. I called Ben Lehman, director of Applied Marks, and asked for some advice.

'The trade mark office will look at the trade mark and what it's being used for,' he said. 'It's fine to use the same name as an existing company so long as you're doing something different and people won't be confused. For

example, there are several companies called Apple. One does computers but another might do oil exploration.'

I asked when I should register my trade mark. At the start (when I'm poor), or wait until the business has money to invest. Lehman's advice was to register the minimum I need to protect the name before the business launches and add more classes and jurisdictions later. 'I see entrepreneurs every day who tell me they need to register a trade mark in five different classes and multiple countries. Then they see how much it costs, so they decide against doing anything.'

'It's important to register as much protection as you can afford before launching your business,' he said. 'If your application fails, then you've dodged a bullet because you could have spent thousands promoting a brand only to find you're infringing on someone else's right.'

Google Patents

Now to my idea. I think I've created a new business model and a patent could stop people copying me. I asked Kevin Ashby, a patent attorney at Legal Vision what makes an idea patentable.

He said there are three criteria. The invention must be patentable subject matter, it must be absolutely new and involve an inventive step that isn't obvious to people working in that field.

'The trickiest to establish is patentable subject matter. The Australian patent office use a very old test which rejects a lot of new technology applications. For example, if an inventor proposes using smartphone technology as a means toward efficiency then the patent office might argue that the outcome isn't new. Lots of people working with pen and paper could get the same outcome.'

Ashby's advice to start-up entrepreneurs is to do your homework before speaking with a patent attorney. Make sure your invention fits the criteria and then use Google Patents to search for conflicting patents. You needn't pay a lawyer to do this for you.

If you're sure you want to proceed then it'll cost between \$3000 to \$15000 to draft and register a provisional patent. This will hold your idea for 12 months, during which you can edit the content as your invention evolves and apply for a full patent in most major jurisdictions.

I decided to start by registering my trade mark in one class only: cost, \$720. I'm confident my idea is new and contains patentable subject matter but, when I read the full definition of 'inventive step', I'm certain it's too obvious to be patentable. I won't waste time and money on unnecessary IP protection again. With some online research and basic trade mark registration, I'm confident that my new business is appropriately covered for now.

Rebekah Campbell is a tech entrepreneur and co-founder of Hey You, Australia's largest cafe app.

Source: Rebekah Campbell, *Australian Financial Review*, www.afr.com/brand/boss/how-much-should-i-spend-on-trade-marks-and-patents-20170918-gyjig3

Questions

- 1 **Explain** the three criteria that make an idea patentable according to the article above.
- 2 **Explain** why businesses need to register their intellectual property in each country or market they want to operate in.
- 3 **Create** an extended response in the form of a one-page business report extract to **communicate** the difference between trade marks, patents and registered designs to a potential business owner.
- 4 Using the information about intellectual property above, **make a decision** about the most appropriate protections that a potential business owner should pursue for each of the following items:
 - a The lyrics to a jingle advertising the business
 - b The blueprints for a new coffee shop layout
 - c An idea for a new movie
 - d An instruction manual for using a new technology item
 - e The artistic design for a protective case of a phone
 - f The name and slogan of the new business
 - g The recipe for Grandma's signature brownies to be sold in a new coffee shop.

Competitiveness of business ideas

Key learnings

You will learn about the competitive environment for a business idea through examining:

- perfect competition
- monopolistic competition
- monopoly
- oligopoly.

All businesses want to be better than their competition. Whether it is for reputation, customer satisfaction, product quality or sales projections, businesses are constantly in competition with other businesses and so must constantly strive for an advantage to maintain their viability.

This **competitiveness** contributes to the success of business ideas and businesses, but it must be sustainable for long-term success.

The competition also drives innovation and the creation of new business ideas. Being the market leader is not a protected or guaranteed position, so businesses must continually evaluate their goals and strategies to ensure they maintain the viability of their ideas in the market. Competition can come from the broad market – where businesses sell goods and products to the masses – or a niche market, where businesses target a specialised need and market segment.

Ultimately, businesses must aim to achieve **strategic competitiveness**. This can be achieved when a business successfully implements strategies that separate it from the competition in the market. This strategic competitiveness is part of the business's strategic planning and, when effective, cannot be duplicated, or is too costly for another business to imitate.



Figure 5.8 A business idea must be competitive to move forward in the seed and start-up stages of the business life cycle.

Competitive environments

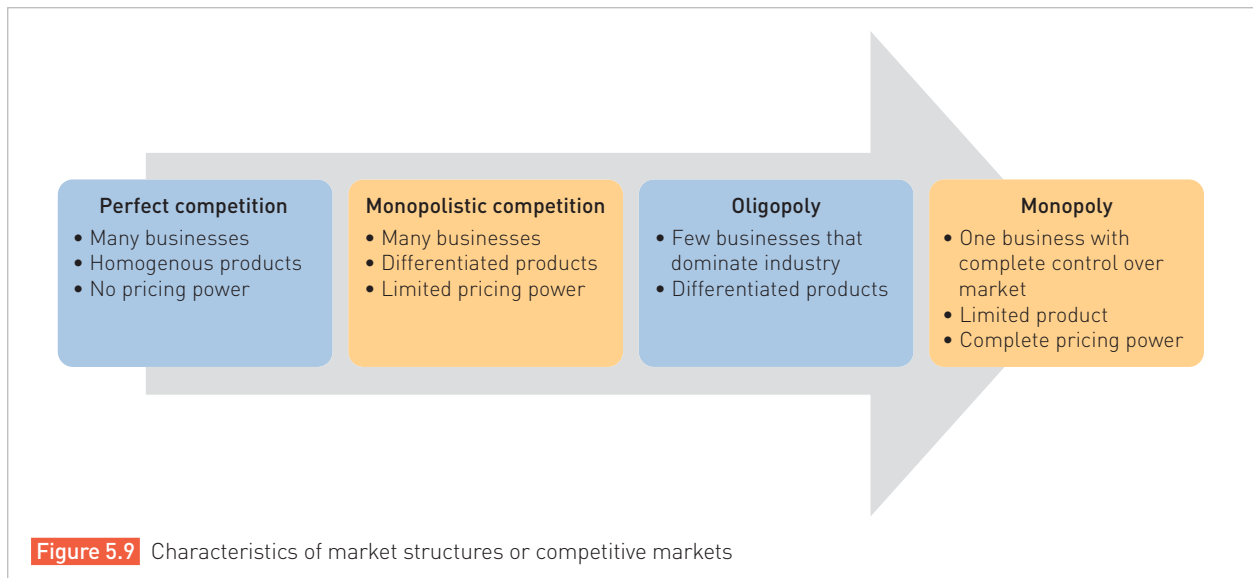
When a number of individuals, businesses or organisations compete to sell goods and services to the same market, a competitive environment is established. This competitive environment, also known as the market structure, drives businesses to provide the best products and services at the best price to satisfy the wants and needs of a large number of consumers.

The market structure categorises businesses into their competitive environments based on the number of businesses in the market, and the market share, influence over setting prices and other characteristics that affect the level of competition. These categories are then classified by the level of concentration and the level of competition. The four basic competitive environments or market structures are perfect competition, monopolistic competition, oligopoly and monopoly.

In a business start-up, identifying the competitive environment that the business idea and new business will likely enter is an important factor in determining the viability of an idea.

Competitiveness: the ability of the business to offer products or services that meet or exceed market standards in relation to other businesses

Strategic competitiveness: an outcome achieved when a business implements an effective value-creating strategy that cannot be duplicated, or is too costly for the competition to imitate



Perfect competition

Perfect competition happens when numerous small businesses compete against each other with no control over prices. They sell goods and services that are the same and substitutable at no cost. In perfect competition, it does not matter to the buyer who they buy from; rather, what they buy matters, and the goods are produced using the most effective means. While there are no barriers to entry in this market, it is often considered unrealistic as there will always be differences between sellers, products, service etc. For example, small dairy farmers have no control over the price of milk and must work with or compete against each other to supply milk to the market.

Monopolistic competition

In monopolistic competition, an industry contains many competing businesses, selling similar goods and services, but each is seen as a unique business due to slight variations. These variations mean each business might be considered a monopoly with a unique product, but the industry or market is competitive, giving them a degree of power that allows them to set higher prices within a certain range. For example, coffee shops all serve coffee but must be seen as unique through the offer of different coffee blends, different locations and different experiences.

Oligopoly

In an oligopoly, only a few businesses dominate the industry but without perfect competition prices. These businesses can either collaborate to use their collective market power to drive up prices and earn more profit, or compete against each other for a bigger market share. For example, supermarkets operate in an oligopoly with Coles and Woolworths dominating the majority share of the market.

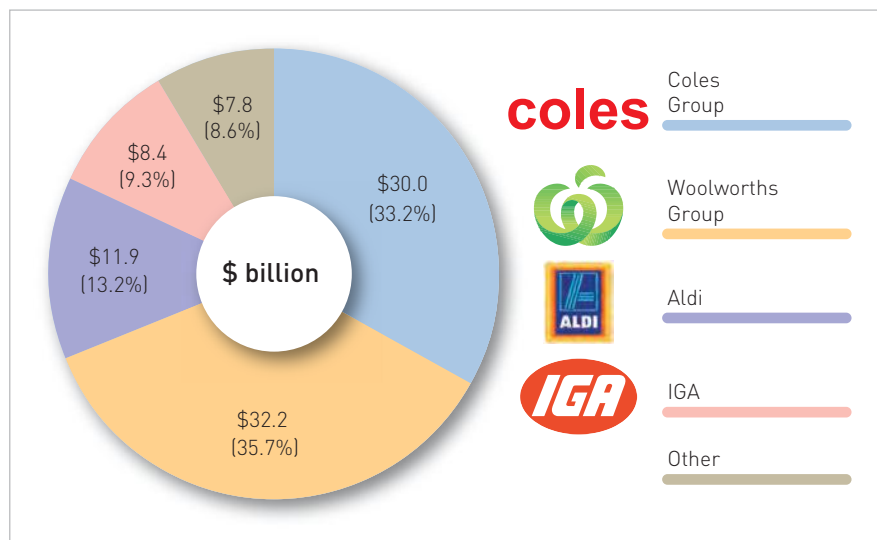


Figure 5.10 The competitive environment for supermarkets is an oligopoly.

Source: Adapted from Roy Morgan, www.roymorgan.com/~media/files/morgan%20poll/2017/may/7234b.png?la=en

Monopoly

A monopoly is the opposite of perfect competition. It involves a single business that has no competitors in its industry or where there are no alternatives in the location. This allows a business to increase prices and earn more profit. For example, airline food service carts are the only option for travellers who wish to purchase items when travelling and they therefore have complete control over the prices and items on offer.

QUESTIONS 5.1



- Identify** what competitive market each of the following businesses operate in.
 - Netflix
 - Apple
 - Your school canteen
 - QBD Bookstores
 - Australia Post
 - SunRice
 - Virgin Australia
- Describe** the distinguishing characteristics of the businesses listed above to **explain** how you identified the competitive environment each business operates within.
- Complete the following table to **identify** the advantages and disadvantages of entering each type of competitive market.

Competitive market	Advantages	Disadvantages
Monopoly	Lack of competitors	
Oligopoly		Large established businesses to compete with for market share
Monopolistic competition		Irrelevant or unnecessary features may be added just to provide differentiation in the market
Perfect competition	Ease of market entry for start-up business	

- Create** a PEST analysis to conduct an environmental scan on one of the supermarkets identified in Figure 5.10. **Analyse** how these environmental factors might affect their share of the retail grocery market.

Competitive advantage

Key learnings

You will learn about the concept of differentiation through examining:

- differentiation advantage
- point of difference
- competitor analysis (SWOT).

By understanding market structure, a potential business owner with a new business idea can identify that the more sellers of a similar product or service there are, the more competitive is the environment in which they want to compete. In a competitive environment it is important for a start-up business to strategically differentiate its business idea, whether for products or services, to its advantage. To differentiate the business idea means to focus on and communicate the idea's differences and features to attract and retain consumers.

GAINING INSIGHT



Competitive advantage ... do you even have one?



Follow the weblink to an article by Peter Sheppard at the Inside Retail website. Read the article and answer the questions.

Questions

- 1 **Explain** the concept of differentiation.
- 2 **Create** a table to **identify** areas that contribute to the competitive advantage of the businesses mentioned in the article.

Competitive advantage is traditionally broken into **cost advantage** and **differentiation advantage**. A cost advantage is the ability of a business to deliver the same benefits as a competitor for a lower price, while differentiation advantage is the ability to deliver benefits that exceed those of competitors.

Technology is also an important factor in the competitive market. A business can make use of technological tools and emerging technologies to gain a competitive advantage. This is particularly important for start-up businesses and small to medium enterprises, as the increase in **cloud computing** programs and solutions has given them access to tools traditionally reserved for large-scale businesses. Examples of using technology to gain a competitive advantage include:

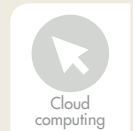
- offering e-commerce and online retail to allow consumers to shop at any time of the day or night from the comfort of their homes
- the use of social media channels to attract and retain customers' attention to their business ideas and business
- the use of websites, blogs, instant chat and social media channels to offer online services, technical support and forums for customer interaction
- increasing flexibility and productivity for small business owners who can do business from anywhere in the world and at any time
- using efficiency tools and cloud computing to streamline operations and focus on core business goals.

EMERGING TECHNOLOGIES



Read about cloud computing and then discuss the benefits and risks of using cloud computing to gain a competitive advantage.

Identify two emerging programs that make use of cloud computing and aim to give start-up businesses a competitive advantage.



Cost advantage: the ability of a business idea to deliver the cheapest product on the market that meets the standard expectations

Differentiation advantage: the ability of a business idea to deliver benefits that exceed those of competitors

Cloud computing: pay-per-use or subscription services for storing and accessing data and programs over the Internet instead of on a computer hard drive

GAINING INSIGHT



Amazon's competitive advantage



Follow the weblink to an article by Lindsay Overby at the Pioneer Business Review website. Read the article and answer the questions.

Questions

- 1 **Describe** the business idea of Amazon at the seed stage in the business life cycle.
- 2 **Describe** the current business idea of Amazon and its location in the business life cycle.
- 3 **Explain** why innovation and adaptability are so important in the competitive environment.
- 4 **Create** a SWOT analysis to **analyse** Amazon's competitive advantage over Walmart.

INQUIRY



Inquiry task: competitive markets

You are to conduct an inquiry into local or national competition that exists in the Australian market to answer the questions below.

- 1 Research and **select** an example of a local or national competitor in the market for each of the following Australian-owned businesses.
 - a Zimmerman
 - b Sabrandt
 - c Bega
 - d Visy Industries
 - e Linfox Pty Ltd
- 2 Conduct research to **identify** what percentage of products in the Australian market are locally made and how many are affected by foreign competition.
- 3 **Explain**, using examples, ways in which another local or national businesses could gain a competitive advantage through:
 - a labour cost
 - b location
 - c economies of scale.
- 4 **Explain** what a free trade agreement is. How might a local or national competitor be taking advantage of free trade? **Analyse** the impact these agreements have on the competitive environment.
- 5 **Describe** how advances in technology have affected competition and the Australian market. What further impacts might emerging technologies have in the future?
- 6 **Create** a one-page flyer to **communicate** the key information regarding competition in Australia.



Shutterstock.com/AlexLXX

Figure 5.11 Competition can come from anywhere in the world, but it is important to be aware of local and national competition that exists in the Australian market.

Differentiation advantage

Differentiation advantage builds competitive advantage by making consumers more loyal to a business and its products. When considering a differentiation strategy, a start-up business must consider questions such as these:

- What is this business idea going to offer that no other business idea currently does?
- What problem will it solve for the customer?
- Will this business idea exceed the quality of current products in the market?



Figure 5.12 A competitive advantage is necessary for business success at all stages of the business life cycle.

Differentiation of business ideas can occur in a number of ways, for example:

- *product differentiation* – the characteristics and features that define the business idea and make it unique to the market, also sometimes referred to as the unique selling proposition or point (USP)
- *quality differentiation* – the unique appeal of a business idea that is perceived as being of higher quality or technically superior, or has a special appeal that consumers value
- *service differentiation* – the superior service offered by one business over another, which may include strategies to support the business idea such as delivery, installation, training, support, maintenance and repair services.

Having a clear differentiation strategy or unique selling proposition (USP) helps a business to stand out from its competitors. At the ideation stage, it is important for a potential start-up to focus on the differentiation strategy it plans to implement as its competitive advantage for viability and success of its business idea.

GAINING INSIGHT



Differentiation advantage: the LUSH story



Getty Images/Jeffrey Greenberg/UiG

Figure 5.13 The LUSH 'deli' style approach to cosmetics differentiates the business.

The UK based natural personal care retailer LUSH has transformed itself from a single shop company in 1995 to a multi-million dollar

company with 850 shops in 51 countries in a little over 17 years. LUSH has had so much success because of its practices that set it apart from competitors like the Body Shop and Origins. LUSH's competitive advantage stems from its fierce commitment to remain independent, its environmentally conscious attitude, its unique production of fresh handmade products and limited but creative use of its marketing budget.

LUSH undertakes a unique way of retailing to entice its consumers; LUSH shops are inspired by delicatessens, attracting consumers with their highly scented, visually appealing and unpackaged products. While the Body Shop and Origins keep the products wrapped up in packaging, which go against their green mission, LUSH keeps the majority of its products naked.

A key way LUSH has been able to maintain its stance as a successful independent personal

care retailer is by offering a unique style of retail which is distinct from other chains. The company's 800 plus stores (including around 80 in its home market of the UK) are laid out in the style of delicatessens, with product lists chalked onto boards above wooden display areas. The company's soaps are displayed on tabletops in cheese style round blocks, with slices of soap wrapped in greaseproof paper, in a further mimic of deli style.

Like its soaps, LUSH's other products are displayed minimally packaged, with such products as bath bombs and shower 'jellies' coming in recycled cardboard packages. This minimal packaging not only shows the company's green credentials but also provides the stores' distinct smell. This wafts outside the stores into the street, providing LUSH with a distinct way of marketing, and a method which is recognisable as the LUSH brand.

Source: K. Wilkinson, *Storify*, <https://storify.com/kwilkinson/lush-competitive-advantage>

LUSH has connected with its customer base and clearly communicated that socially responsible behaviour is its unique selling point in an overly populated and highly competitive market. By clearly outlining this responsible behaviour regarding ethical sourcing, environmentally conservative processes and organic products, LUSH can secure a loyal customer base and charge a premium price for its products.

Questions

You will need to **research** information about LUSH and two of its competitors.

- 1 **Describe** the key business idea and products for each of the three businesses.
- 2 **Identify** and **explain** the type/s of differentiation strategies each business is using.
- 3 **Analyse** one differentiation strategy for each of the three businesses.
- 4 **Evaluate** according to the criteria of effectiveness and stakeholder satisfaction how well each differentiation strategy has been used.
- 5 Use technology to **create** an infographic outlining differentiation strategies using LUSH as an exemplar.

Point of difference

To create and maximise its competitive advantage, a business must know what makes it different and unique from other businesses in the market. Communicating the unique selling proposition (USP) or competitive advantage with consumers to promote its business ideas as superior in the market is the **point of difference** and is what sets one business apart from its competitors. The point of difference could be a differentiated feature, benefit or value that distinguishes one business from another in the same industry, or it might be its employer of choice strategies, workplace culture or reputation. All businesses must identify and utilise their point of difference at the time of ideation for start-up success, and right through the stages of the business life cycle to ensure their sustainability as businesses.



Shutterstock.com/Ed Samuel

Figure 5.14 A point of difference makes a business stand out from its competitors.

Point of difference: the ability of the business to offer products or services that meet or exceed market standards in relation to other businesses

GAINING INSIGHT



A point of difference: giving back through sales



Figure 5.15 The Thankyou brand has a unique point of difference.

Thankyou was born in 2008 in response to the World Water Crisis. At that time, over 900 million people didn't have access to safe drinking water

on a daily basis, yet the Australian bottled water industry was worth an estimated \$600 million a year. Pretty wild given Aussies can access safe water straight from the tap!

Thankyou's co-founder Daniel Flynn pulled together a group of friends in Melbourne and turned an idea to launch a line of bottled water that would fund water projects overseas into a reality. Today, Thankyou has nearly 50 water, body care and baby products available in 5500 outlets in Australia (including 7 Eleven, Coles and Woolworths). The idea was to take a more holistic approach to combating poverty, with 100% of Thankyou's profit funding safe water, toilets, safe births and healthcare around the world.

Source: Thankyou website, 'Our story', <https://thankyou.co/about>

QUESTIONS 5.2



- Conduct the necessary research to **identify** the point of difference for the listed product sold by each business below.
 - tomato sauce – MasterFoods and Heinz
 - peanut butter – Sanitarium and Bega
 - corn chips – CC's and Doritos.
- Using one example from Question 1, **create** a paragraph response to **communicate** to a new business owner the concept of point of difference and why this is so important to the viability of a business idea.
- Use technology to **create** and finish the formatted table below to list the tangible and non-tangible features of competitive advantage.

Competitive advantage features	
Tangible	Non-tangible
Intellectual property rights (patents, licences etc.)	Strong brand reputation Staff collaboration

- Research** to find an example of outsourcing and **explain** how this is used as a competitive advantage for start-up businesses.
- Create** a short pitch (1–2 minutes) to **explain** to a new business owner why a competitive advantage and point of difference are an important component in determining the viability of a business idea.

Competitor analysis

Finding business opportunities and understanding what consumers want can be crucial to business success. The challenge of creating business products and services that react to market needs quicker than those of competitors is also an important factor for any business idea or business in the seed stage. In order to do this and to stay one step ahead in the market, a potential start-up business must understand the strengths and weaknesses of potential competitors and how they will react to customer needs and changes in the industry.

One way that a business can understand its competitors and gain a competitive advantage is by performing a competitor analysis. This is where a business looks at other businesses that are similar in the market to identify and analyse the strengths, weaknesses, opportunities and threats of any competitor by asking a number of questions – for example:

- What do they do well?
- What don't they offer that my business could?

- Where are they located in comparison to my business?
- What value-add services do they offer?
- Why do customers choose to shop at this business?

ANALYTICAL TOOL



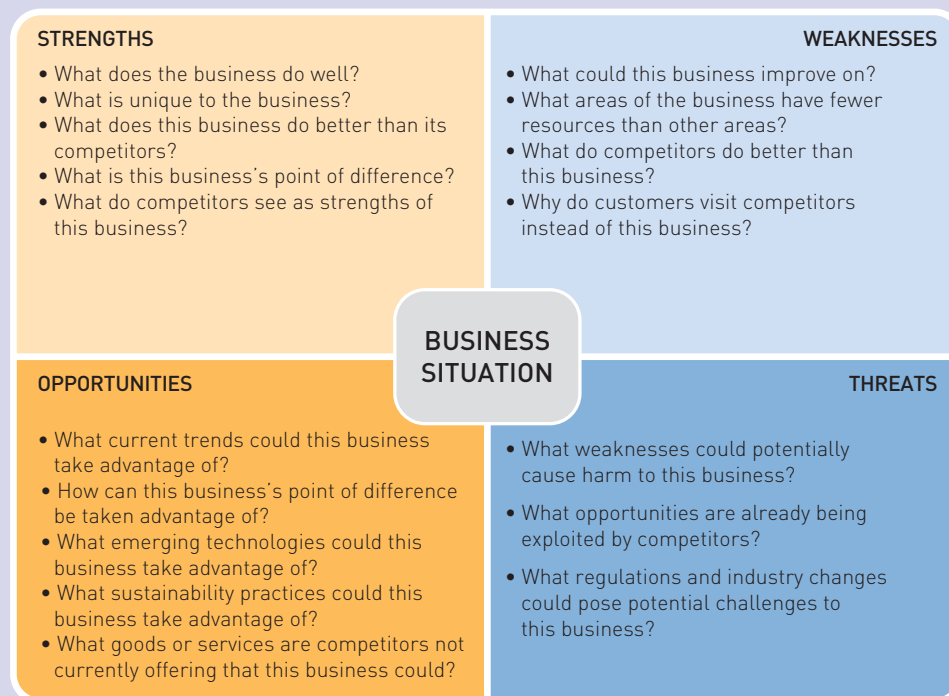
The tool: SWOT analysis (competitor analysis focus)

A SWOT analysis is a tool to analyse the strengths, weaknesses, opportunities and threats that a business faces. In this context, it helps a business to focus on its strengths, identify weaknesses and minimise threats from competitors. It is a strategy used to take the greatest possible advantage of opportunities available and maximise competitive advantage and market share.

How to use the tool

A SWOT is completed in quadrants; each quadrant identifies the key characteristics and factors of the business situation. The questions asked in each quadrant can change depending on the angle of analysis, and can be broad or specific. When analysing competitive markets, the questions in each quadrant for the business situation under analysis will revolve around competitors and competitive advantage.

For more focus question ideas, go to MindTools.



Activity

- 1 **Create** a SWOT analysis tool to **analyse** the competition for one or more of the following business situations:
 - a potential competitor to YouTube and the business idea of online streaming video content
 - a potential competitor to BP and the business idea of transit stops with petrol, food and amenities
 - a potential competitor to The Iconic and the business idea of online retailing for a number of other brands and businesses in one place
 - a potential competitor to Kmart and the business idea of selling affordable everyday needs in one store.
- 2 **Discuss** the findings of your SWOT analysis to consider the possible implications of the business idea. Consider the implications in areas such as: finances, safety, location, sustainability, competition.
- 3 **Make a decision** on whether any of the implications discussed in Question 2 mean the business idea would be unsuitable to pursue.

Evaluating the viability of business ideas

Key learnings

You will learn about the viability of proceeding to the start-up stage through examining:

- feasibility
- break-even analysis
- competitiveness
- efficiency.

Before turning a business idea into a start-up business, it is essential for existing and potential business owners to determine the viability of each idea. This means that each element of the business idea is examined to help answer the question of whether the idea should be developed and if it is **feasible** to do so. A viable business idea will generate adequate cash flow and profits, withstand the risks it will encounter, remain sustainable and meet the goals and objectives set by the owners. Business viability can be evaluated for a start-up business, an existing business, the expansion of current business or a new idea for an existing business.

Feasibility

One way to help inform the decision-making regarding the viability of the idea is to conduct a feasibility study. A **feasibility study** is the research to analyse the idea to determine if it is viable or not. Essentially, the feasibility study looks at whether an idea is worth pursuing or not. In business ideation, the feasibility study addresses things like the location of the new business and how the business will operate. The **feasibility report** is the presentation of this study and decides whether the business idea is capable of being achieved, if the idea is marketable and if the idea is sustainable as a profitable business. This study requires investigation and evaluation to make decisions about whether a business idea is in fact a viable business opportunity or not. After the completion of the feasibility study, a feasibility report is prepared to present the viable solutions identified. Then a **business plan** is created to provide the actions needed to take the idea to a business.

When conducting a feasibility study, analytical tools are used to determine various factors that contribute to the viability of a business idea. The key analytical tools that can be used when collecting information and analysing a potential business idea include those that have been introduced in earlier chapters and some that will be looked at in greater detail in later chapters. The key analytical tools used to determine the viability of a business idea include:

- SWOT analysis
- PEST, PESTLE or STEEPLE analysis
- **cost-benefit analysis**
- **break-even analysis**.

The findings of the feasibility study for the viability of a business idea are presented in the form of a formal business report called a feasibility report. This report will include things such as the findings from analytical tools, the details of the market, operational plans, financial assessments and the skills of founders and potential staff. Conducting a feasibility study and compiling a feasibility report for all business ideas will help to determine early on whether an idea is likely to work or not. Of course, there are no guarantees in business, but finding out

Feasible: capable of being achieved, accomplished or put into effect; reasonable enough to be believed or accepted; probable, likely

Feasibility study: an analysis of how successfully a project or idea can be completed to determine its viability and potential action plans for moving forward

Feasibility report: a document that assesses potential solutions to a business problem or opportunity and determines which of these are viable for further analysis

Business plan: a document that compiles the goals and objectives of a business and how it sets out to achieve them,

including how the business will manage its operations and strategies

Cost-benefit analysis: an approach to determining the financial viability of a project or strategy by comparing the predicted benefits (returns or income) with the anticipated costs associated with the project or strategy

Break-even analysis: a tool to analyse the break-even point of a business where total revenue equals total expenses or costs; identifies key drivers relating to profit, including sales, volume, production costs and sale price

early can save time and money. To pass a feasibility study and be determined as viable, the business idea being evaluated must generate adequate cash flow and profit to balance the costs and risks of the business opportunity, and meet the goals and objectives of the founders.

ANALYTICAL TOOL



The tool: break-even analysis

A break-even analysis is a key strategy for a business to ascertain how much money it needs to break even – that is, to reach the point where total revenue equals total expenses or costs. The break-even point is zero because the income of the business covers the expenses exactly, and then anything above the break-even point is profit and anything below is a loss. It is important to know the break-even point because even a business with a lot of sales or cash turnover could be running at a loss. The break-even point is also used to help decide on prices, set sales budgets and prepare business plans. The break-even analysis also identifies the key drivers relating to profit, including sales, volume, production costs and sale price. Knowing the break-even point also helps a business plan for the future and know how viable the business idea is by calculating:

- how profitable the business idea will be
- how far sales of the business idea can decline before a loss is incurred
- how many products need to be sold before the business makes a profit
- how reducing price or volume of sales of the product will impact profits
- how much of an increase in price or volume of sales is needed to make up for an increase in fixed costs.

How to use the tool

The break-even point can be calculated in the dollars required in sales value to break even, or the number of products that need to be sold. The formulas to calculate break-even are:

$$\text{Break-even total quantity of units sold } (x) = \frac{\text{fixed costs}}{\text{contribution margin}}$$

$$\text{Break-even total dollar value in sales } (d) = \frac{\text{fixed costs}}{\text{contribution margin ratio}}$$

Where:

- Fixed costs (FC) include the expenses that exist regardless of how many sales are made, for example the total cost of rent, wages, power and insurance.
- Contribution margin (CM) is the excess between the selling price of the good and total variable costs. For example, if a product sells for \$80 and the total variable costs are \$20 per product, the product has a contribution margin of \$60 (\$80 – \$20). This \$60 reflects the amount of revenue collected to cover fixed costs and be retained as net profit.
- Contribution margin ratio is represented in a percentage and is the contribution margin per unit divided by the sale price. For example, with the product above, the contribution margin is \$60 for a product that sells for \$80. Therefore to calculate the contribution margin ratio: \$60 ÷ \$80 = 75%.

Calculating the break-even point in units of sale (x)

To calculate the break-even point in units of sale, the contribution margin is first calculated, as in the example above, and then divided into the total fixed costs.

$$\text{Break-even point} = \text{total fixed costs} \div \text{contribution margin}$$

For example, if the total fixed costs of the business are \$30 000, with a contribution margin of \$60, the break-even point is 500 units.

$$\$30\,000 \div \$60 = 500$$

This means that 500 units need to be sold to cover all fixed costs and break even with a net profit or loss of \$0.

Calculating the break-even point in the total dollar value of sale (d)

Alternatively, to calculate the break-even point in sales dollars, the contribution margin ratio is first calculated, as in the example above, and then divided into the total fixed costs.

$$\text{Break-even point} = \text{total fixed costs} \div \text{contribution margin ratio}$$

$$\$30\,000 \div 75\% = \$40\,000$$

This means that \$40 000 worth of sales need to be made to cover all fixed costs and break even with a net profit or loss of \$0.

Confirming the break-even point

To confirm that the calculation of the break-even point is correct, the calculated break-even point in units is multiplied by the sale price and this should equal the calculated dollar value of sales.

For example:

$$500 \text{ units} \times \$80 = \$40\,000$$

This confirms the break-even point as 500 units or \$40 000 in sales when the item is sold for \$80 per product.

A break-even analysis can also help to identify the implications of business changes. For example, if another employee is hired, the fixed costs will rise, and the break-even analysis can determine how many extra sales dollars will be needed to recover the extra wage expense. Many retailers calculate a daily break-even point and this is where sales targets and budgets are derived from.

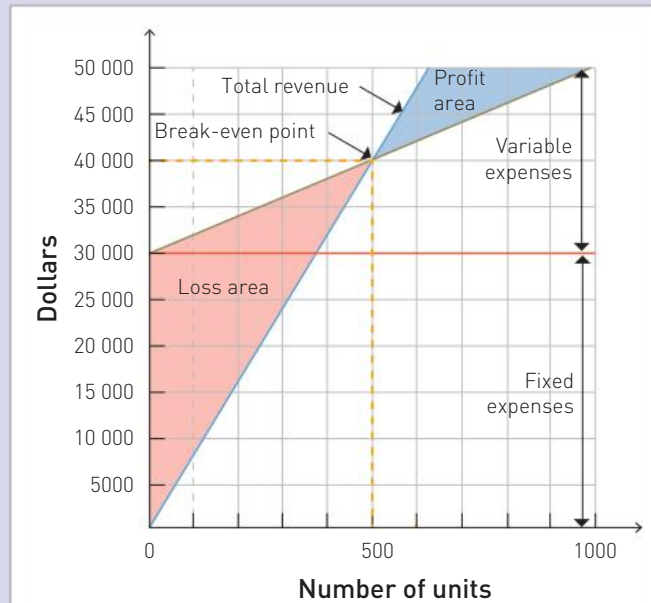


Figure 5.16 The break-even point can be graphed and visually represented.

Activity

Determine the break-even point of the following business scenario. A new mobile hairdresser plans to open in town. The business has calculated that its fixed running costs for the mobile van, insurance and the hairdresser's wage are \$45 000 per year. A haircut sells for \$40 with a variable cost of \$10.

- 1 **Select** data and information to **calculate** the break-even point for the number (x) of haircuts and the total dollar value (d) of haircuts to be sold in order for this new business to break even.
- 2 **Create** a graph to visually represent the break-even point, the fixed costs, variable costs and the areas of profitability and loss.
- 3 **Analyse** and **discuss** the impact the following changes to the business situation could have on the break-even point and the viability of the business idea.
 - a There is a high demand for haircuts so the sale price has been increased to \$45.
 - b A second hairdresser is hired on a wage of \$30 000 per year following the sale price increase.

From seed to start-up

Following the use of analytical tools and evaluation criteria, a decision needs to be made on whether the business idea is viable to take from the seed stage to the start-up stage of the business life cycle. To be determined as viable, the idea is evaluated against criteria. At the seed stage, the criteria of competitiveness and efficiency are most significant when making a decision on viability.

As explained in Chapter 1 (page 10), competitiveness can be used to make judgements on which business can perform more effectively than another business, and efficiency is the business's ability to perform in the best possible manner with the least wastage of time and effort. Therefore, when making a decision on the viability of progressing a business idea to the start-up stage, the following questions may be relevant to consider:

- Are there any legal implications of the business idea?
- Will the business be able to effectively produce the required units to break even?
- Will there be any wastage or excess expense in the production of products? Can this be reduced in any way?
- Will the business be able to make the required number of sales to break even?
- How will the business attract the necessary customers to reach the break-even point?
- Is there any competition that may impact on the ability of the business to break even?
- What environmental factors might impact on the ability of the business to break even?
- Are the goals and objectives of the business practical to achieve?



9 Ways to Know If You Have a Great Business Idea

by Ethan Spielman

An idea that works

If you're itching to launch your own business, you need more than an idea. You need an idea that works. It helps to be passionate about both your concept and entrepreneurship in general, but it's critical to be realistic and well informed going into the process. An idea with self-evident appeal on its surface may not hold up to scrutiny, or might at least require some major adjustments. You need to do your homework to determine whether and how you translate your idea into a viable business.

Business News Daily reached out to entrepreneurs and other experts to find out what you should consider when you want to make your business idea a reality. These nine questions will help you to flesh out your concept and figure out how to move forward – or not.

1 Does it solve a problem?

Entrepreneur and co-founder of the web design school The Starter League (which has been acquired by Fullstack Academy), Mike McGee thinks the best business ideas are those that solve a problem in some way.

If there is a problem that affects you, your friends, family, co-workers, etc., then the chances are high that it affects people you don't know as well,' McGee said.

2 Will people will pay for it?

It's paying customers who validate an idea and determine which ones have the greatest chance for success, said Wil Schroter, co-founder and CEO of Fundable.

'An idea is just an idea until you have a paying customer attached to it,' Schroter said. 'Anyone can discredit a simple idea, but no one can discredit paying customers.'

3 What's your price point?

Charlie Harary, founder and partner of investment firm H3 & Co. said that while there are many ways to solve problems, great business ideas do it in a way that is less expensive than what the market will endure.

'Once you have determined that you are solving a legitimate problem in a scalable way, you need to determine not only the value that it delivers to the world but what people would pay for that value,' Harary said.

'Once you determine the price, then you can assess if your solution is businessworthy or not.'

4 Is there a sizable niche market for it?

Without a large enough market, your idea may never get off the ground. You need to determine if a niche market actually exists for your idea. You're better poised for success if your business improves upon what's already out there – a novel response to a recognised need.

How can you tell if a niche market is, in fact, a market? It's a mix of 'research, gut instinct and personal preference,' according to Ari S Goldberg, founder of investment firm RNMKR. 'I consider overall industry trends, the amount of investment activity that's taken place in the space recently, how much I've read about it from the consumer side, and whether I've heard people talking about it,' Goldberg said.

5 Are you passionate enough about it?

Your business will likely take up all your time, so make sure you're passionate about it to make it successful. It's important that your idea is something you truly care about, not just something you've targeted because it seems like it could be lucrative.

'Since starting a business requires an inordinate amount of time, energy and patience, ideally, the idea will be one that you are passionate about as well as one that you have skills or experience [in],' said Melissa Bradley, managing director of Project 500 and an adjunct faculty member of Georgetown University's McDonogh School of Business.

6 Have you tested your idea?

You won't know if your business is viable until you test it on strangers.

'Test it – not just with friends who will be too polite to tell the truth but with honest people who would make up your ideal target audience, and then listen to the feedback,' said Lisa McCartney, chief 'PLYTer' at educational math board game company PLYT.

'If your target sample is saying [your idea] is fantastic and [asking] where can they get it, you know that you're onto something, but if they are less than enthusiastic, it's probably not as good an idea as you thought.'

7 Are you open to advice?

If you're not open to changing or adapting your idea to fit what your customers will want, your business idea might not be worth pursuing.

‘Success happens when you are willing to listen and consider others’ advice,’ said Angie Yasulitis, CEO and managing partner at The YaZo Group. ‘Most good ideas take some tweaking to get to market. Being closed-minded is a business killer.’

8 How will you market your business?

Many entrepreneurs think about the problems their business will solve but not about how they intend to market their business to their target customers. Jesse Lipson, founder and CEO of Real Magic, said that your marketing strategy can determine if your business idea is a good one.

‘If you have a solid go-to market strategy and a decent product, you’ll probably be successful,’ Lipson said. ‘But if you have a great product without any idea how to reach potential customers, then it’s going to be really tough to make it successful. Thinking through that as early as possible is really key.’

9 Are you being realistic about your goals?

As excited as you may be about a new business idea, it’s important to stay grounded and be realistic about it. Thomas J Gravina, co-founder and executive chairman of the board of cloud services company Evolve IP, said you shouldn’t have a ‘Field of Dreams’ mentality when starting your business.

‘Just because you have a vision and decide to build it does not mean the rest will follow,’ Gravina said. ‘While you may have an idea that is original, revolutionary or ahead of its time, there should be a real, solid market opportunity to ensure it is successful. Any new business case or new endeavour has to have a viable market that you believe you can sell now – not theoretically or on the premise that there is a future for this market.’

Ethan Spielman, *Business News Daily*, 28 March 2018

QUESTIONS 5.3



- 1 **Explain** the relevance of analytical tools, particularly the break-even analysis, in determining the viability of business ideas.
- 2 **Evaluate** each of the following business ideas using the criteria of competitiveness and efficiency and **make a decision** on whether you would progress these ideas to the start-up stage.
 - a An express drive-through boat cleaning facility to operate at a local boat ramp, taking 12 minutes and charging \$25 per wash. The variable costs are \$17 per clean. There is currently one other handwashing service operating at the boat ramp and it takes an hour for a detail, cut and polish.
 - b A proofreading service for high-school students charging \$15 per assignment. The variable costs are \$3 per assignment. Competition comes from tutors and professional editing services. The turnaround time for each assignment is three days.
 - c A lunch delivery service dropping off hot meals to a large office building for \$8 per lunch. The variable costs are \$4.50 per lunch. Lunch orders need to be made a week in advance and are delivered at 11.30 am each day. There are four other restaurants that operate on the ground floor of the building.



Shutterstock.com/raw pixel

Figure 5.17 The feasibility of business ideas can be evaluated with a feasibility report assessing the viability of ideas before moving to the start-up stage of the business life cycle.

Chapter 5 review

This chapter investigated the viability of business ideas by examining feasibility, competition and the legal protection of ideas. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

5.1 Short items

- 1 **Explain** the difference between product differentiation and price differentiation.
- 2 **Explain** the relevance of a cost-benefit analysis in determining the viability of a business idea.
- 3 **Describe** the advantages and disadvantages of each of the competitive environments that a business might operate in.
- 4 **Explain** the challenges of the seed stage in the business life cycle when evaluating a new idea for viability.

5.2 Interpretive items

- 1 Watch 'Choose wise: Introduction to goods and services' and **explain** why the use of trade marks in the right categories is important for the protection of a business idea.
- 2 **Explain** why competition is healthy and necessary for a business.
- 3 **Explain** why being Australian-owned and -operated is marketed as a point of difference or a competitive advantage.
- 4 **Explain** how intellectual property protection can be a competitive advantage in business.
- 5 **Explain** the importance of evaluating the feasibility of an idea at the seed stage before proceeding to the start-up stage.
- 6 **Create** a PEST to analyse the macro environmental factors of a business in your region.



5.3 Extended-response items

- 1 **Create** a written extended response in the form of a business report to **communicate** the competitive advantage of a business idea to a potential investor. You may wish to use the prototype you created in Chapter 4 or another business idea.

Pokemon GO's augmented reality catches the imagination of business and marketing

by Lucy Battersby and Thomas Hounslow

It has been just a couple of weeks since Pokemon GO was test-launched in Australia and a handful of other countries, spawning one of the craziest phenomena of modern times.

Now businesses are scrambling to cash in on the 'Pokemon effect'. What started as a smartphone game born from a 2014 April Fools' Day prank is now creating business opportunities that simply did not exist last month.

Game on

Pokemon GO is essentially the world's biggest scavenger hunt, where players, or 'trainers', roam the open world looking to capture and collect little creatures called Pokemon, which move in the virtual world.

The app uses maps and GPS to guide players to a Pokemon's location. Once found, the critter will then appear on the phone superimposed on to the real world.

It can result in flash mobs of up to hundreds of people – mostly adults – arriving at locations as they chase the virtual cartoon characters.

Players navigate to PokeStops, which are often local landmarks, to receive rewards. PokeStops can also be boosted with 'Lures' which attract surrounding Pokemon.

The ultimate goal and tagline is to 'catch 'em all'. There are currently 151 Pokemon to collect – some more difficult to find than others – and once captured players 'train' Pokemon at virtual Gyms to become more powerful.

And this is where businesses are already making money.

Restaurants that want the business can spend less than \$200 luring hundreds of players desperate to collect a Pikachu, Squirtle, Jigglypuff or Bulbasaur.

Soon, any business may be able to buy an in-game landmark, pretty much guaranteeing foot traffic for as long as the Pokemon GO craze lasts.

Chadstone Shopping Centre has 'noticed a marked increase in shoppers of all ages hunting Pokemon' as the mall contains 15 PokeStops and four Gyms, according to a Chadstone spokesperson.

Bear in mind the game is only available in Australia, New Zealand, the US and Germany at this moment, which means Australia has a chance to be ahead of the pack on Pokemon GO marketing and tourism.

There are rumours on Chinese social media app WeChat that Pokemon fans are flying into Australia from Asia to wander around cities and play the game.

'Australia's unique wildlife and impossibly cute animals already do a wonderful job of luring international travellers Downunder, but I'm sure they'll be okay sharing their home with a few Pokemon visitors in the interest of boosting tourism,' a Tourism Australia spokesman told BusinessDay.

Telstra stores are ordering extra battery packs and are now often hosting dozens of people at a time as the Pokemon GO players chat and charge their phones.

Sadly for mobile network operators like Telstra, Vodafone, and Optus the game uses little data. They are unlikely to see a bump in data revenue from all those people wandering around with mobiles.

'Playing Pokemon GO uses around the same amount of data as general web surfing,' a Vodafone spokesman said.

'The average Australian monthly data allowance is two gigabytes of data, which is the equivalent of playing 200 hours of Pokemon GO.'

Telstra and Virgin Mobile have focused on selling accessories and offering free phone charging in the hope that some of the popularity will rub off on their brands.

BusinessDay understands Vodafone was also in early talks with Niantic Labs about potential marketing opportunities.

Not all of the new Pokemon-generated foot traffic has been welcome.

Residents near a PokeStop in Rhodes, Sydney, have pelted unwanted crowds with eggs and water-bombs. And Frankie's by the Slice Pizza in Sydney was unimpressed to find more than 1000 people were planning a Pokemon GO Pub Crawl kicking off at the pizza bar on Saturday.

...

The only way to invest directly in the craze is through Nintendo, the only listed company involved in the project. But that ship may have sailed, given the shares have already risen 56 per cent since the game's release. But as the mining boom taught us, there are always peripheral services ready to cash in.

Cashing in

It's clear that Pokemon GO is fantastic for attracting foot traffic. So shopping malls, amusement parks, venues and events can use it as part of their marketing strategies. Lost Heaven restaurant in Melbourne offers discounts for customers with certain Pokemon, guaranteeing they spend money rather than just hanging around.

Head of marketing at Pancake Parlour, Nicole Jackson, held a meeting with staff on Monday to find out why so many customers had come in the previous weekend. Turns out seven of their Melbourne stores happen to double as PokeStops. (PokeStops are determined by the game's production company Niantic Labs).

A Facebook poster advertising a special event sold out of 600 tickets overnight. The franchise bought seven \$20 iTunes vouchers to pay for Pokemon Lure Modules, which cost about \$8 each and last half an hour.

That is \$170 worth of marketing. Ms Jackson said they had a 40 per cent increase in customers and were planning three more events to take advantage of the craze. 'By next week is everyone going to be over it? We'll see,' she added.

Who else stands to make a buck?

It is also clear that, while it doesn't use much data, the game chews through a smart phone's battery power. So Telstra has seen increased sales of portable lithium ion battery chargers.

Power bank sales on Kogan.com are up 243 per cent since the game's release on July 6 and overall unit sales are up 322 per cent.

'I'm too old to understand what's going on here. The last game I played on my phone was Snake,' says chief executive Ruslan Kogan.

Operations director at JB HiFi, Peter Green, says there has been an immediate and 'significant increase in portable battery packs specific to Pokemon GO ... It's been quite the craze!'

Augmented reality

Pokemon GO is unlike any game ever released before. Let's begin with the augmented reality.

Everyone can remember a time when they fantasised about being best friends with their favourite superhero in the backyard, or flying to the moon with Mr. Squiggle, or fighting stormtroopers with Obi-Wan. But only those who dreamed of catching Pokemon are now doing it.

While virtual reality was at the forefront of technological development at the Electronic Entertainment Expo [E3] in Los Angeles this year, Pokemon GO is beyond virtual reality. It is augmented reality.

Where virtual reality allows a participant to enter a digitally-created world, augmented reality skews the real world to a point where the line between reality and fiction is blurred.

...

In Australia, the market will spawn an ecosystem of developers that will be looking to help businesses take advantage of this new interface, much like Web and mobile app developers have previously, he added.

The game uses a 'simple but good example' of augmented reality, according to founder and director of Canberra-based company A-Positive, Amber Standley.

'Augmented reality is going to be integrated into everything we do over the next five to 10 years. In education, entertainment, training, and manufacturing,' she said.

The technology has been around for years but the popularity of this game has demonstrated how well it can work with geo-tagging.

'It really comes down to being creative with the augmented reality [in] working out how to solve business problems,' she said, pointing out IKEA released an augmented-reality feature in 2013.

Speaking at a TED conference recently, technology entrepreneur Meron Gribetz described augmented reality as an extension of human senses.

Every traditional operation system, such as Windows, requires every person to learn how to use it. What virtual reality offers is a 'zero learning curve computer that operates on an [operating system] that you already know how to use', he said.

Augmented reality has the ability to show an interior designer what a different wall colour will look like without using a drop of paint. It can help people navigate the roads more safely and more efficiently. Tourists to learn more about a monument without having to pull out their phone and Google it. The possibilities are endless.

One California-based company called Daqri is aiming to creating a safer working environment by creating devices such as safety helmets with built-in AR. These helmets show workers how to complete their tasks in the safest ways possible as well as warning of any potential dangers.

But for now this technology has merged with a highly popular fantasy brand. Head of planning at Clemenger BBDO, Kit Lansdell, said the game's explosive popularity was unforeseen.

'It has taken everyone by surprise. It is one that is very new in terms of how quickly and rapidly people have latched onto it.'

He warned that if and when in-game advertising becomes available it could backfire on both the brand and the game if overused.

Part of Pokemon's attraction is the game's innocence, so it will be the brands that respect the user's experience that are most likely to benefit.

'When brands start to leap on, a lot of them will mistake its rapid popularity with a platform where they can now inveigle themselves of its popularity,' he said.

Strategy partner at The Royals, Dave King, last week advertised for a Pokemon Hunter at his Melbourne-based advertising agency – someone who would walk around with his phone all day catching Pokémon. It was a publicity stunt, but also a signal to clients that they were on top of Pokemon GO from the start.

Interest in this game has been phenomenal, he says.

'I have seen websites kick off, but that is such light interaction. To actually download it, and install and fire it up, register, walk around and use data and your battery!'

Glitchy beta

The current app was a 'glitchy beta' without real opportunities for large businesses to create their own revenue stream, he added, and any money spent inside Pokemon GO flows straight to Niantic Labs.

But businesses can piggy-back off Pokemon GO's popularity to boost their own name recognition. Deakin University is offering three \$100 gift vouchers for people who renamed defeated Pokemon as DEAKINUNI.

...

The Pokemania craze that peaked in the late '90s through the television show, comics, swap cards, and video games has never died, just laid dormant, according to a pop culture expert at Melbourne games store Minotaur.

'We've always had people coming in and asking for Pokemon gear. From plush toys to figurines to trading cards. Everything,' a man called Damian told *BusinessDay*.

'It's the social aspect of this that has taken the craze to a whole new level. People can now team up and go searching for these Pokemon with their friends. All the people that grew up with Pokemon in the '90s are getting back into it.'

Pokemon world

The man behind Pokemon GO – the app that turned our cities into the world's largest scavenger hunt – is the same man who created Google Earth, John Hanke.

...

At the peak of its popularity, millions of players fought for control of cities around the world. Ingress earns money through advertising and in-game sponsorships because business can pay to have their shop a landmark or 'portal', which lures players into their stores. On Wednesday Hanke told the *Financial Times* that sponsored locations are a possibility on Pokemon GO.

...

A Google promo video posted on April Fools' Day in 2014 showing people catching Pokemon in the great outdoors received millions of hits but was dismissed as a prank. However, the popularity of that video gave Hanke the confidence to approach the Pokemon Company, where Ingress-loving Ishihara was open to [the] idea of a collaboration, according to a *Business Insider* interview.

In future Pokemon GO will allow players to trade captured Pokemon. This will make it much more social and also potentially create a secondary market – think of all those Pokemon cards still trading on eBay.

Naturally Americans are already starting Pokemon GO side-businesses. On July 7 a Silicon Valley startup registered the domain name pokewalk.com. This yet-to-be-launched service takes phones for walks to collect Pokemon and unlock higher levels for the phone's owner.

Three weeks ago the idea of making money out of phone walking would have sounded preposterous. Now it turns out being agile is not enough: this is a time for double-jointed lightning-fast acrobatics.

Lucy Battersby and Thomas Hounslow, *Sydney Morning Herald*, www.smh.com.au/business/media-and-marketing/pokemon-gos-augmented-reality-catches-the-imagination-of-business-and-marketing-20160714-gq5w0w.html

- 2 **Create** an extended response in the form of a short business report to answer the following questions about Pokemon Go.
 - a **Describe** the business idea.
 - b **Describe** the competitive environment.
 - c **Explain** why a business may have chosen to take advantage of the Pokemon Go craze.
 - d **Analyse** a potential competitor.
 - e **Evaluate** the viability of virtual reality and app-based experiences in a variety of business environments – for example, retail shops, food outlets, supermarkets and hardware stores.



Case study 2: Creation of business ideas

The Seabin Project

The business idea

Australian surfers, boat builders and entrepreneurs, Andrew Turton and Pete Ceglinski, have lived their whole lives by the sea. Having worked for many years in the yacht racing industry, they saw firsthand how widespread the issue of marine litter was wherever they travelled. Not only did Andrew and Pete see lots of mismanaged waste that would end up in the ocean, but they would also see litter floating in marinas. Andrew became frustrated with the amount of rubbish and saw the need to find a way to address this problem. He thought, 'If there are rubbish bins on land, there could certainly be rubbish bins in the water'. Here, he identified a business opportunity and an answer to the litter problems in marinas. Andrew teamed up with Pete, and together they began to work on some prototypes to develop a 'floating bin'.



Figure C2.1 Seeing a problem can motivate entrepreneurs to find a solution and create a business opportunity.

About the Seabin Project

The Seabin is an innovative, world-first invention that has attracted global attention for its potential to help clean the world's oceans and revolutionise the health of marine ecosystems around the world. It is estimated to catch 1.5 kilograms of floating debris per day, depending on weather and debris volumes. This equates to over a half ton of debris per year for each Seabin.

The V5 Seabin unit is designed to be installed in the water of marinas, yacht clubs, ports and any water body with a calm environment and services available. Because of this strategic positioning, the wind and the currents bring the debris directly to the Seabin. The catch bag can hold up to 12 kilograms of debris. A percentage of oil can also be captured with simple oil absorption technology custom-adapted for the Seabin's catch bag.



Figure C2.2 The Seabin is an innovative and world-first 'floating rubbish bin'.

Sources of support and advice

Before a new idea becomes a viable business opportunity, there is much research and development that occurs. Many entrepreneurs who start with limited business experience, like Seabin founders, Andrew Turton and Pete Ceglinski, rely on support and advice from friends and family in the initial stages of the development of the project. The initial development of the Seabin came by trial and error and through the creative thinking of Andrew and Pete. As their idea continued to grow, they sought advice from local lawyers and instigated a successful crowdfunding campaign. This gave the Seabin Project enough funds to bring the project to market.

Once the company was established, strategic partnerships with an industrial partner for manufacturing, and joint ventures with Pilot Partners to test and trial the Seabins before commercial sales, have been important sources of support and advice and have contributed to the success of the project.

Entrepreneurial characteristics

It can be seen from the timeline of achievements and the determination to bring the Seabin to market that the team have set big goals for themselves. Andrew, Pete, Sergio and Sascha are the team at the Seabin Project. They have pushed themselves to the limits to try and achieve these goals and clean up the marinas, waterways and oceans of the world. While the team simply consider themselves 'a bunch of hard-working people that really want to make a difference' their attitude and enthusiasm are what really moves them forward. They have learnt many times through their own mistakes and haven't been afraid to take risks.

Andrew and Pete, as founders, have demonstrated many of the entrepreneurial characteristics discussed in Chapter 4. In their pursuit of inventing and building something completely innovative from nothing, they have shown passion, perseverance and creativity. They have then shown determination and boldness to continue through the challenges of the seed stage and to finally have a product ready for sale and installation in 2017.

Challenges in the seed stage of the business life cycle

There are a number of significant challenges in the seed stage of business, including the design of a viable business plan and the funding needed to cover operation and infrastructure costs. The Seabin Project was lucky, and is extremely grateful for the support it received during its initial crowdfunding campaign. From there, through hard work, the Seabin Project has been able to gather stay-alive funds through Pilot Partners, a GoFundMe campaign and more recently an award from the Booking Booster program. This is recognition for their hard work and how aware society is of the need for ocean cleaning technologies.

Another challenge faced during the seed stage is the amount of time and energy the founders must invest in their growing business. Co-founder Pete Ceglinski has worked tirelessly since the foundation of the company, using his free time to generate marketing material, investing a lot of time in business travel and putting his heart and soul into the development of the Seabin Project.

Application of innovation theories

As explained in Chapter 4, incremental innovation is a series of small improvements or upgrades made to an existing product, service, process or method, focused on improving efficiency, productivity and competitive differentiation.

The Seabin Project is still a relatively new business with a new product to the market, but it has already undergone incremental innovation through prototypes and previous versions. The core functionality of the Seabin remains virtually unchanged, but there have been improvements in the peripherals, including:

- The bracket that fixes the Seabin to the dock has had a number of modifications made to reach the final standard.
- The mesh in the catch bag has been changed from hessian fibre to a recycled plastic mesh due to the over-efficient absorption properties of the hessian. Also, replacing the catch bag every month is not a sustainable practice, nor is treating the hessian with chemicals a suitable option.
- The Seabin is also now powered by a small submersible water pump that uses either 110 V or 220 V power. Extensive testing with a 12 V pump found it unsuitable in performance and the solar capabilities much more difficult than using the 110/220 V pump. The water pump may also be run by cleaner power options such as solar, wind, wave or turbine depending on the location, current technology and services available.
- The addition of oil-absorbent technology is also a main feature of the V5 Seabin.



Figure C2.3 Incremental innovation has led to the V5 Seabin.

Competitiveness

At this stage, the Seabin Project has very few competitors, and the issue of marine litter in the world's oceans is something that needs addressing – the sooner, the better. Therefore, the Seabin Project does not see other initiatives trying to get rid of plastics in the oceans as competitors. Rather, it sees them as key players with a common goal, and any project that aims at removing mismanaged waste from the sea has their full support. The Seabin Project even hopes one day to be able to lend a hand with its experience, or even financially. The closest initiatives are the Ocean Cleanup project for open waters and Mr Trash Wheel for high volumes.

Stakeholder satisfaction

There are a variety of methods to measure stakeholder satisfaction, including interviews, focus groups and feedback surveys. The Seabin is designed for ports, marinas, yacht clubs and other enclosed bodies of water with enough services to provide shore power to the Seabin and employees to empty it when full. Therefore, the key stakeholders are those who own, work in and use these waterways. The Seabin Project aims to satisfy its target audience, marina owners, by enabling them to provide a cleaning service to society and act as stewards of the marine environment.

Future direction

The issue of marine litter is one that will have to be dealt with for generations to come and therefore the knowledge, tools and capacities need to be provided to the decision-makers of the future. The Seabin Project is using a three-pronged approach to attack the problem of pollution, with the Seabin product, education and research. Education is the first step to lasting and effective solutions. With marine litter, children can play a direct and significant role in reducing the sheer amount entering the oceans.



The Seabin Project

Every child who learns to dispose of rubbish properly can be one less 'source' person littering. Children also have the potential to spread the word to friends and family, virally amplifying the effect.



The Ocean Cleanup project

The Seabin Project also aims to become a key player in the circular economy of plastics. By creating collaborations with similar businesses, the plastics captured by Seabins can be used in upcycling projects, rather than going to landfill or being incinerated. Eventually, Seabin would love to use the captured plastic to create even more of its own product.



Mr Trash Wheel

Check out the Seabin Project and its competitors, the Ocean Cleanup project and Mr Trash Wheel.

Questions

- 1 **Describe** the position of the Seabin Project in the business life cycle.
- 2 **Describe** the characteristics of the business idea behind the Seabin.
- 3 **Describe** the sources of support and advice that the team at the Seabin Project accessed during its development.
- 4 **Explain** which innovation theories apply to the development of the Seabin Project.
- 5 **Explain** the point of difference or competitive advantage of the Seabin V5 when compared to either the Ocean Cleanup project or Mr Trash Wheel.

EACH **SEABIN** HAS THE CAPABILITY TO CATCH



90,000 PLASTIC BAGS PER YEAR



35,700 DISPOSABLE CUPS PER YEAR



16,500 PLASTIC BOTTLES PER YEAR



166,500 PLASTIC UTENSILS PER YEAR

Figure C2.4 'The Seabin may not be the solution to ocean pollution, but it is a start.'

- 6 **Select** information from the case study above to complete a table to **describe** and **analyse** the strengths and weaknesses of the entrepreneurial characteristics demonstrated by the team at the Seabin Project.
- 7 **Research** and **select** information to create a Venn diagram to **analyse** the similarities and differences between the Seabin Project and either the Ocean Cleanup project or Mr Trash Wheel.
- 8 **Select** data and information to complete a PEST analysis to **analyse** the political, economic, socio-cultural and technological forces relevant to the Seabin Project.
- 9 **Complete** a competitor analysis in the form of a SWOT for either the Ocean Cleanup project or Mr Trash Wheel.
- 10 **Interpret** the relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of the Seabin Project based on the findings of your analysis above. **Create** a paragraph response to **explain** these implications.
- 11 Use the criteria of competitiveness and stakeholder satisfaction to **evaluate** the Seabin Project and **make a decision** regarding the long-term viability of the Seabin Project.
- 12 **Create** a 3–4 minute multimodal to **explain** the business idea of the Seabin Project, the findings of your PEST and competitor analysis and your decision on the viability of the idea to a potential investor.



Shutterstock.com/Rich Carey

Figure C2.5 Turtles can mistake plastic bags for jellyfish and try to eat them, which can be fatal. Seabins help to reduce the likelihood of this occurring.

Business growth

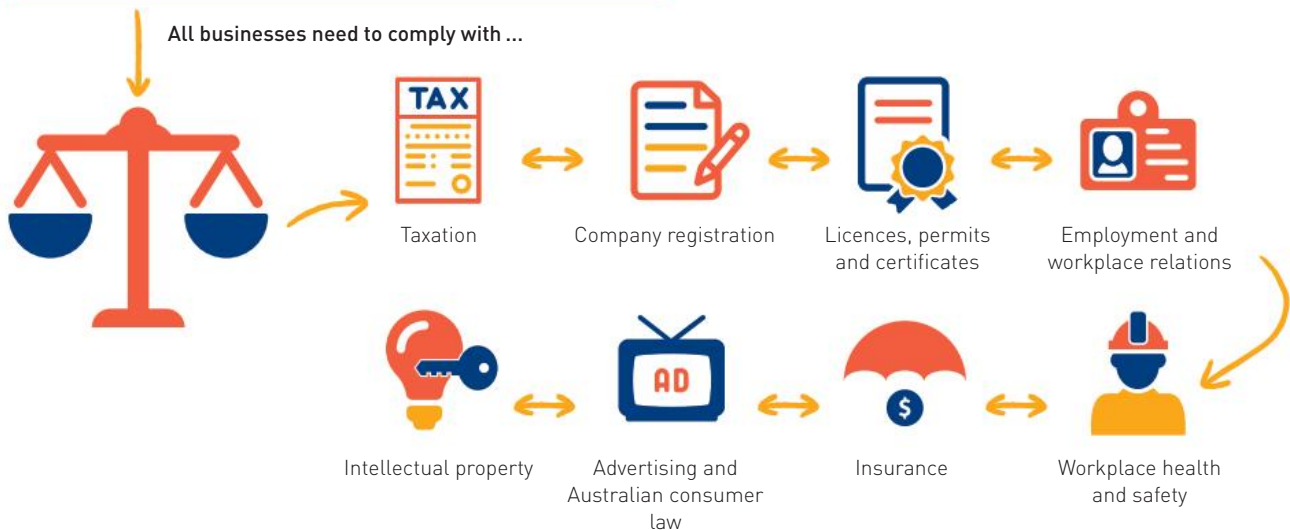
Topic 1 Establishment of a business

ESTABLISHMENT OF A BUSINESS

START-UP



LEGAL AND REGULATORY REQUIREMENTS



FINANCIAL OBJECTIVES

All businesses strive for ...



SOURCES OF FINANCE

All businesses need to plan for ...



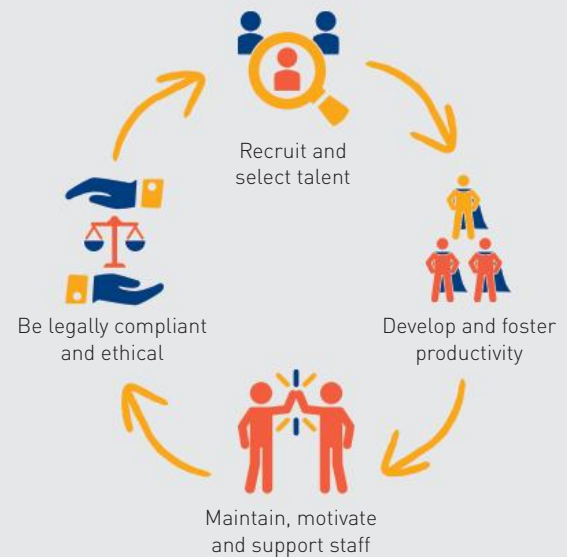
MANAGEMENT

All businesses must consider ...



HR OBJECTIVES

All businesses should strive to ...



EMPLOYMENT CYCLE



Employment cycle



START-UP REGULATION AND FINANCING

What you will learn

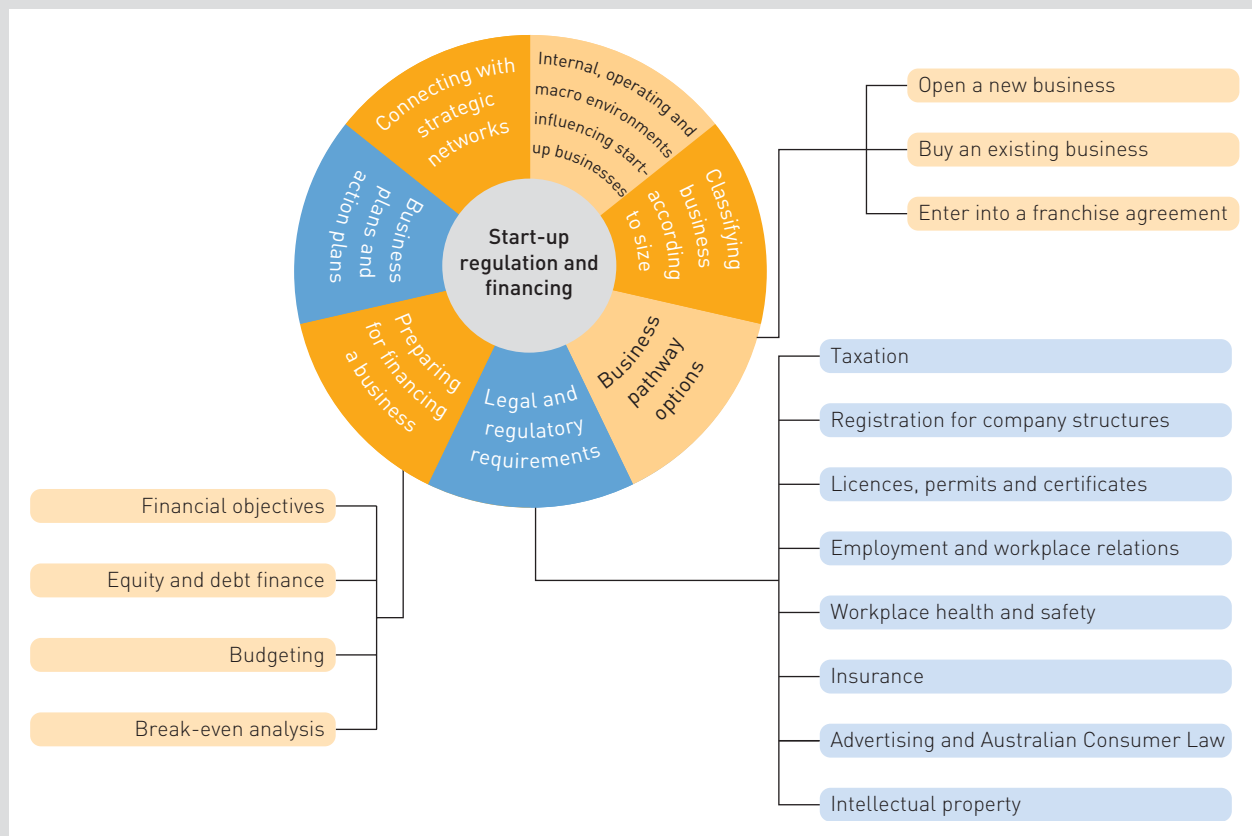
This chapter will explore the ‘need to know’ for start-up businesses that have legal obligations to meet and financing strategies to plan. Being thoroughly prepared will ensure a start-up can begin selling its good or services with confidence, knowing it is operating ethically and with a solid foundation. Understanding legal obligations and the finances of a business forms part of the strategic planning process for a start-up business.

This chapter will provide you with the opportunity to:

- **describe** the features of business environments and situations relating to the start-up stage of the business life cycle
- **explain** the legal requirements and financial objectives and strategies, relating to business start-up
- **select** data and information relating to establishing a business to **analyse** macro environmental factors and break-even
- **interpret** relationships, patterns and trends to **draw conclusions** about the implications faced by business start-ups
- **evaluate** start-up business practices and financial strategies to **make decisions** and **propose** recommendations
- **create** responses that **communicate** business information to the intended audience.

The analytical tools used in this chapter are:

- PESTLE analysis
- break-even analysis.



Key skills

In this chapter, you will have the opportunity to develop the following 21st-century skills:

- critical thinking
 - analytical thinking
 - problem-solving
 - decision-making
 - reasoning
 - reflecting and evaluating
 - intellectual flexibility
- creative thinking
 - identifying alternatives
 - seeing or making new links
- communication
 - effective oral and written communication
 - using language, symbols and texts
- collaboration and teamwork
 - relating to others (interacting with others)
 - recognising and using diverse perspectives
 - participating and contributing
 - community connections
- personal and social skills
 - management
 - citizenship
 - ethical (and moral) understanding
- information & communication technologies (ICT) skills
 - accessing and analysing information
 - being productive users of technology.

(Source: Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

GAINING INSIGHT



Helix Legal

FOCUS QUESTION: How can start-ups find an edge in a competitive marketplace?



Figure 6.1 The Helix Legal brand

Janelle Kerrisk and Sarah Roach are two talented lawyers who decided to cause a 'wave of disruption' in the legal industry after identifying a 'way to practise law differently'. Within 12 months, Helix Legal has built up



Figure 6.2 Helix Legal owners, Sarah Roach and Janelle Kerrisk, with director, Earl Tan

All images courtesy Helix Legal



Figure 6.3 A sample of Helix Legal's branding from its social media pages

a reputation in Brisbane as being an innovative, forward thinking business.

Helix Legal was established in 2016 to provide business-to-business (B2B) legal services within the construction and energy industry. Instead of time-billing, Helix Legal uses a fixed-fee strategy with its clients, which has given the firm a competitive edge, by allowing it to build a more trusting and transparent relationship with its clients. By charging fixed fees, Helix Legal can carefully monitor its budgets and cash flow to ensure that the business's income is guaranteed, all expenses are covered, and its growth objectives are realistic and achievable.

Helix Legal has been incorporated as a private company, rather than as a partnership, which is the traditional ownership structure for law firms. Hence, Helix Legal is considered a legal business rather than a law firm. This allowed Roach and Kerrisk to bypass the legislative requirements that exist to regulate partnership structures. Setting up in this way has

also allowed Helix Legal to employ a range of staff with different backgrounds to offer a 'multidisciplinary consultancy', which its clients perceive as value-add for engaging their services. Like all start-ups, Helix Legal needed to comply with all registration, taxation and regulatory requirements to become established. Roach and Kerrisk also contributed their personal savings to start Helix Legal (this is known as equity finance) and have not sought any debt finance to fund the business.

As the founders of the business, Roach and Kerrisk have chosen to not give themselves position titles as they believe in a team approach and flexibility of job design in their business. They consider themselves a young leadership group who want to 'make it rain' by focusing on business development as one of their main goals. As a start-up they balance their management responsibilities with their legal work. They appoint hardworking and loyal staff to the business, who appreciate the flexibility but are studious in meeting deadlines.

Both Roach and Kerrisk believe that start-up business owners need to network so the business can build a profile and be promoted in its industry. They have

set up the Helix Legal offices in an innovations hub in Brisbane's central business district. There, a range of start-up businesses all rent the same space, allowing them to support other start-ups, seek advice and build entrepreneurship in Queensland. Roach and Kerrisk also apply for government grants to support their business, and have been awarded funds from the state government's Advance Queensland initiative. Further, Helix Legal has won awards for its innovative approach to the law, just as Roach and Kerrisk have as leading women in business.

Questions

- 1 **Describe** the business opportunity that led to the establishment of Helix Legal.
- 2 **Explain** the business ownership structure for Helix Legal and how it differs from other law firms.
- 3 **Identify** how Janelle Kerrisk and Sarah Roach funded the start-up of Helix Legal.
- 4 **Explain** the relationship between charging fixed fees to clients and a business's cash flow.
- 5 **Describe** the networking strategies Roach and Kerrisk use to promote and profile Helix Legal.

Business start-up

Key learnings

You will learn about businesses by examining:

- the start-up stage
- internal and operating environmental factors that affect financing.

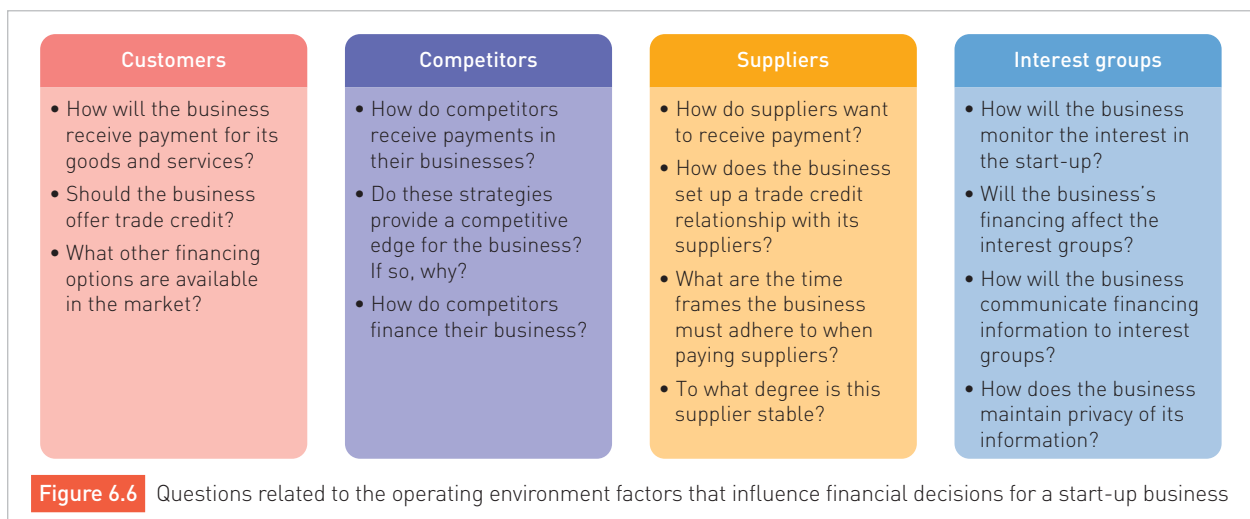
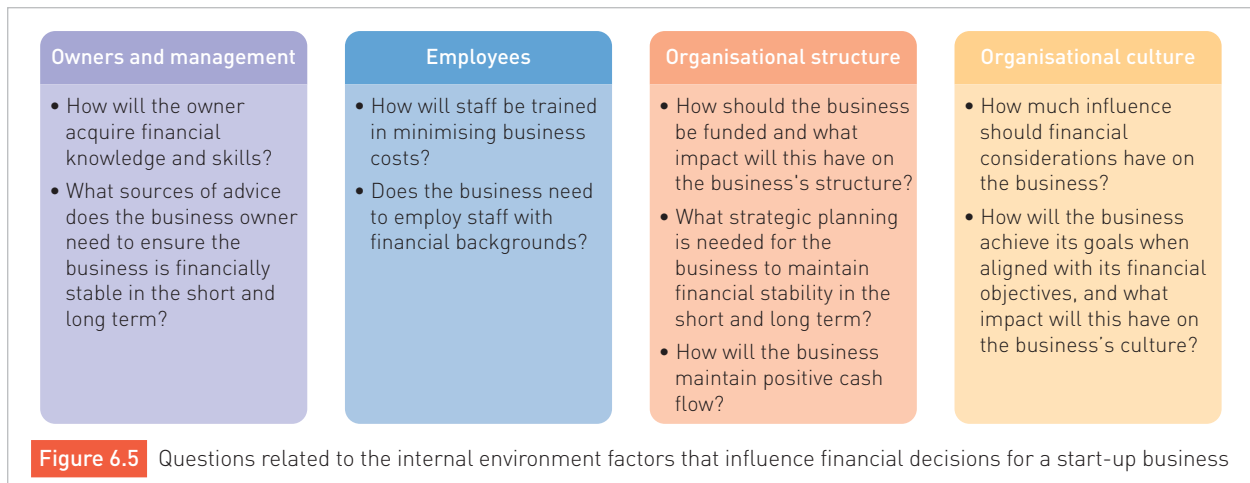
Once business ideas have been tested and affirmed, a business proceeds to the start-up stage. The start-up stage of the business life cycle is when the business begins trading, after meeting all legal requirements and sourcing its finance. It is important during this stage that the business owner is meticulous in ensuring they have set the business up correctly so that they are adequately protected by law and have structured their internal and operating environments effectively when focused on financing. The strategic planning required at the start-up stage is also heavily influenced by macro environmental factors – notably the legal environment, as this factor dictates the steps required for a start-up to become a formally recognised business trading in Australia. For financing, political and economic factors can also influence the options and decision-making required by a start-up business owner. These factors can be analysed using a PESTLE analysis.

It is during the start-up stage that internal environment factors are also introduced to the business. They begin to take shape and can influence how effectively the business progresses through the start-up stage. Figure 6.5 and Figure 6.6 list the internal and operating environmental factors that impact on businesses, along with inquiry questions that relate to start-up considerations. These factors can either provide opportunities for the business or threaten its success at the start-up stage.



Figure 6.4 A start-up business owner must strategically plan so their business is ready to begin trade.

iStockphoto.com/Cecilie_Arcurs



QUESTIONS 6.1



- 1 **Describe** the strategic planning required by a business owner at the start-up stage.
- 2 **Discuss** the challenges that a start-up business owner may face if they have minimal business experience.

ANALYTICAL TOOL



The tool: PESTLE analysis (macro environmental factors)

Explained in Chapter 4, the way in which the macro environment is analysed can be completed through a PEST analysis, which identifies the political, economic, socio-cultural and technological factors. Building upon this is a PESTLE analysis, which adds the additional legal and environmental factors to the macro environment. The legal environment focuses upon the legislation that businesses need to follow, including the processes for dispute resolution through the court system and independent government bodies. The environmental factors focus on how business practices might affect the natural environment, both positively and negatively, along with how the business can implement sustainability.

At the start-up stage, it is important for a business to consider the legal and environmental factors as each must be considered for effective strategic planning. Significant impacts include ensuring the business meets all registration requirements and implements sustainable practices.

How to use the tool

Figure 6.7 provides the questions a business owner would ask when conducting a PESTLE for a start-up business.



Questions

- 1 **Explain** the strategic role of a PESTLE analysis.
- 2 **Select** data and information relating to the external environment of the following businesses, using a start-up context, and **analyse** using a PESTLE.
 - a a small gym offering 24-hour access
 - a pharmacy opening in a regional area
- 3 **Interpret** the patterns and relationships in the PESTLE for one of the businesses listed in Question 2 to **draw conclusions** about the implications of starting a business. **Create** a paragraph to **communicate** your response.

GAINING INSIGHT



Understanding the role of government and financial institutions

The impact that government has on the way business operates is significant, particularly for a business in the start-up stage that requires finance to begin trading. It is through government monitoring of businesses and households that Australia can thrive economically. A glimpse into how Australia's economy operates can be gained through analysing the circular flow of money in Australia.

While the circular flow model shows how money moves within Australia, it also provides an insight as to why the government regulates business activities: to ensure there is fair competition, that businesses operate

safely, that resources are used efficiently and that taxes are collected and redistributed with consideration.

Questions

- 1 **Explain** the relationship between the following pairs:
 - a household and business
 - b business and government
 - c business and financial intermediaries.
- 2 **Select** information regarding the government and financial sectors as they relate to the circular flow of money to **analyse** the positive and negative impacts they have on business.

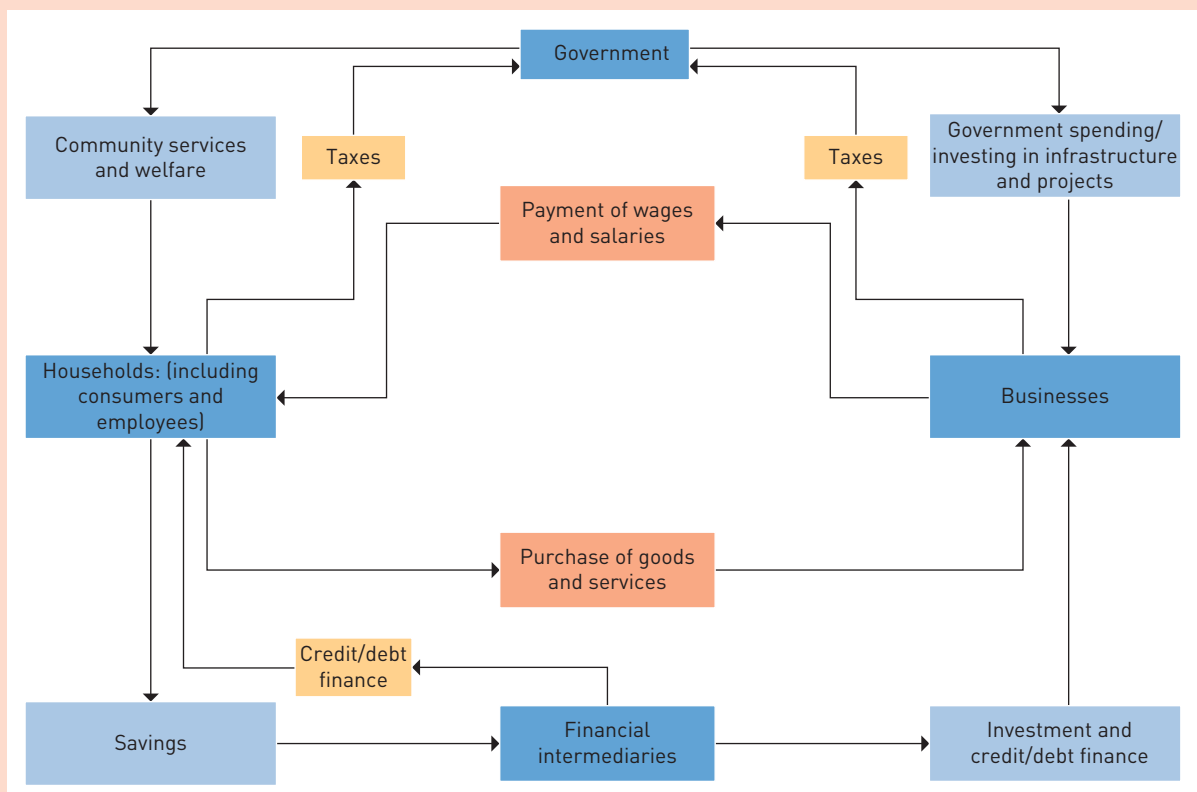


Figure 6.8 Circular flow of money in Australia

Business size

Key learnings

You will learn about business size by examining:

- business turnover
- small-to-medium enterprises.

As was introduced in Chapter 2, businesses are classified according to their size, which is determined by the number of people they employ. Another way to classify businesses is by their **turnover**, which is also known as revenue or income. In Australia, the classifications for **micro**-, **small**, **medium** and **large businesses** can be seen in Figure 6.9.

The Australian Bureau of Statistics (ABS), Australia's national statistics agency, has reported that there are more than 2.17 million actively trading businesses in Australia and this number continues to grow. The entry rate of start-up businesses in 2016 was 14.6%.

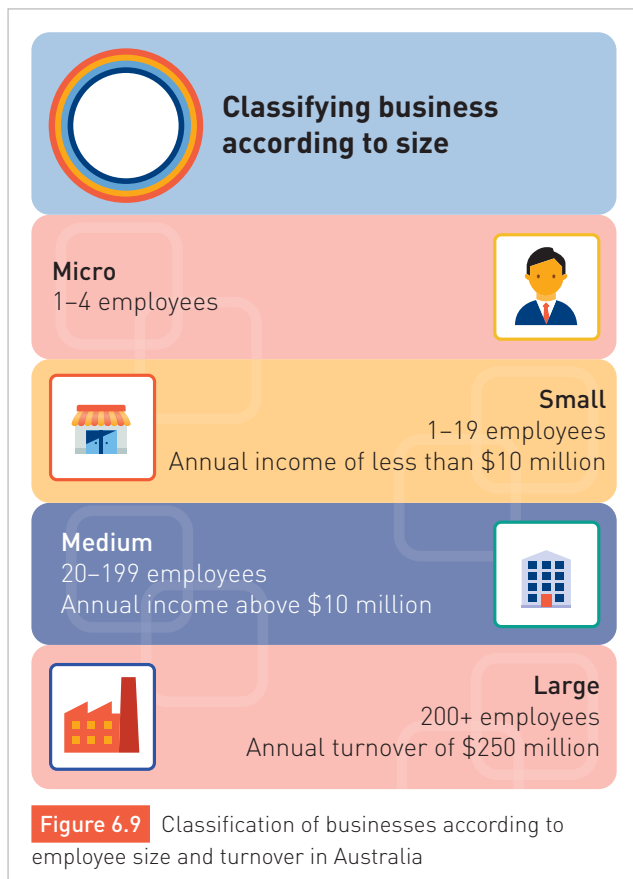
The ABS provides trusted official statistics on a wide range of economic, social, population and environmental matters in Australia.



Small-to-medium enterprises

Even though each business size is clearly defined, micro-, small and medium businesses are collectively referred to as **small-to-medium** (or small and medium) **enterprises**, or SMEs. The reason for the SME classification is linked to how economic data is reported, and many government policies use the SME classification to implement policies that support businesses that have fewer than 200 employees.

Follow the weblink to learn about the SME Association of Australia, an organisation focused on supporting Australian business owners of small-to-medium enterprises.



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QUESTIONS 6.2



- 1 **Identify** businesses in your local community that fit within each of the four business size classifications. **Describe** their characteristics.

a Micro	c Medium
b Small	d Large
- 2 **Explain** the relationship between the size of a business and its turnover, as classified in Australia.

Turnover: an accounting term that represents the incomes or revenue earned by a business in a set period

Micro-business: a classification for a business which has 1–4 employees

Small business: a classification for a business which has 1–19 employees and/or an annual turnover of less than \$10 million

Medium business: a classification for a business which has 20–199 employees and/or an annual turnover above \$10 million

Large business: a classification for a business which has more than 200 employees and/or an annual turnover above \$250 million

Small-to-medium enterprises: a term used to collectively classify micro-, small and medium businesses based on their 1–199 employees

Business pathway options

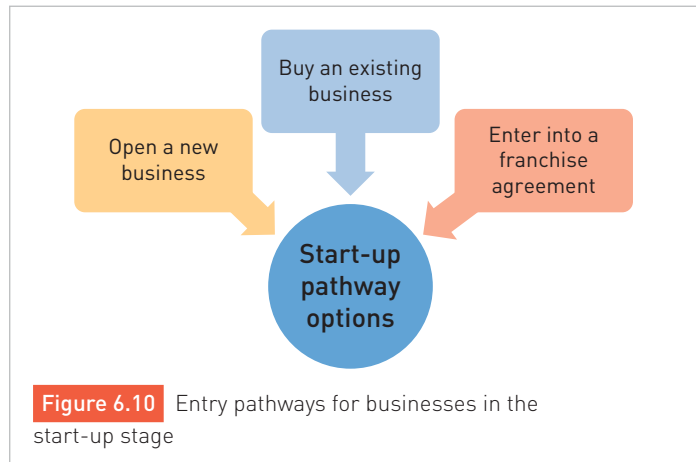
Key learnings

You will learn about business pathway options by examining:

- opening a new business
- buying an existing business
- entering into a franchise agreement.

When an individual makes the decision to become a business owner, they must research and decide what pathway option will be most suited to their motives and skills and the goods and services they plan to sell. Some business owners may want to open a business to sell a good or service they have developed. Others may no longer want to work for someone else, and instead want to be their own boss. There are three main start-up pathway options (Figure 6.10):

- Open a new business.
- Buy an existing business.
- Enter into a franchise agreement.



Open a new business

For a business owner who is also an entrepreneur, opening a new business is the ideal pathway for moving from the seed stage to the start-up stage of the business life cycle. This pathway allows the business owner to maintain full control over how the business will be established. This applies across all areas of the business, including the business name, its location and layout, branding and signage, budgetary and employment considerations, pricing and promotional strategies to be implemented and many other business activities. Opening a new business is also a suitable pathway if a business is entering a new **niche market**. The key features of opening a new business are:

- All business decisions are made by the business owner or owners. This includes the establishment of the business's internal environment.
- The business may be selling a new good or service, or may want to establish itself in a potential market.
- The business owner or owners would have prepared a feasibility report and business plan to be analysed by banks and potential investors so that finance can be sought for the business.
- The level of risk is high as the business has minimal historical data to rely upon.

Buy an existing business

For people who want to become business owners, but who are not entrepreneurial, buying an existing business is a suitable pathway. In this pathway option, a business already exists and may have been



Figure 6.11 The opening of a new business is celebrated by the official cutting of a ribbon.

Niche market: a smaller section of a larger market segment, focusing on a select group of customers; also known as a concentrated or micro market

trading for some time, but the ownership of the business changes. The key features of buying an existing business are:

- Elements of the business, such as the business name, its location, layout, equipment, staff, supplier relationships, the stock on hand and customer base, are already established.
- The value of the business's reputation, known as **goodwill**, forms part of the purchase price for the business.
- The new business owner or owners can choose to continue to run the business as is, or transform the business by rebranding, offering new products and services or changing the layout. This should be dependent on the business's reputation and that of the previous owner.
- The new business owner or owners will need to focus on building customer relationships to maintain the current customer base and attract new customers to the business.
- There is a moderate level of risk for the business owners, who rely on the business's ability to maintain former success or instigate positive change. For this reason, business owners need to research why the business is being sold, analyse its previous financial reports and seek advice from their solicitor and accountant to ensure the business is viable and its selling price is fair.

QUESTIONS 6.3



- 1 **Explain** the process of opening a new business.
- 2 **Explain** the process of buying an existing business.
- 3 **Create** a paragraph response to **discuss** which pathway option entails greater risk to a start-up business owner.
- 4 **Consider** a range of strategies that a start-up business owner could use to communicate to its customer base that there has been a change in business ownership.
- 5 **Select** information from your local community to list current businesses:
 - a that are new to the market
 - b where there has been a change of ownership or management.

Enter into a franchise agreement

In Australia's competitive marketplace, many large businesses want to maximise their competitiveness by setting up in a range of locations. These large businesses, set up as private or public companies, include banks, restaurants, supermarkets, service providers and specialty retailers. The business may choose to open stores where it assigns a manager and maintains control over all business activities, but franchises have proven to be a popular alternative to this business model. A **franchise** allows someone who aspires to be a business owner to own a business, under the guidance and licensing of the large business's head office. Entering a franchise is a conservative pathway option for a business owner since the business's name, reputation, policies and procedures are already established. It also allows large companies to enter regional markets. By engaging a local owner, the business can more easily gain community support.

The Franchise Council of Australia defines franchising as:

... a business relationship in which the franchisor (the owner of the business providing the product or service) assigns to independent people (the franchisee) the right to market and distribute the franchisor's goods or service, and to use the business name for a fixed period. (Source: www.franchise.org.au/what-is-franchising-.htm)

Generally, the **franchisor** will provide all marketing and operational support and the **franchisee** will manage the financing and human resources in the business. For a franchise agreement to be valid, a franchisee must apply

Goodwill: a monetary value that reflects the reputation of a business

Franchise: a business relationship in which the franchisor (the owner of the business providing the product or service) assigns to independent people (the franchisee) the right to

market and distribute the franchisor's goods or service, and to use the business name for a fixed period

Franchisor: the company that sets up the franchise arrangement and grants the licensing rights

Franchisee: the person who is granted the licence to run a franchise

for the franchise, undertake interviews, prove financial stability and pay a fee to the franchisor for licensing rights. The franchisor will provide all policies, procedures, branding and training to the franchisee and may collect a percentage of the franchise's profits once the business begins trading, or be paid an annual fee. Regardless of whether the franchisor or franchisee is responsible for certain business tasks, Australia's legal system can hold both parties accountable for non-compliance with the law; most significantly, this can relate to the treatment of employees as set out in the *Fair Work Act 2009*.

In 2017, franchises contributed \$146 billion to the Australian economy. Figure 6.12 identifies the general responsibilities of franchisees and franchisors in a franchise agreement.

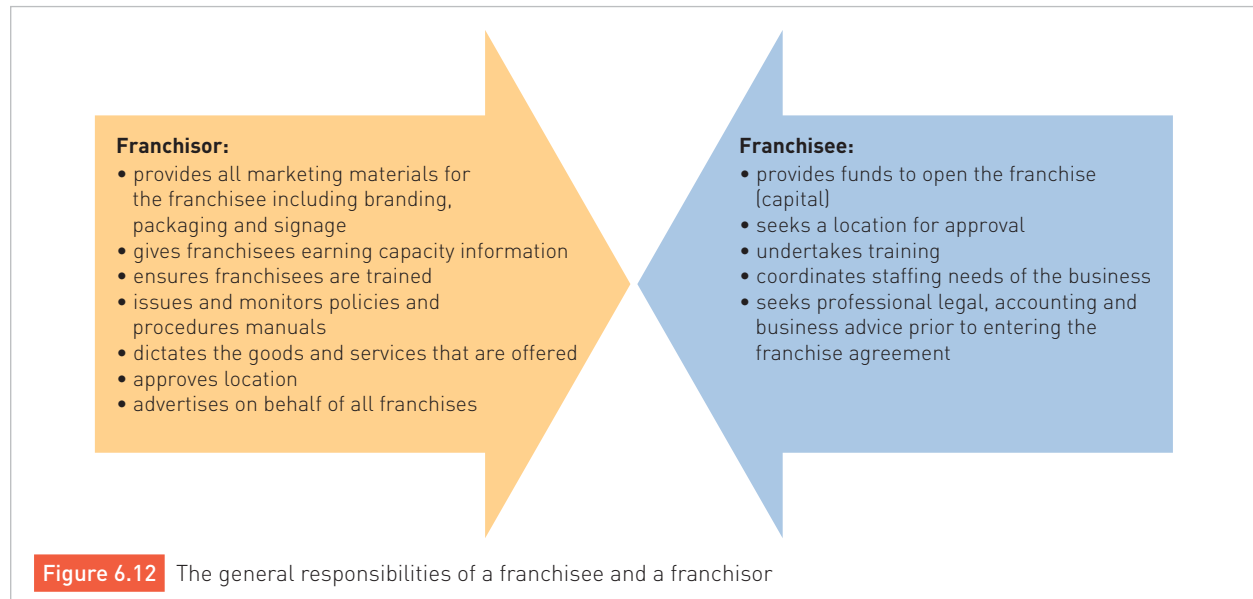


Figure 6.13 A small selection of the franchises specialising in food that operate in Australia

GAINING INSIGHT



What should a franchisee do before signing the franchise agreement?

In Australia, the entering of a franchise agreement is bound by the *Franchising Code of Conduct* monitored by the Australian Competition and Consumer Commission (ACCC). This requires the franchisor to provide to the franchisee:

- copy of the Franchising Code
- disclosure document which lists current and former franchisees

- copy of the franchise agreement in its final form
- short information sheet outlining the risks and rewards of franchising.

Source: www.business.gov.au © Commonwealth of Australia 2017, distributed under CC BY 3.0 AU licence

It is imperative a franchisee undertakes research before entering a franchise agreement. They can use the ACCC to provide guidance and support. Likewise, franchisors benefit from being able to access this information to ensure their franchise agreement is a fair contract that provides benefits to both parties and abides by franchising legislation.

GAINING INSIGHT



Top 10 Aussie franchises revealed for 2017

Gutter cleaning experts, Gutter-Vac, have cleaned up in the tenth annual list of Australia's 10 best franchises, as voted by franchisees across the country.

The Topfranchise Awards recognises the activities and achievements of Australian franchisors, with award winners determined based on the satisfaction of their franchisees. Each year, more than 1,500 Australian franchises are queried through a comprehensive survey conducted by specialist researchers, 10 THOUSAND FEET, and the number one market place for buying a business, SEEK Business.

In addition to edging out Smartline Mortgage Advisers after eight consecutive years of victory, Gutter-Vac also topped the Brand and Expansion categories, with franchisees stating a 15% increase in earning potential, local marketing guidance up by 10%, training up by 8% and value for money up 18% year on year.

Smartline Mortgage Advisers once again proved its impressive franchisor credentials, placing second on the list. Ferguson Plarre Bakehouses surged to third on the list, Bridgestone and Cafe2U made Top Ten debuts, and established franchises Mister Minit, Soul Origin, Kwik Kopy, Snooze and Mrs Fields reappeared, rounding out this year's top ten.

Overall Category:

- 1 Gutter Vac
- 2 Smartline Mortgage Advisers
- 3 Ferguson Plarre Bakehouses
- 4 Mister Minit
- 5 Soul Origin
- 6 Kwik Kopy
- 7 Snooze
- 8 Mrs Fields
- 9 Cafe2U
- 10 Bridgestone

In addition to an overall award, the Topfranchise Awards recognise six category-specific achievements in marketing, branding, passion and culture, support and operational systems, lifestyle and opportunities for expansion. Smartline Mortgage Advisers took out the Passion and Marketing categories, Waves Detail Pro was recognised for best Lifestyle and Shoebox Bookkeeping won best Support. Other winners The Cheesecake Shop, Chatime, Aussie Pooch Mobile, The Coffee Guy, RE/MAX, Expense Reduction Analysts and Fifo Capital appeared on the list for the first time. Meanwhile, Just Better Care achieved a strong result in the Passion category and Car Care, Xpresso Delight, Xpresso Mobile Cafe, Snap-On

Tools and Magic Hand Carwash each had strong performances.

Claiming the award, Warren Ballantyne, Owner, MD and Franchisor of Gutter-Vac, says the result shows the business is on the right trajectory and improving year on year.

'Six years ago, we were eighth in the Topfranchise Awards. Last year, we were second. This year, we've claimed first place. Gutter-Vac works extremely hard to support our franchisees. For us to get such a good result from the survey means we're doing the right thing. If we don't have franchisees, we don't have a business. We're delighted to be number one and to have received this incredible validation from our franchisees,' says Mr Ballantyne.

Head of Intelligence for topfranchise.com.au and 10 THOUSAND FEET, Ian Krawitz says, 'For the Top 10 award winners, there is a huge amount of effort that goes on behind the scenes to give their franchisees the best chance of success. The Topfranchise Award winners recognise there are critical pillars in the relationship they have with their franchisees, such as support, marketing, brand, lifestyle, expansion opportunities and passion.

'The best franchisors listen to their franchisees' needs and see their role is to support franchisees to deliver an amazing customer offer every day and support franchisees to have strong businesses.'

Ben Johnston, Head of SEEK Business says, 'SEEK Business is really proud to be part of the

Topfranchise Awards again in 2017. We really believe in engagement and satisfaction as a key metric that both franchisors and employers should be measuring. SEEK Business want to highlight to candidates those franchisors which are leaders within the sector; the Topfranchise Awards does this.'

The franchise industry survey included more than 1500 franchisees and was conducted by specialist researchers, 10 THOUSAND FEET. Each franchisee was asked up to 38 questions covering a range of key areas, with the feedback used to benchmark performance in comparison to other franchise systems.

Source: Business Franchise Australia,
www.businessfranchiseaustralia.com.au/latest-news/
top-10-aussie-franchises-revealed

Questions

- 1 **Describe** the characteristics of Gutter-Vac's franchising model that contributed to its winning the Topfranchise Award.
- 2 **Interpret** why Topfranchise Awards recognise specific category winners in the franchising sector.
- 3 **Describe** the characteristics of a 'best franchisor'.
- 4 **Select** information relating to SEEK Business to **analyse** and **interpret** its impact on the franchising sector.
- 5 **Select** data and information from one of the top 10 franchise winners to **analyse** its franchising model. **Create** a presentation to **communicate** your findings.

QUESTIONS 6.4



- 1 **Create** a table to **analyse** the advantages and disadvantages of each pathway option.

Pathway	Advantages	Disadvantages
Opening a new business		
Buying an existing business		
Franchising		

- 2 **Explain** the franchising process.
- 3 **Select** information to **create** a list of 10 franchises from three or more industries currently operating in:
 - a Australia
 - b your local community.
- 4 **Create** a paragraph response to **discuss** why an entrepreneur would be best suited to opening a new business, rather than buying an existing business or franchising.
- 5
 - a **Select** information regarding pathway options to **analyse** the similarities and differences between purchasing an existing business and franchising. **Create** a Venn diagram to demonstrate this.
 - b Using the Venn diagram, **interpret** the trends, patterns and relationships to **draw conclusions** about the implications of starting a business.

- 6 **Selecting** information from the ACCC website, **analyse** the benefits and risks of entering a franchise agreement:
 - a from the perspective of the franchisor
 - b from the perspective of the franchisee.
- 7 **Create** a paragraph response that **evaluates** purchasing an existing business and franchising to make a decision for a small business owner, using the criterion of effectiveness.

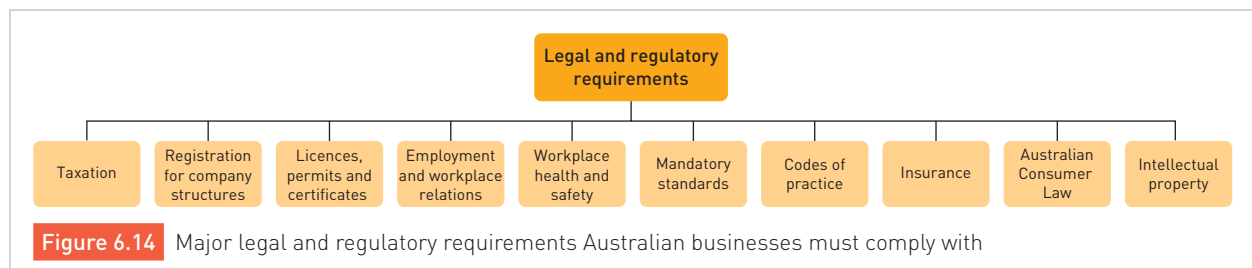
Legal and regulatory requirements

Key learnings

You will learn about legal and regulatory requirements for a start-up business by examining:

- business registration
- legislation
- insurance.

All businesses, regardless of size, must comply with government **regulation**, which includes a range of federal, state and local laws. These are designed to ensure a fair and productive marketplace for businesses, and to protect consumers and employees. A business should engage with a **solicitor** or business lawyer to ensure the business complies with its legal obligations. Figure 6.14 outlines the major legal and regulatory requirements with which all businesses in Australia must comply.



Taxation

The Australian **Taxation** Office (ATO) is the government agency responsible for collecting tax, which is the revenue earned by government for the provision of public services in the community. Taxes are used for a wide range of purposes including defence, infrastructure, health care, education and welfare, and are distributed to federal, state and local governments so that appropriate public services can be provided. For a business owner, understanding how tax is calculated, collected and paid to the government is one of their major responsibilities. Businesses that do not abide by taxation requirements can be taken to court and fined significantly. Businesses should work with an accountant to manage their finances and subsequent taxation obligations.

Registering for an Australian Business Number

For a business to meet its taxation obligations, it must have an Australian Business Number (ABN). This is an 11-digit identification number provided by the Australian Business Register, an Australian government department. While an ABN is primarily used for taxation purposes, it also identifies to consumers the

Regulation: a rule or set of standards outlined by a government where compliance by stakeholders is required.

Solicitor: a person, qualified in the legal profession, who draws up contracts, provides advice and represents clients regarding legal matters

Taxation: the process in which government earns its income to provide public services. It is generally in the form of a levy that is added to the selling price of goods or services, or is calculated proportionally to a person's income and then paid to the government

legitimacy of a business operating in Australia and confirms the business's identity to other businesses when ordering and invoicing. An individual who runs a micro- or small business with the intention to make a profit must apply for an ABN; the same responsibility applies to medium and large businesses. It costs nothing to apply for an ABN and, if a business was to cease its operation, then its ABN can be cancelled. Further, an ABN allows a business to:

- avoid Pay As You Go (PAYG) tax on payments received
- claim Goods and Services Tax (GST) credits
- claim energy grants credits
- obtain an Australian domain name.

Income Tax Assessment Act 1997

If the business owner chooses to pay themselves a wage or salary, or the business has staff, then income tax must be collected. The rate of income tax is means-tested and increases incrementally based on an employee's yearly income. The process of payroll is intensive for a business owner and seeking guidance from an accountant is imperative to ensure employees are paid correctly. The *Income Tax Assessment Act 1997* outlines how income tax is calculated; the Fair Work Ombudsman also provides advice to employers on how to pay staff correctly according to the *Fair Work Act 2009*.

Follow the weblink to view advice from the Australian Taxation Office to start-up business owners regarding the checks and legal requirements they need to follow upon appointing staff to the business.

Follow the weblink to the website of the Fair Work Ombudsman, which provides advice to small businesses about paying staff correctly.



Goods and Services Tax

As the name suggests, Goods and Services Tax (GST) is the levy that is applied to goods and services and is another revenue source for the government. GST is applied to most consumer products and the current rate is 10 per cent. In Australia, businesses are required to list their selling price including GST, but must then provide an invoice that differentiates any GST applied to the sale of goods and services. For example, if a business wants to sell a product for \$30, it will need to add \$3 to the sales price to reflect the GST component. A business owner must be aware of the tax that is applicable to the goods and services they offer. Some basic food items do not attract GST, and in other cases, such as the purchase of property, GST does not apply, but a different type of tax, called stamp duty, does apply. Business owners need to keep accurate accounting records of when GST is collected from customers and paid to suppliers as they are eligible to pay any **tax liabilities** to the government, or receive **tax credits**. The ATO will inform the business of the outcomes based on the successful completion of a quarterly Business Activity Statement (BAS).

Business name registration

Businesses are also required to register their business name, or trading name. Business names are monitored by the Australian Securities and Investments Commission (ASIC) to ensure fair competition in Australia. ASIC is a government body that provides regulatory licensing and advice to businesses, financial professionals and consumers. There is only one exception to the requirement that a business must register its business name. This is the case when the business name is the first name and surname of the business owner. For example, if James Smith was an interior designer and called his business 'James Smith', he would not need to register his business name. However, if he was to call his business 'James Smith Interior Designs', 'Smith Designs' or 'JS Homes', then his business name must be registered. ASIC will notify an individual if their preferred business name is already registered. If this is the case, the business will need to trade under a different name. The ASIC website provides a search function for this purpose.

Follow the weblink to the website of the Australian Securities and Investments Commission.



Tax liability: tax, collected by a business, which needs to be paid to the government

Tax credits: the tax a business pays for the purchase of goods and services; offset against a business's tax liability to reduce the amount of tax that has to be paid

Registration for companies

If a business chooses to have a company legal structure, either private or public, then, along with applying for an ABN and registering a business name, they must also register their company name. This name cannot be identical to that of another company that already exists. ASIC has specific rules that apply to company names to ensure they are not offensive, do not suggest illegal activities and are not misleading to consumers about the services the business provides. Businesses must also be careful that a company name does not breach the trade mark of another business entity that already exists.

When registering a company, a business owner must establish a set of rules, and provide a **constitution** for the business, and key roles must be identified. These include having a director, a secretary and at least one member. Businesses that successfully register as a company will be issued with an Australian Company Number (ACN) and must display the company name and ACN on any published documentation. A company must notify ASIC at any time that ownership or structural changes are implemented.

QUESTIONS 6.5



- 1 **Explain** the role federal, state and local governments have in relation to start-up businesses.
- 2 **Explain** the purpose of a business requiring an ABN.
- 3 **Describe** the characteristics of GST and income tax as they apply to businesses.
- 4 **Explain** the registration process for a private or public company.
- 5 **Research** a Business Activity Statement (BAS) available online to **describe** its parts.
- 6 **Explain** the process of registering a business name, considering the impact on stakeholders.

Licences, permits and certificates

Business owners must ensure they obtain all relevant licences, permits and certificates to run their business legally. These are issued by all levels of government to ensure that a quality standard is maintained within industries, and non-compliance could result in fines or the business being closed for an indefinite period. **Licences** are generally required by a business to allow them to conduct any sort of trade – for example, building licences for construction firms, working with children checks for child care centres and lottery licences for newsagencies. **Permits** are often provided when the scope of what the business does extends beyond licensing requirements. For example, a gym would need a permit to offer 24-hour access and a bar may need to apply for a permit to extend its trading hours. **Certificates** are issued by local councils and contribute to quality assurance practices. For example, any business that serves food must obtain a food safety certificate which needs to be visible to customers.

While obtaining licences, permits and certificates can be costly to a business (they are generally renewed yearly), a start-up business benefits from having these requirements in place as they provide assurance that the business is meeting expected standards. Researching licences, permits and certificates can also allow business owners to seek opportunities to grow their business, by considering a range of options. For example, a restaurant may be eligible to apply for a footpath dining permit, which would allow it to offer outdoor seating in front of the business premises.

The Australian Business Licence and Information Service provides businesses with advice regarding licences, permits and certificates they may need.



Constitution: a document that outlines the rules that govern a company, its directors and shareholders

Licence: a legal acknowledgement that a person or business is granted permission to operate

Permit: a legal acknowledgement that a person or business is allowed to operate an aspect of the business not covered by standard licensing

Certificate: an approval from a local council that identifies a business is meeting its legal obligation related to a specific operating task

INQUIRY



Investigating licences, permits and certificates

Using the inquiry process, **describe** the licensing, permit and certificate requirements for a business in your local community. **Create** a presentation to communicate your findings to the class.

Employment and workplace relations

A business owner must ensure they treat their staff fairly, pay them appropriately and contribute superannuation on their behalf. In Australia, the federal and state legislation that governs these business practices includes the *Fair Work Act 2009*, the *Superannuation Guarantee (Administration) Act 1992* and the *Anti-Discrimination Act 1991* (Qld).

Fair Work Act 2009

The *Fair Work Act 2009* provides employers and employees with provisions to ensure a harmonious working environment. The Fair Work Act provides information regarding minimum standards, workplace conditions, enterprise bargaining expectations, unfair and unlawful dismissal definitions and processes, and grievance processes.

A significant section of the Fair Work Act is the explanation of the National Employment Standards. There are 10 standards that all businesses, regardless of size, location or industry, must provide as a minimum to full-time and part-time employees. These are shown in Figure 6.15.

For casual employees, the following standards apply:

- unpaid carers leave
- unpaid compassionate leave
- community service leave
- the Fair Work Information Statement
- long service leave (for long-term casual employees in some states and territories).

Further, some casual employees who have regular employment with a business for longer than 12 months may be entitled to additional standards, including:

- the right to request flexible working arrangements
- access to parental leave.

Sitting under the Fair Work Act and the National Employment Standards are 122 **modern awards** that specify minimum working conditions for industries and occupations, which are further refined in Australia's states and territories. For some industries, occupations or workplaces, agreements are also negotiated between a business, or group of businesses, and its employees. This process is called **enterprise bargaining**. Such agreements generally provide entitlements that exceed what is outlined in an award. Employers that negotiate individually with employees regarding terms and conditions of employment may then enter into **employment contracts**, which, again, generally provide entitlements that exceed or are balanced with a modern award or the National Employment Standards.

- Maximum weekly hours
- Requests for flexible working arrangements
- Parental leave and related entitlements
- Annual leave
- Personal carers leave and compassionate leave
- Community service leave
- Long service leave
- Public holidays
- Notice of termination and redundancy pay
- Fair Work Information Statement

Figure 6.15 Australia's National Employment Standards

Source: www.fairwork.gov.au © Commonwealth of Australia 2017, distributed under CC BY 3.0 AU licence

Modern awards: a type of law issued by the government that outlines the minimum working conditions for employees within an industry

Enterprise bargaining: when employers and employees negotiate pay and working conditions, which are recorded in an agreement. Both employers and employees can appoint

representatives (employer associations and trade unions) to assist in the negotiation process.

Employment contract: an agreement of working conditions between employer and employee that may exceed minimum standards set out in modern awards or the national employment standards

If either the employer or the employee has queries or concerns regarding the employment arrangements of the business, they can seek advice from the Fair Work **Ombudsman**, a government-funded independent statutory office, whose role is to provide a free service to employers and employees as tasked through the Fair Work Act. The role of the Fair Work Ombudsman is to promote harmonious, productive and cooperative workplace relations and ensure compliance with Australian workplace laws. This includes investigating complaints about illegal workplace practices.



Follow the weblink to view the services provided by the Fair Work Ombudsman.

Superannuation Guarantee (Administration) Act 1992

The Australian Taxation Office defines superannuation as

‘A system where money is placed in a fund to provide for a person’s retirement’,

and it is the responsibility of an employer to ensure that superannuation is paid. The current rate for superannuation is 9.5 per cent and this is calculated based on an employee’s ordinary hours of work. As part of the superannuation guarantee, a business owner must contribute these funds to employees’ superannuation funds quarterly. Using a computerised accounting or payroll system can assist a business owner in calculating the superannuation for their employees.



Follow the weblink to see a Superannuation guarantee (SG) contributions calculator that the ATO provides to assist employers in calculating the right amount of super to pay for their employees.

Anti-Discrimination Act 1991 (Qld)

Businesses must ensure that they embrace diversity in their workforce and can be fined if it is proven they have discriminated against an employee or a potential candidate for a job. Start-up businesses can embrace diversity and avoid discrimination claims by employing people of different ages, ethnicity, gender, work experience, religious beliefs, marital status, sexual orientation and qualifications. A business owner needs to be open to employing a range of staff and can be provided incentives for employing staff who have a disability or have been unemployed for an extended period. The independent state authority that oversees the implementation of the *Anti-Discrimination Act 1991* in Queensland is called the Anti-Discrimination Commission Queensland.



Follow the weblink to find advice and resources related to anti-discrimination and equal opportunity in Queensland.

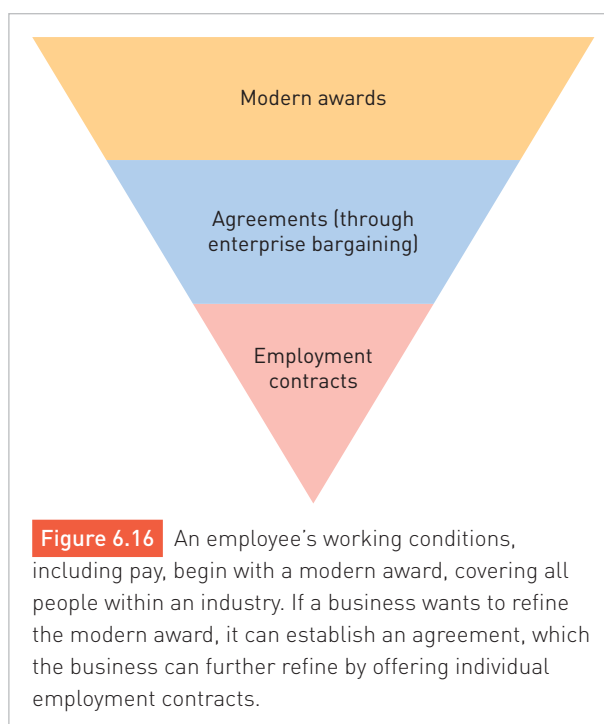


Figure 6.16 An employee’s working conditions, including pay, begin with a modern award, covering all people within an industry. If a business wants to refine the modern award, it can establish an agreement, which the business can further refine by offering individual employment contracts.



Figure 6.17 Start-up businesses must ensure they do not discriminate in the workplace

Ombudsman: an officially appointed organisation that investigates complaints made against a business, dependent on industry

QUESTIONS 6.6



- 1 **Explain** why a business needs to consider licences, permits and certificates in its strategic planning.
- 2 **Explain** the purpose of the following pieces of legislation.
 - a *Fair Work Act 2009*
 - b *Superannuation Guarantee (Administration) Act 1992*
 - c *Anti-Discrimination Act 1991* (Qld)
- 3 Referring to Figure 6.17, **identify** the forms of discrimination evident in the image.
- 4 **Explain** how a business owner can ensure they do not discriminate against their staff or potential candidates.
- 5 **Select** data and information from the website of the Fair Work Ombudsman to **identify** the specific conditions of the 10 National Employment Standards. **Create** an infographic or poster to **communicate** your findings.

Workplace health and safety

An essential responsibility of businesses is to ensure they provide a safe workplace for any person who contacts the business, including employees, customers and suppliers. In Australia, states and territories are responsible for administering workplace health and safety. In Queensland, the *Work Health and Safety Act 2011*, the *Work Health and Safety Regulation 2011* and codes of practice outline the legal obligations of businesses to provide a safe workplace. Within these laws are a key set of responsibilities for a business. These include the responsibility to:

- ensure safe systems of work
- ensure safe use and handling of goods and substances
- provide information, instruction, training and supervision to workers to ensure they are safe
- assess risks and implement appropriate measures for controlling them
- report notifiable incidents to Workplace Health and Safety Queensland (WHSQ)
- investigate incidents and act to avoid having something similar happen again
- provide workers' compensation insurance.

Workplace health and safety is regulated through the Act, regulations and codes of practice.

The act provides the framework for consistent workplace health and safety in Queensland across all industries. These industries include, but are not limited to, construction, banking, retail, hospitality, education and manufacturing. Regulations provide administrative and procedural detail relating to the Act and how the Act can be implemented by businesses within certain industries. For example, in the construction industry, all employees must complete a 'general construction induction training' program, as outlined in the regulation. Finally, codes of practice are the practical guide to achieving workplace health and safety, fine-tuned to industry. Continuing with the construction example, there are codes of practice for demolition, excavation, safe design of structures, managing fall risks, electrical risk, noise, asbestos and working in confined spaces.

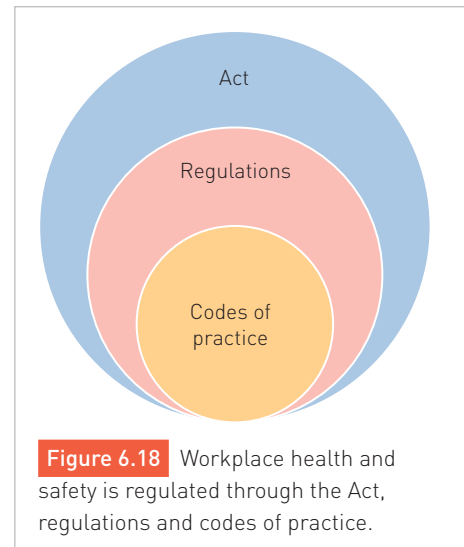


Figure 6.18 Workplace health and safety is regulated through the Act, regulations and codes of practice.



Figure 6.19 Workplace health and safety is essential for all types of businesses to achieve long-term viability.

Work Health and Safety Act 2011: legislation that provides a framework to ensure safe work practices are carried out in all workplaces

Work Health and Safety Regulation 2011: in a workplace health and safety context, this provides administrative and procedural detail relating to the Act

Four statutory bodies exist to ensure the law is enforced and to provide support for businesses in Queensland (Figure 6.20). These are:

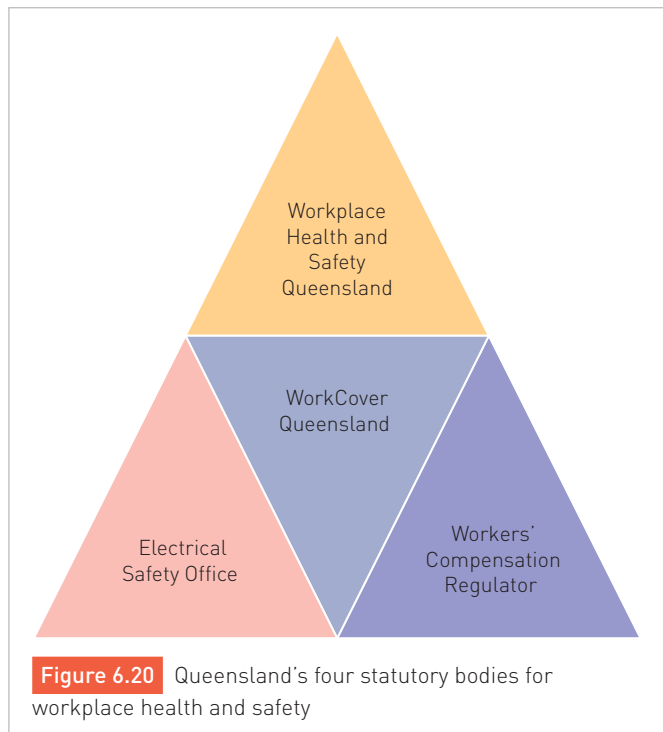
- Workplace Health and Safety Queensland
- the Electrical Safety Office
- WorkCover Queensland
- the Workers' Compensation Regulator.

Workplace Health and Safety Queensland inspects businesses for compliance and strives to sustain and improve safe and healthy work environments in Queensland. The Electrical Safety Office focuses on raising awareness about electrical safety and inspecting businesses for compliance. WorkCover Queensland provides workers' compensation insurance to all Queensland businesses, and the Workers' Compensation Regulator oversees the workers' compensation scheme, provides grants and mediates disputes.

Follow the weblink to the website of Workplace Health and Safety Queensland, which provides advice, checklists and contacts to small business owners to assist them in setting up a safe workplace.



Workplace
Health
and Safety
Queensland



Mandatory standards

Businesses also need to comply with standards of quality and reporting if intending to sell certain products.

Mandatory standards are put in place by Product Safety Australia, a branch of the ACCC, to ensure that consumers are informed about the safety of goods, regardless of their brand name or where the item is produced. It is illegal for businesses not to follow mandatory standard practices in Australia. Some of these include:

- safety of baby products, toys, fire extinguishers and electrical goods
- labelling of ingredients in food, cosmetics and cleaning products
- health warnings on tobacco and alcohol products.

QUESTIONS 6.7



Product Safety Australia, a branch of the ACCC, lists current mandatory standards that affect goods sold in Australia. Following the weblink, **select** information from the Product Safety Australia website to **explain** mandatory standards, providing a range of examples. **Create** paragraphs to communicate your response.

Codes of practice

Industries can also be governed by **codes of practice**. Codes of practice are a set of standards put in place to regulate activities within an industry. Some of these relate to workplace health and safety; others focus on

Mandatory standards: the legal requirement for businesses to inform consumers about the safety of particular goods, often completed through labelling of the product

Codes of practice (Industries): a set of standards put in place to prevent unethical or dangerous practices occurring in an industry

Codes of practice (Workplace Health and Safety): the practical guide to achieving workplace health and safety, fine-tuned to industries

protecting businesses and consumers from unethical or dangerous practices. Some activities monitored by codes of practice are the:

- use of certain fertilisers for farming of fruit and vegetables
- care of animals that are used in scientific and medical testing
- appropriateness of advertising for radio, television and cinema
- selling and distribution of tickets for sporting events and live performances.

Insurance

Just as businesses are required to have workers' compensation insurance, a business can also be legally obliged to take out other insurance policies to protect the owners, staff and customers against risk. These include:

- *professional indemnity insurance*, which protects professions against **litigation** for malpractice (such as breaching a contract, causing injury or incorrect advice). This insurance is most frequently acquired for medical practitioners, financial advisors and accountants.
- *public liability insurance*, which protects a business if injury or damage is incurred by any third party while on business premises or using business equipment. **Third party** refers to people who do not work for the business, such as customers, clients and suppliers.
- *product liability insurance*, to protect businesses if their products become dangerous, such as causing injury or property damage
- other business insurance, generally packaged together by an insurance company that provides cover against risk such as fire, theft and property damage.

Follow the weblink to the website of the ACCC, which provides advice regarding product liability.

Business owners can seek advice from their solicitor, **insurance brokers** and insurance companies to help them set up their business with relevant insurance. If a business chooses to not be protected, they risk not being able to secure licences to operate or finance from **financial institutions** and investors.

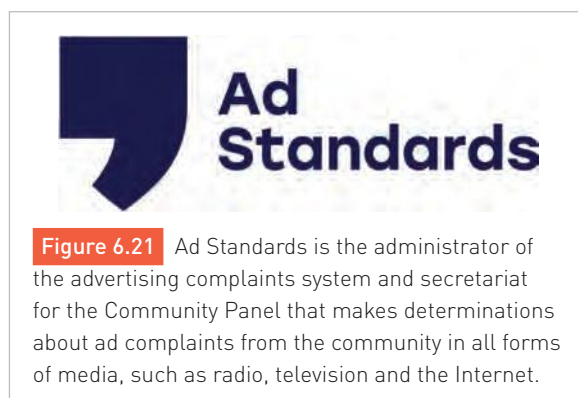


Figure 6.21 Ad Standards is the administrator of the advertising complaints system and secretariat for the Community Panel that makes determinations about ad complaints from the community in all forms of media, such as radio, television and the Internet.



Figure 6.22 Individual businesses must ensure that they have the right types of insurance.



Advertising and the Australian Consumer Law

All businesses must comply with the Australian Consumer Law to ensure they are operating ethically and providing correct information to their consumers. This includes the process for exchanges and refunds, and the rules surrounding advertising. More detail relating to the Australian Consumer Law can be found in Chapter 8.

Intellectual property

As covered in Chapter 5, a start-up business must ensure it protects its intellectual property. This includes applying for patents for new or innovative products, trade marking the business name and its branding, and securing a domain name on the Internet to ensure it is well prepared for its first year of trade.

Litigation: when legal proceedings occur between two opposing parties to enforce or defend a potential breach of the law

Third party: one or more people who are affected by an event, but who may not be directly involved or responsible

Insurance broker: a person who provides professional insurance advice and negotiates policies on behalf of their clients

Financial institution: an organisation that provides banking services

QUESTIONS 6.8



- 1 **Explain** the interrelationship between the Work Health and Safety Act, regulations and codes of practice.
- 2 **Select** information to **explain** the role of Queensland's four statutory bodies relating to workplace health and safety.
- 3 **Select** data and information relating to workplace health and safety in a specific industry to **analyse** the legal requirements placed on that industry by the regulations and codes of practice.
- 4 **Explain** the concept of insurance.
- 5 **Explain** the following types of insurance:
 - a professional indemnity
 - b public liability
 - c product liability.
- 6 **Select** information about insurance to **describe** the features of a small business insurance policy.
- 7 a **Select** data and information for two insurance companies to **analyse** the similarities and differences between the two policies.
 b **Interpret** patterns and relationships to **draw conclusions** about the impact insurance has on a start-up business.

Financing a business

Key learnings

You will learn about financing a business by examining:

- financial objectives.

Financial objectives

A start-up business will achieve its goals if it has strategically planned its finances. Managing finances requires a business to forecast, record, report and analyse its financial information. To evaluate how the business is positioned financially, a business owner should implement strategies that align with five overarching financial objectives. These objectives are profitability, liquidity, solvency, growth and efficiency (Figure 6.23).

Profitability

The main objective of a business is to make a profit; this is the reason a business owner will invest in an idea. Achieving a profit requires a business to generate revenue or income that is greater than its expenses. Profit is generally reported on a yearly basis, but each product or service sold by a business requires a **profit margin** to be achieved. The profitability objective also encompasses **profit maximisation**, relating to how effectively and efficiently profit has been earned, and if there are opportunities for profitability to improve.

Businesses that sell cheap products in high volumes, such as grocery stores and fast-food outlets, will have a low profit margin but generate a high volume of sales. The opposite occurs in businesses that sell expensive

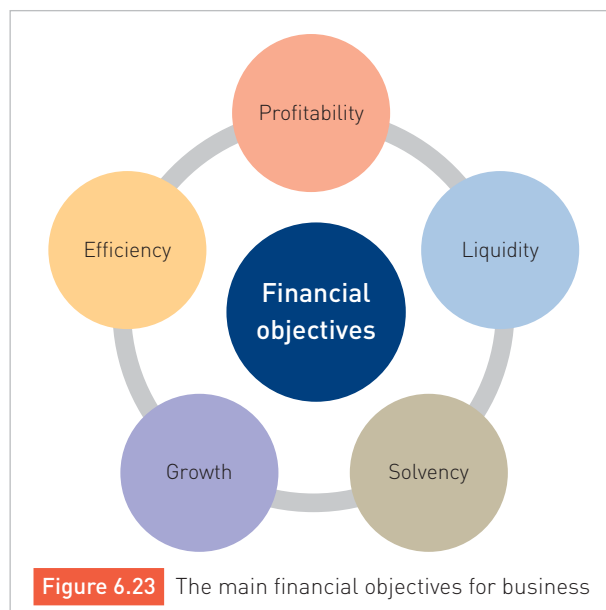


Figure 6.23 The main financial objectives for business

Profit margin: the portion of a selling price that contributes to profit; generally represented as a percentage

Profit maximisation: the process by which a business strives to achieve an increased or greater potential profit

products, such as high-end furniture retailers and fine dining restaurants. These businesses have lower sales but rely on high profit margins to achieve a profit for each **reporting period**.



Figure 6.24 Basic fruit and vegetables are often sold with a low profit margin while luxury cars are often sold with a high profit margin.

Liquidity

The objective of **liquidity** refers to the short-term **cash flow** of a business. Cash flow is the flow of cash into and out of a business. For example, a business in the start-up stage will often have to spend a considerable amount of money to get started before it begins selling and earns revenue or income. Businesses that offer trade credit, or set up accounts with other businesses, often need to manage their cash flow to ensure there is enough money in the business's bank account to pay bills on time. A business can implement a range of **controls** that promote positive and sustainable cash flow in the business.

Solvency

Solvency is similar to liquidity, but is focused on the long-term financial obligations of the business. While a business in start-up can achieve success quickly and escalate to the growth stage of the business life cycle, businesses that grow too big, too soon, often find they are purchasing frequently, in larger amounts (for example, **assets** including furniture and fittings, stock, signage). They may then find either that their revenue flows into the business at a much slower pace, or their debt finance increases while the value of the asset decreases. These actions place a business in an unstable financial position as its debt value could outweigh the value of assets. Hence solvency is an objective that investors take seriously, as it can indicate the level of financial risk in the business. It is through the solvency objective that the balance of debt and equity finance is evaluated against the assets purchased by the business.

Some businesses become **insolvent** – they can no longer afford to pay off debt finance. This can result from a business failing to carefully monitor its expenses, how much money it owes to suppliers or banks and the value of its equity. In this case, the Australian Securities and Investments Commission (ASIC) will appoint an accounting firm to manage the insolvency process. The accounting firm will calculate the business's assets and

Reporting period: an accounting term that represents the span of time over which financial reports are related

Liquidity: relates to a business's ability to convert assets quickly to cash, which may then be used to cover expenses

Cash flow: the monitoring of money that flows into and out of a business. A business must strive for positive cash flow, which means more money flows into the business than is paid out.

Controls: the policies and procedures a business puts in place to ensure that the security of the business's finances is maintained

Solvency: relates to a business's ability to meet its debt obligations in the long term, while maintaining high value of its assets

Assets: items of value that a business owns

Insolvent: describes a business that is unable to pay back its debt finance

attempt to sell them to pay off its **liabilities** and, if funds remain, issue returns to shareholders, partners or the business owner. Other terms used to describe insolvency include liquidation and bankruptcy.

Growth

Complementing the objective of profitability is the financial objective of growth. As businesses achieve success, it is foreseeable that they will grow. This can occur through extending a product line, expanding a store, opening in new locations and increasing market share. Financially, growth must be managed to ensure the business is generating enough revenue to cover its growth expenses. Using a comparative **statement of profit or loss (income statement)** and **statement of financial position (balance sheet)** can indicate whether the growth objective is being achieved successfully or if the business needs to be more conservative in executing its growth strategy.



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Figure 6.25 Start-up businesses must set financial objectives to ensure long-term success.

Efficiency

A business that strives to maintain an appropriate value of assets, while also earning a significant profit, is achieving the financial objective of efficiency. Businesses need to assess their spending regularly, and be cautious of overspending, as this can limit profitability. An example of efficiency in practice can be seen when a business considers salaries and wages for its staff. Particularly in the retail industry, businesses are efficient when they only increase staff ‘on the floor’ during peak trading times (e.g. late-night trade and weekends). For fast-food outlets, which require a significant number of staff to ensure orders are processed within a short time frame, it would be efficient to choose to employ juniors (people under the age of 21) as their pay rate per hour can be significantly lower than for someone over the age of 21. Other examples of efficiency in practice include manufacturers buying in bulk to reduce costs, a distributor selecting a location with a low rent if it does not require street presence, and a law firm that aims to reduce courier and postage costs by sending documents electronically.

QUESTIONS 6.9



- 1 **Explain** the five financial objectives of business.
- 2 **Compare** profitability with profit maximisation.
- 3 **Discuss** how growth and efficiency can be two complementary objectives.
- 4 **Identify** which objective/s focus on each of the following:
 - a business assets
 - b income/revenue
 - c liabilities
 - d investment
 - e expenses.
- 5 **Select** data and information relating to a small business’s overall goals and **compare** them to the five financial objectives.

Liabilities: money a business owes to another party, generally in exchange for the purchase of assets

Statement of profit or loss (income statement): a financial report that summarises a business’s revenue and expenses to calculate profit

Statement of financial position (balance sheet): a financial report that summarises a business’s asset and how they are financed to inform the business’s financial position

INQUIRY



Investigating the financial objectives

Using the inquiry process, **create** a one-page report that responds to the following question: 'How do the five financial objectives conflict with one another and what impact does this have on business decisions?'

Macro environmental factors influencing financing of a start-up business

Key learnings

You will learn about start-up financing by examining:

- the influence of the macro environment.

The strategic planning that businesses require to achieve their financing objectives and establish their operating environment is influenced by the macro environment. This can be analysed using PESTLE factors. Internally, the owner of a start-up business should consider these factors to inform their decision-making and ensure they place themselves in a financially viable position to achieve their business goals.

Political factors

The political environment can have an impact on financing through a business's compliance with legislation or through the provision of grants to start-up businesses to encourage stability and growth. As discussed earlier in this chapter, a start-up business needs to comply with taxation and superannuation legislation and must factor these costs into its budget. Changes to taxation and superannuation are often debated in parliament and can be used by political parties to gain support from voters. Further, if a start-up business does not allocate these funds effectively, it risks paying government penalties for not meeting its taxation and superannuation obligations.

On the positive side, governments may also provide business payments and grants to start-up businesses. These grants could cover product development, or employment and training incentives. These opportunities are also influenced by economic factors, but often a government will introduce policies that support start-up and small business. Governments also provide start-up business owners with free access to business information, including how to fund the business and ensure it has accurate budgets and efficient cash flow.

Follow the weblink to see when and where the Queensland Government runs a variety of free business support webinars, meetings and workshops targeted at start-up and small businesses.

Advance Queensland is a government initiative supporting start-up businesses in Queensland by providing advice, support and grant opportunities.



Economic factors

The state of Australia's economy can impact on the options available to start-up businesses when seeking finance. When an economy is in a growth state, start-up businesses may find finance easier to access through a **financial intermediary**, such as a bank, relaxing its application requirements. However, in times of economic instability, when **cash interest rates** and **inflation** are adjusted, financial intermediaries can tighten their application requirements, making it more difficult to secure finance. A start-up business owner should familiarise themselves with economic changes and how they affect

Financial intermediary: an organisation such as a bank, credit union or finance company that offers debt finance products to the market

Cash interest rates: a charge, set by the Reserve Bank of Australia, that regulates a percentage fee associated with

lending funds, or the expected return on funds that are invested

Inflation: the general increase in prices for goods and services as the value of money decreases over time

business funding. Sometimes, an economic downturn can result in a government boosting grants and incentives to businesses to revive an economy, and a start-up business owner should seek to maximise these opportunities.

Socio-cultural factors

Socio-cultural factors that impact on start-up business financing generally relate to the opportunities for the business to seek finance from investors. These investors will be keen to support businesses that operate in a growing market or industry, such as technology start-ups, or businesses that base their operations on social responsibility. This can include the provision for employment, and paying staff competitive and just wages.

Technological factors

Technological factors and financing for a business are closely aligned. Technology makes applying for finance more accessible and improves communication between start-up businesses and their banks and investors. Technology has also provided start-up businesses with computerised point-of-sale and accounting software packages that streamline financial record-keeping. Start-up businesses should consider implementing these computerised software packages as part of their strategic planning to increase effectiveness and efficiency within the business.

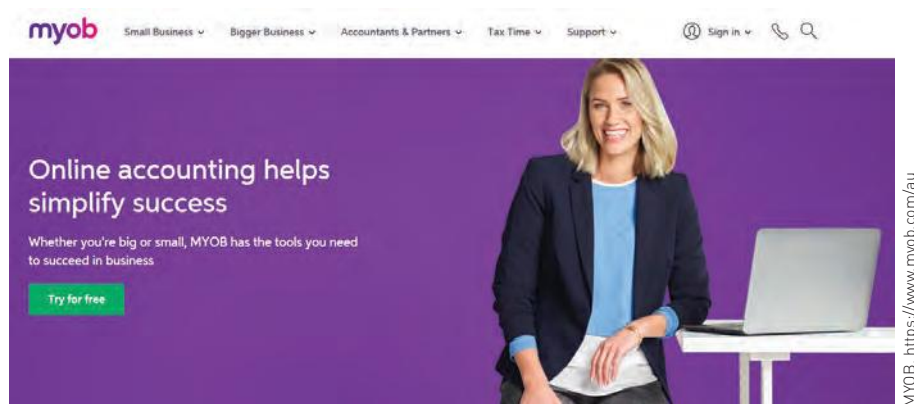


Figure 6.26 MYOB is a popular computerised accounting software package used by businesses in Australia.

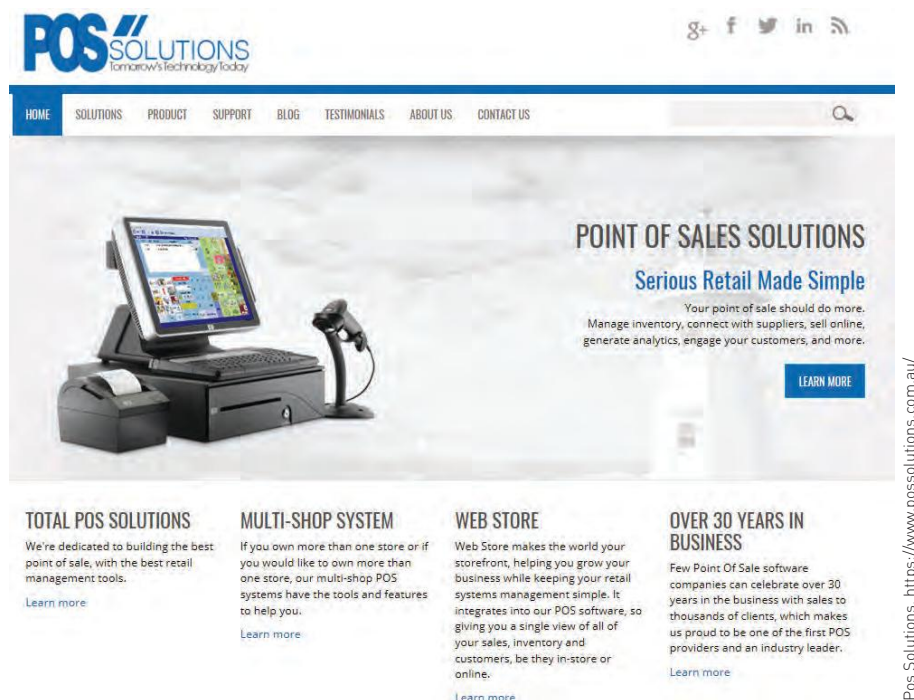


Figure 6.27 POS Solutions provides point-of-sale products to Australian businesses.

INQUIRY



Investigating technology

Using the inquiry process, investigate a computerised accounting or point-of-sale software package to **describe** its features and **explain** its benefits if purchased by a start-up business.

Legal factors

As discussed in the 'Political factors' section, start-up businesses need to ensure they comply with relevant legislation, and meet their financial obligations, when setting up their business. A start-up business will need to factor the cost of applying for licences, permits and certificates into its budget, along with rent and hire expenses for premises and equipment. A start-up business may also need to purchase workplace health and safety equipment as a condition of approval before licences, permits and certificates are issued. The cost of engaging a solicitor or business lawyer is a must for a start-up business to ensure all legal obligations are considered.

Environmental factors

For financing a business, environmental factors are generally linked to efficiency. This includes minimising the waste of resources, a consideration that can generally be managed effectively by being careful about spending. A start-up business would need to define its contingency plans for securing finance if the business relies on land resources, as in the case of grazing or farming, so that financial intermediaries and investors are confident in funding the business.

QUESTIONS 6.10



- 1 **Summarise** the impact of PESTLE factors on business financing.
- 2 **Create** a table to **suggest** a range of local start-up or small businesses that would be influenced by PESTLE factors related to financing. A sample response is provided.

Macro environment factor	Example of local start-up or small businesses
Political	A local jeweller may receive a government payment for employing and training an apprentice.
Economic	
Socio-cultural	
Technological	
Legal	
Environmental	

- 3 **Select** information from a start-up business in your local community and **analyse** the macro influences on the business using a PESTLE.

Sources of finance

Key learnings

You will learn about sources of finance by examining:

- equity finance
- debt finance.

The word 'finance' is used for many purposes, but most common is the way a business secures money for its operations. Financing a business requires careful management and a business owner should seek advice and guidance from an **accountant** as well as a **financial advisor** to ensure the best financing decisions are made.

Accountant: a person who records, monitors and reports upon a business's transactions and subsequent financial reports

Financial advisor: a person who is qualified to provide investment advice to clients



Before a business owner can approach a bank or investors, they need to have saved their own money to invest into the business start-up. This is called **equity finance**. When a business approaches a bank for a loan, where a time limit and interest rates are part of the contract, this is called **debt finance**. A business uses debt and equity finance together to purchase assets for the business so it may begin trading.

Equity finance

Equity finance is the **investment** made in the business by the owner, or by others who see the business's potential to make a profit and want to receive some of this profit in return for their investment. It is considered an internal source of finance and, depending on the business's legal structure, can be termed differently. For example, sole traders and partnerships refer to equity finance as capital; private companies refer to equity finance as capital, shares or stake; and public companies refer to their equity finance as shares.

For a business in the start-up stage (likely to be a sole trader, partnership or private company) there are numerous ways in which equity finance can be sourced. These are:

- self-funding by the owner/s
- seeking **private investors** (angel investors) or **venture capitalists**
- crowdfunding, or asking for funds from family or friends.

Regardless of how equity finance is sourced, a business must strive to achieve profitability and solvency to ensure that there is a return on investment. If the business fails to perform, then investors may choose to withdraw their equity finance, which could put the business in a challenging financial position. For a start-up business, equity finance would be considered a long-term option as investors will generally commit their funds for longer than one year.

Profit can also be considered a type of equity finance. For example, profit that is recorded at the end of a financial period can be reinvested into the business, rather than being distributed to the business owner or investors. This reinvested money is referred to in financial reports as retained profit. Businesses that choose to reinvest profit into the business often use these funds to support the growth financial objective because the greater its access to equity finance, the greater opportunity the business has for expansion.

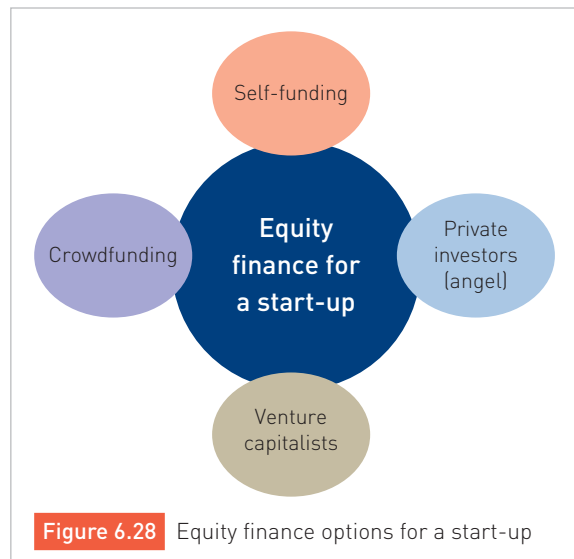


Figure 6.28 Equity finance options for a start-up

QUESTIONS 6.11



- 1 **Explain** equity finance and why it is considered an investment.
- 2 **Describe** the ways in which a small business can source equity finance.
- 3 **Explain** the relationship between retained profit and strategic planning.
- 4 **Select** data and information about public companies to **analyse** their equity finance options. **Create** a diagram to **communicate** this information.

Equity finance: the internal funds invested into a business and used to purchase assets; often referred to as capital

Debt finance: funds that a business seeks from external sources, such as financial institutions. The business uses the money to purchase assets, but must pay back the debt finance over time, incurring interest charges. The most common form of debt finance is a loan.

Investment: when a person contributes their own funds to a business or enterprising activity, with the goal of making a return on their money

Private investor: a person or business that provides equity finance to a private company structure. A private investor who chooses to specifically fund a start-up business is referred to as an 'angel investor'.

Venture capitalist: a person or business that provides equity finance to a business with plans for growth and expansion

INQUIRY



Investigating the 'Bank of Mum and Dad'

- 1 Using the inquiry process, **select** information to **explain** the newly coined 'Bank of Mum and Dad'.
- 2 **Interpret** the impact of using the Bank of Mum and Dad as a source of finance for a start-up business.

EMERGING TECHNOLOGIES



Crowdfunding

The Internet has given us an ability to connect with many people. Businesses have learned to maximise this by raising equity finance through a concept called crowdfunding. The article below outlines recent legislative changes that are allowing this new type of equity financed to be sourced.

Show me the money! Connecting start-up founders to crowdfunding

Raising capital and accessing affordable finance is a key issue facing start-ups in Australia. There are relatively few early stage venture capital firms and financial institutions are often unwilling to invest in speculative or innovative ideas. In fact, a report prepared by the Department of Industry, Innovation and Science in 2016¹, found that Australia has the lowest investment in high-risk, early stage venture capital compared to other OECD countries.

Most start-ups in Australia start off as self-funded, yet based on past figures², approximately 70% will need funding to continue to operate and grow, and almost half plan to raise funds in the future. While many turn to family and friends for initial funding, and there is some limited ability to raise funds from the public under the '20/12/2 rule'³, up until recently the only viable alternative was to seek investment from venture capital funds or angel investors. Recent changes to the law have sought to address this with the introduction of the *Corporations Amendment (Crowd-Sourced Funding) Act 2017* (Cth).

In this update, Andrew Clark of Moulis Legal takes a closer look at this new legislation, and explores what it means for start-ups looking to raise early stage capital.

Fundamental changes to crowd-sourced funding

The new crowd-sourced funding (CSF) rules came into effect on 29 September 2017. They create a new regulatory framework for crowd-sourced funding that is intended to open up the retail investor market to start-ups while balancing the need to keep investors well-informed and protected.

Under the new rules, start-ups will have access to a larger pool of investors without having to be listed on a stock exchange or issuing a full prospectus. This reduces the regulatory barriers for companies, making it easier to raise funds without having to comply with many of the costly and time-consuming corporate governance, reporting and disclosure obligations under the *Corporations Act 2001* (Cth) ('the Act'). Importantly, restrictions on advertising have also been reduced, making it much easier for start-ups to attract more investors through social media and other platforms.

This is a big step forward, but there are some restrictions. As you would expect, the changes are aimed at smaller companies only and there is a limit to the maximum amount that can be raised, both in aggregate and at an individual investor level. To raise funds, start-ups must also go through a platform operated by a licenced CSF intermediary and there are still various (but less onerous) disclosure requirements.

Perhaps the key restriction, however, is that the CSF regime only applies to public (unlisted) companies. According to the Startup Muster 2016 annual report², 84.5% of start-ups typically operate through a proprietary limited company, and there is a good reason for this. The regulatory obligations for public companies are much more onerous, complex and expensive. Because of this, proprietary companies typically don't convert to a public entity until they are ready for an IPO. The Government has tried to off-set this burden by offering small public



companies who access the CSF regime some welcome, but temporary, relief from these reporting and governance requirements.

This includes up to a five year reprieve from (amongst other things) holding annual general meetings, having their accounts audited and providing annual reports to shareholders. However, watch this space as the Corporations Amendment (Crowd-sourced Funding for Proprietary Companies) Bill 2017 ('the Bill') is currently being considered before Parliament which includes in its amendments the ability for proprietary companies to take advantage of the CSF regime. If this Bill is passed, it may significantly increase the attractiveness of the CSF regime to start-ups.

Some of the key points to consider with the CSF regime include:

- To participate, companies must have less than \$25 million in consolidated annual revenue and gross assets, respectively.
- Companies can only raise up to \$5 million in total (including any capital they have raised from the public under other parts of the Act) in any 12-month period.
- Offers are limited to ordinary shares only.
- Companies must be registered as (or convert to) a public company.
- Each investor can only invest a maximum of \$10 000 per company in any 12-month period.
- Offers must include a 5 day cooling off period and must prominently display a number of prescribed warning statements.

It is early days, and time will tell how attractive the CSF regime is for the start-up community. Initial take-up may be slow as many wait for the proposed changes allowing proprietary companies to participate to become law. Looking overseas, similar platforms have been extremely successful, and any expansion of options for start-up funding has to be a good thing.

For more information, please contact Andrew Clark on +61 7 3367 6900 or andrew.clark@moulislegal.com.

This memo presents an overview and commentary of the subject matter. It is not provided in the context of a solicitor-client relationship and no duty of care is assumed or accepted. It does not constitute legal advice.

[1] <https://industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/Australian-Innovation-System/2016-AIS-Report.pdf>

[2] See Start Up Muster 2016 Annual Report (<https://www.startupmuster.com/Startup-Muster-2016-Report.pdf>)

[3] Under the Corporations Act, a proprietary company can raise up to \$2m from no more than 20 retail investors every 12 months

Source: Andrew Clark, Associate Director, Moulis Legal, <http://moulislegal.com/show-me-the-money-connecting-start-up-founders-to-crowdfunding>

Questions

- 1 **Explain** the term 'crowdfunding'.
- 2 **Describe** the key characteristics of the new legislation that the government is introducing.
- 3 **Evaluate** the government's regulation of crowdfunding using the criterion of competitiveness. **Create** a paragraph to **communicate** your response.

Debt finance

Debt finance exists when a business borrows funds from an external lender or financial intermediary such as a bank, credit union or, in the case of trade credit, a supplier. In most cases, debt finance is provided in the form of a loan; however, financial intermediaries can also offer overdraft facilities, credit cards, leasing and bridging finance. These debt financing options can meet both short-term and long-term business needs.

Features of short-term debt finance are that:

- the debt product is suitable for incidental purchases that can be paid off within a 12-month period
- approval can be obtained easily and within a short time frame. For example, a business owner could apply online and receive a response within 48 hours
- the repayment period for the debt finance is specified in days. For example, repayments are due within 44 days from the date of purchase
- interest charged on the debt is considerably higher than the cash interest rate set by the Reserve Bank of Australia. For example, the interest rate for short-term financing ranges from 13 per cent to 20 per cent.

Features of long-term debt finance are that:

- the finance is required for the purchase of a non-current asset that the business will keep for more than one year
- the borrowing amount is generally high – for example, \$10 000 upwards
- repayments are specified in months over a fixed contractual period. For example, a minimum monthly repayment is required over a five-year period
- interest charges are generally lower than short-term debt finance options, ranging from 4 per cent to 12 per cent, because the financial intermediary knows it has secured income in the form of interest for the contractual period.

Table 6.1 explains the different types of debt finance and whether they are suitable as short-term or long-term options for a start-up business. When considering short-term or long-term suitability, a business should review its debt finance and, if required, negotiate changes that put the business in a stronger financial position, aligned to achieving its financial objectives.

Table 6.1 Types of debt finance and their short-term and long-term suitability

Type of debt finance	Explanation	Short-term or long-term suitability
Bank loan	A financial institution provides funds to an individual or business in a contractual agreement where those funds must be paid back in instalments, generally monthly, and within a set period. A standard bank loan can be approved for between \$5000 and \$100 000 and may attract an interest rate between 6% and 14% per annum. A mortgage , which is another type of bank loan, applies to the purchase of land. A mortgage can be approved from \$70 000 up to many millions of dollars and attract an interest rate between 4% and 8%.	Long-term
Bridging finance	This product is offered by financial institutions and is used when a person or business uses debt finance to purchase a new asset, but is still waiting to sell an existing asset. It generally attracts a high rate of interest and a short, fixed contract.	Short-term
Credit card	A financial product with which a person or business is approved for a small loan from the bank, to be used on incidental purchases at the point of sale. Credit card balances generally need to be paid within 44 days and, due to the convenience of the feature, can have interest rates ranging from 12% to 20% per annum.	Short-term
Leasing	Offered through a finance company or agent , a lease is a contractual agreement whereby an individual or business is approved to purchase an asset and retain it in return for a monthly payment over a fixed period. The lease payment also includes servicing and maintenance costs for the asset. At the end of a contract period, there are generally funds still owing on the good, called a balloon payment. Legally, the lease is owned by the finance company, as is the asset purchased until it has been paid in full. A lease generally has an interest rate similar to a loan.	Long-term
Overdraft	A facility offered by a financial institution that allows an individual or business to withdraw more money from their account than they have available (to go into a negative balance) from \$500 to \$10 000. Going into overdraft can attract an instant fee plus a charge of interest for each day the account maintains a negative balance.	Short-term
Trade credit	This financial agreement occurs between a business and its supplier, whereby the supplier agrees to provide goods to the business when required, but does not expect payment for the goods until a later date. The supplier will invoice the business to notify them of what they owe and the due date for payment, which is generally between 7 and 30 days. Some businesses will charge a fee for late payments.	Short-term

Mortgage: the name given to a loan that is used to secure land and/or buildings

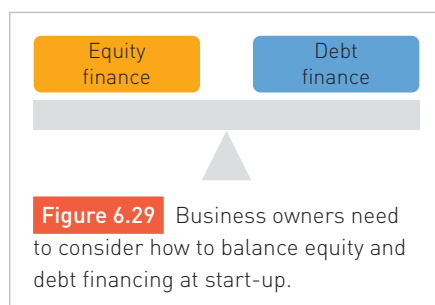
Finance company or agent: an organisation that provides debt finance products to the market, but that is not legally established as a bank or financial institution

Issues for debt and equity finance

A business owner needs to carefully consider the amount of equity finance and debt finance used to source the purchase of business assets. Generally, businesses should try to achieve a balance of debt to equity, but in start-up it is safer for a business to utilise more equity finance. This is because debt finance has an interest component. If a start-up business has minimal sales or a slow inflow of revenue in its initial period of trade, the business will still be required to pay interest (an expense), and this may challenge start-up businesses that are trying to establish themselves in the market.

In addition to balancing debt and equity finance, a business owner must also consider how much funding is needed to purchase the assets required to run the business. For example, a small start-up does not need millions of dollars of debt and equity finance if it only turns over \$100 000 of revenue a year.

When strategically planned, the combined value of equity and debt finance may not be an issue, but the business owner must be aware of **over-capitalisation** and **under-capitalisation** risks. Over-capitalisation occurs when a business uses its sources of finance to purchase more assets than it requires to operate, affecting the efficiency objective. For example, in a small town of 10 000 people, a taxi company may only use five vehicles at a time. If the company owns 12 vehicles, this means seven are not being used. As all vehicles lose value, this is not an efficient use of assets, and the business should sell the vehicles and invest elsewhere. On the other hand, under-capitalisation occurs when the business does not have enough equity or debt finance to source the purchase of assets and to run the business, and as a result, the liquidity or solvency objectives of the business are not met. For example, a business that grows so quickly that it cannot keep up with demand may start spending more money than it has, or has budgeted for, resulting in the business 'going backwards'. Over-capitalisation can also occur as a result of too much debt finance where the interest charges prevent a business from making a reasonable profit, if any at all.



QUESTIONS 6.12



- 1 **Explain** debt finance and **describe** its main characteristics.
- 2 **Create** a Venn diagram to **compare** short-term and long-term debt finance.
- 3 **Describe** 10 different purchases of a start-up business and **identify** which type of debt finance would be most suitable.
- 4 **Explain** why debt finance is classified into short-term and long-term options.
- 5 **Explain** the relationship between equity finance and debt finance and the five financial objectives.
- 6 **Explain** the concepts of over-capitalisation and under-capitalisation.
- 7 **Discuss** the following statement: 'A business can only source debt finance after securing equity finance'. **Create** a paragraph response.
- 8 **Select** data and information from a financial institution to **analyse** the short-term and long-term debt finance products it offers.

Over-capitalisation: the financial position in which a business has more assets than are required for its core operations

Under-capitalisation: the financial position in which a business does not have enough equity or debt finance to source assets and operate the business

GAINING INSIGHT



The accounting equation

In accounting, the relationship between using debt and equity finance to purchase assets is demonstrated in a formula, known as the 'accounting equation':

$$\text{Assets} = \text{liabilities} + \text{owner's equity}$$

In the accounting equation:

- *Assets* are what the business owns – items of value, such as inventory, furniture, land, buildings, fittings, equipment and goodwill.
- *Liabilities* are the value of money that the business owes to others. For debt finance, these others may include banks and credit unions. Liabilities can also include the money that is owed to suppliers, but billed using trade credit.

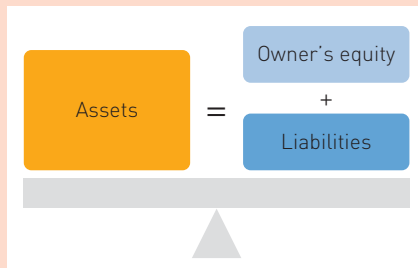


Figure 6.30 The accounting equation

- *Owner's equity* is the value or net worth of the business. It is where net profit and capital (the money invested into the business) is recorded.

The accounting equation plays a fundamental role in ensuring that businesses keep accurate financial records. In accounting, the outcome of the accounting equation is reported in a balance sheet or statement of financial position. Accountants use this report to analyse the distribution of debt and equity finance in a business, and will advise the business owner of what they should do that best helps the business to achieve its financial objectives.

Questions

- 1 **Select** two balance sheet templates from credible online sources to **analyse**:
 - a where the accounting equation is represented
 - b any similarities between the two templates
 - c any differences between the two templates.
- 2 **Evaluate** the two balance sheet templates to make a judgement based on the criterion of stakeholder satisfaction (i.e. Which template is more 'user-friendly' for a start-up business owner?). **Create** a presentation to **communicate** your response.

Budgeting

Key learnings

You will learn about financial strategic planning by examining:

- budgeting.

A business which carefully considers its costs against anticipated income will create a **budget** to inform decision making. A budget is an analytical tool and is used in strategic planning to assess the viability of a business's purchases and its anticipated income, prior to any transactions occurring. Therefore, it can be used by a business owner to evaluate financial objectives, most notably liquidity and efficiency. Budgets for a start-up business are used to inform what purchases a business can afford to make. They can also provide an indication of whether debt finance should be sourced or if a business owner has enough equity finance to begin trading.

To demonstrate different types of budgets, a fictional business called Shake Up will be used. Shake Up is a micro-business with one staff member (the owner) who sells protein shakes at the local markets two days a week. While the business is fictional, the data used is authentic to the business situation.

Budget: an analytical tool used, before transactions occur, to compare anticipated income with expenses

Budget sample A: start-up costs

In this budget, Shake Up is going to list establishment and anticipated monthly costs. This information can be used by the business owner to inform their decision-making regarding the capital they need to get their business trading (equity finance) or whether using debt finance might help the business purchase more expensive assets. Through interpretation, the business owner may use the data to make decisions about when the business should begin to trade and if some anticipated costs or expenses can be minimised.

Table 6.2 A sample start-up budget

Start-up budget: Shake Up				
June 2019				
	Budget	Actual	Variance	%
Monthly costs/expenses		A business owner would record actual costs in this column after the expense had been paid, or the month has passed	This column would calculate 'Actual – Budget'	This column would calculate 'Variance / Budget * 100'
Owner's salary	\$1,733			
Ingredients and packaging	\$1,907			
Rent	\$780			
Motor vehicle expenses	\$50			
Mobile and data plan	\$100			
Insurance	\$80			
Accountant fees	\$100			
Professional association fees	\$33			
Miscellaneous	\$50			
Subtotal	\$4,833			
Establishment costs/expenses				
Utensils and equipment	\$150			
Tent/marquee	\$300			
iPad	\$1,600			
Furniture	\$100			
Commercial Esky	\$400			
Blender	\$400			
Solicitor fees	\$1,000			
Licences and permits	\$1,000			
Promotional materials – signage	\$100			
Promotional materials – business cards	\$20			
Subtotal	\$5,070			
Total	\$9,903			

Budget sample B: monthly budget

A monthly budget analyses the business's trade by identifying anticipated income, monthly expenses and whether there is a residual balance remaining at the end of the month. A business owner would want a positive residual balance, also known as a **surplus**, as this indicates that the anticipated income is exceeding expenses. If the opposite occurs, and the expenses exceed the income, this is known as a **deficit**. This data can provide an indication if profit is likely to be achieved, but this is only an estimate as calculating net profit is a more complex task.

Table 6.3 A sample monthly budget

Monthly budget: Shake Up				
June 2019				
	Budget	Actual	Variance	%
Income				
Protein shake sales	\$5,200			
Subtotal	\$5,200			
Monthly costs/expenses		A business owner would record actual costs in this column after the revenue is earned, expenses have been paid, or the month has passed	This column would calculate 'Actual – Budget'	This column would calculate 'Variance / Budget * 100'
Owner's salary	\$1,733			
Ingredients and packaging	\$1,907			
Rent	\$780			
Motor vehicle expenses	\$50			
Mobile and data plan	\$100			
Insurance	\$80			
Accountant fees	\$100			
Professional association fees	\$33			
Miscellaneous	\$50			
Subtotal	\$4,833			
Residual: surplus (deficit)	\$367			

Budget sample C: month-by-month trade

A month-by-month budget analyses trade across months. Shake Up will need to consider what factors (both internal and macro) may impact on sales. This could include planning for times when the stall cannot operate (for example, owing to family commitments), risk of weather preventing the markets from opening and seasonal demand for cold drinks.

Surplus: occurs when a business has forecasted more income than expenses when formulating a budget

Deficit: occurs when a business forecasts that its expenses exceed income when formulating a budget

Table 6.4 A sample month-by-month budget

Month-by-month budget: Shake Up				
June–September 2019				
	June	July	August	September
Income				
Protein shake sales	\$ 5,200	\$5,100	\$4,500	\$5,800
Subtotal	\$5,200	\$5,100	\$4,500	\$5,800
Monthly costs/expenses				
Owner's salary	\$ 1,733	\$1,733	\$1,733	\$1,733
Staff wages	\$ -	\$ -	\$ -	\$150
Ingredients and packaging	\$ 1,907	\$1,907	\$1,907	\$2,167
Rent	\$ 780	\$780	\$780	\$780
Motor vehicle expenses	\$ 50	\$50	\$50	\$50
Mobile and data plan	\$ 100	\$100	\$100	\$100
Insurance	\$ 80	\$80	\$80	\$80
Accountant fees	\$ 100	\$75	\$75	\$75
Professional association fees	\$ 33	\$33	\$33	\$33
Miscellaneous	\$ 50	\$50	\$50	\$50
Subtotal	\$4,833	\$4,808	\$4,808	\$5,218
Residual: surplus (deficit)	\$ 367	\$292	\$(308)	\$582

While three start-up budget samples have been provided in this text, there are an infinite number of budget templates that businesses at all stages of the business life cycle use. These budgets assist business owners to identify the likely achievement of financial objectives and whether changes need to be made so the objectives can be achieved. Once a business has had continual trade over time, historical data, such as comparing years, can be used to identify any patterns or trends relating to the business's financial decisions. Other examples of budgets include:

- cash budgets, which monitor the movement of physical cash in the business (liquidity objective)
- marketing budgets, which align promotional expenses (i.e. advertising) with anticipated sales (profitability objective)
- staffing budgets, to analyse potential sales against wage expenses (profitability, solvency and efficiency objectives)
- operational budgets, to identify the money needed for a project to proceed (growth, efficiency and solvency objectives).

QUESTIONS 6.13



- 1 **Explain** the concept of budgeting.
- 2 **Contrast** a start-up budget with a budget that is used once sales have been recorded.
- 3 **Evaluate** the use of variance and percentage columns in a budget to **make a decision** based on the criterion of stakeholder satisfaction.
- 4 **Create** a presentation to communicate to the class three different budget templates available online, and **explain** their purpose. **Recommend** which budget is the most effective in communicating financial information.
- 5 **Evaluate** the statement 'While budgets are useful, they are not essential to a business start-up', to make a judgement, using the criterion of efficiency. **Create** a paragraph to **communicate** your response.
- 6 **Analyse** the relationship that exists between budgeting and sourcing debt and equity finance.

GAINING INSIGHT



The Coffee Guy franchise model



All images courtesy The Coffee Guy, www.thecoffeeGuy.net.au

Innovative Finance Model

What is the Coffee Guy innovative finance model?

The Retail Food Group has the ability and desire to make The Coffee Guy mobile coffee franchise affordable for absolutely everyone.

The game changer is we retain ownership of the Suzuki APV Van and Equipment and you pay Retail Food Group a licence fee of only \$250 + GST per week (for the first 5 years on the franchise agreement only).

This cost is of course tax-deductible for your business.

Our up-front fees (including franchise fee, training fee, marketing fee, legal fee) amount to only \$43 000 + GST. There is also a small BOND of \$6000 for the van, which is refundable.

This is an amazing offer to get started in your own business. There are also very flexible finance options available.

Our ongoing franchise and marketing fees are very low. Make an enquiry to find out more.

These numbers do not include the business start-up costs we recommend at least \$5000 working capital as a minimum.

Source: The Coffee Guy, www.thecoffeeGuy.net.au/franchise-opportunities/innovative-finance-model



The Coffee Guy website provides detailed information about its franchise model.

**Questions**

- 1 **Describe** the facts and characteristics of the innovative franchise model of the Coffee Guy.
- 2 **Explain** the costs for a franchisee to establish a Coffee Guy franchise.
- 3 **Suggest** which sources of finance might be suitable for a franchisee to establish a Coffee Guy franchise.
- 4 **Explain** the budgeting a franchisee would need to undertake to start-up a Coffee Guy franchise.
- 5 **Evaluate** the Coffee Guy's strategy to provide the Suzuki APV Van in return for a licensing fee, using the criteria of competitiveness and efficiency.
- 6 **Select** information from the Coffee Guy website to **explain** the training and support that is provided by the franchisor.
- 7 **Select** information to identify the other franchise businesses offered by Retail Food Group.

Break-even analysis

Key learnings

You will learn about financial strategic planning by examining:

- break-even analysis.

As covered in Chapter 5, a key strategy for a business is to ascertain how much money it needs to earn before breaking even – before all expenses are covered and profit is being generated. For a start-up business, a break-even analysis considers all the expenses of the business and how they impact the achievement of profit.

ANALYTICAL TOOL



The tool: break-even analysis

The calculation for break-even is represented in the following formulas:

$$\text{Break-even total quantity of units sold } (x) = \frac{\text{fixed costs}}{\text{contribution margin}}$$

$$\text{Break-even total dollar value in sales } (d) = \frac{\text{fixed costs}}{\text{contribution margin ratio}}$$

It is important to learn how the contribution margin is calculated as a start-up business needs to consider what portion of the sales price relates to the production of the product. Hence, variable costs (VC) are those expenses that are impacted by the sale of each product/service. For example, this could include the cost to produce the good and the consumables associated with using equipment. Therefore, contribution margin and contribution margin ratio can be calculated using the following formulas:

$$\text{Contribution margin} = \text{sales price} - \text{variable costs}$$

$$\text{Contribution margin ratio} = \text{contribution margin} \div \text{sales price}$$

Another consideration for a start-up business is how much profit the business owner wants to make, based on the break-even point. To do this, a profit variable needs to be added to the break-even equation.

$$\text{Break-even total quantity of units sold } (x) = \frac{\text{fixed costs} + \text{profit}}{\text{contribution margin}}$$

$$\text{Break-even total dollar value in sales } (d) = \frac{\text{fixed costs} + \text{profit}}{\text{contribution margin ratio}}$$

When calculating break-even, profit is equal to zero – hence it doesn't appear in the formula. However, a business owner can input their desired profit into the formula, and can calculate both the quantity of units or total dollar value of sales required for the desired profit to be achieved.

Below is an example of how a break-even point is calculated, using data from the Shake Up example and these more complex break-even equations.

Fixed costs: \$7997 – taken from Shake Up's start-up budget (less the ingredients and packaging expense)

Production costs per unit: \$2.41 – refer to table below for breakdown of costs

Table 6.5 Calculating production costs per unit

Item	Cost	Portion used per sale	Calculation	Cost per unit
Protein powder	\$59 per tub (29 scoops)	1 scoop	$\$59 \div 29$	2.07
Ice	\$4 per 5 kg bag	150 g	$\$4 \div 5000 \text{ g} \div 150 \text{ g}$	0.12
Cups and lids	\$168 per 1000 pieces	1 cup and lid	$\$168 \div 1000$	0.17
Straws	\$1 per 100 pieces	1 straw	$\$1 \div 100$	0.01
Bottled water	\$5.50 for 8 × 1.5 L bottles	150 mL	$\$5.50 \div 8 \div 1500\text{mL} \div 150\text{mL}$	0.04
Total production costs per unit				\$2.41

Sale price: \$6.00 – this is per unit and equates to a profit margin of 60%

Profit: 0 – to calculate break-even, profit must equal zero

Using this data, the number of sales Shake Up needs to make to break even is:

$$\begin{aligned}\text{Break-even total quantity of units sold } (x) &= \frac{7997 + 0}{6 - 2.41} \\ &= 2228\end{aligned}$$

Therefore, Shake Up would need to sell 2228 shakes to break even. If the business's objective is to sell 100 per day, it would take approximately 223 selling days to break even.

Using the same data, but assuming Shake Up wants to make \$2000 profit, the impact on the equation would be:

$$\begin{aligned}\text{Break-even total quantity of units sold } (x) &= \frac{7997 + 2000}{6 - 2.41} \\ &= 2506\end{aligned}$$

Therefore, if Shake Up wants to make \$2000 profit, the business would need to sell 2506 shakes to customers. Using the break-even total dollar value of sales (x) equation, the total sales Shake Up needs to make is:

$$\begin{aligned}\text{Break-even total dollar value in sales } (d) &= \frac{7997 + 2000}{3.59 \div 6} \\ &= \frac{9779}{60\%} \\ &= 16\,298\end{aligned}$$

This means Shake Up would need to earn \$16 298 in sales to achieve a \$2000 profit for the business.

A graphical representation of the break-even analysis for Shake Up can demonstrate the sales and profit relationship using the break-even total quantity of units sold (x) formula.

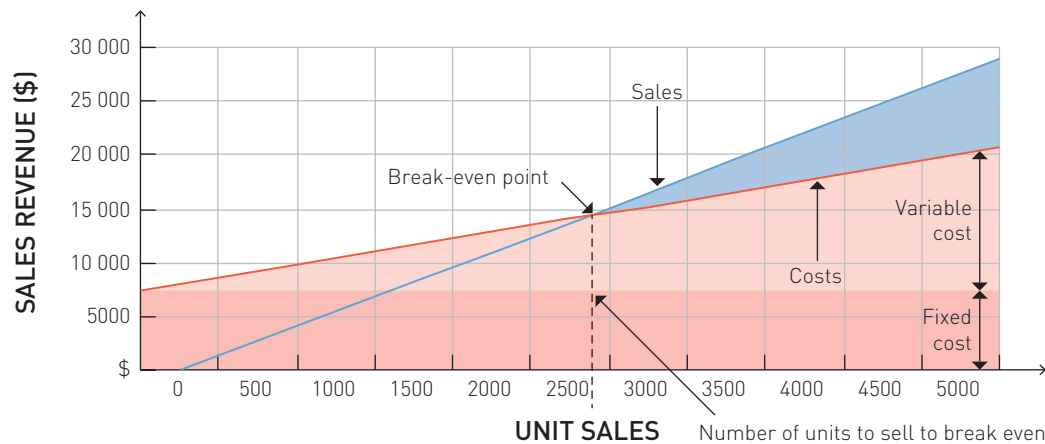


Figure 6.31 A graph representing the break-even analysis for Shake Up

QUESTIONS 6.14



- 1 **Explain** the strategic importance of a break-even analysis.
- 2 **Explain** the following:
 - a fixed costs
 - b production costs per unit
 - c selling price.
- 3 **Explain** the significance of profit equalling zero when calculating a break-even point.
- 4 Referring to Figure 6.31, **identify** which part of the graph indicates Shake Up is achieving a profit.
- 5 **Create** a spreadsheet and use formulas to set up a break-even analysis calculation to **communicate** to small business owners.
- 6 In the Shake Up example, the owner pays himself a wage of \$200 per day (fixed cost).
 - a **Calculate** the break-even point: (x) and (d), if the owner chose to not pay himself a wage, but to earn income from the business's profits. **Interpret** the relationships in the break-even analysis to **draw conclusions** about the implication of owner wages for a start-up business.
 - b **Calculate** and **explain** how many products would need to be sold for Shake Up to earn \$1000 profit in one month.
 - c **Evaluate** the business owner's decision to pay himself a wage using the criteria of efficiency (focusing on profitability) and stakeholder satisfaction. **Create** a paragraph response.
- 7 **Select** data and information from a small business you are familiar with to:
 - a **analyse** the fixed and variable costs
 - b **calculate** the break-even point
 - c **interpret** the impact of the break-even point on the business's short-term viability.

GAINING INSIGHT



Appster co-founder Josiah Humphrey reveals four fundamental financial metrics for all start-ups

Entrepreneurs face a host of challenges in growing a start-up sustainably, however can go a long way to ensuring success by keeping tabs on key financial metrics ...

Appster co-founder Josiah Humphrey explains that measurement should be a key consideration

for start-ups seeking to ensure their business model is sound and will be scalable over time.

Humphrey lists ... key financial metrics that he believes all founders should track closely: fixed versus variable costs, breakeven analysis ... and cashflow forecasts.

Fixed versus variable costs

Humphrey explains the total cost of running a business, consisting of the aggregate amounts of fixed costs and variable costs, is 'one of the most important pieces of financial data' that start-up founders need to understand. 'Understanding your total cost is crucial for various reasons, including the fact that the amount of money your business spends impacts whether, and if so then when, you can turn a profit (and how much that profit will be),' he says. Costs will have a defining impact on how long a company can survive without bringing in stabilising revenue ... with a start-up's 'runway' calculated by taking its cash balance and dividing it by a projected burn rate (the monthly rate at which a business is losing money), Humphrey advises.

'That burn rate explicitly reminds you that your start-up will indeed run out of money at some point in the future if you don't eventually start bringing in sufficient revenue', says Humphrey, adding that understanding your company's burn rate can also be important when attracting investors.

Operating as lean as possible, making fixed costs more efficient and increasing revenue are three ways to extend a start-up's burn rate, Humphrey writes.

Breakeven analysis

Start-ups should also calculate and monitor their breakeven point, or the point at which revenue matches expenses, as this will allow them to work out a range of other important financial metrics, says Humphrey.

This includes: how profitable a product line is; how far sales can decline before losses start to be incurred; how many units need to be sold before a profit is made; how reducing price or volume of sales will impact profits; and how much of

an increase in price or volume of sales will be needed to make up for an increase in fixed costs.

Having completed a breakeven analysis, Humphrey says it is important that start-ups then consider: whether a sales target is realistic; when they anticipate being able to hit the target; the resources they will need to get there; and how cash will be burnt through in the meantime.

Cash flow forecast

Cash flow, or the amount of money going into and out of a business, is Humphrey's ... key metric as it is 'the blood of every start-up organisation'. Humphrey recommends entrepreneurs regularly undertake cash flow forecasting, which provides 'the key data you require to ensure that your start-up doesn't burn money faster than what you need in order to stay in business'.

'Cash flow projections can't, of course, predict the unpredictable but they can alert you to foreseeable potential hazards,' Humphrey advises. 'While it might be best to let a professional accountant carry out the quantitative analyses, it's still important that you as a founder grasp the principles of cash flow forecasting.'

Source: Martin Kovacs, *Smart Company*, www.smartcompany.com.au/startupsmart/advice/mk-appster-josiah-humphrey-four-fundamental-financial-metrics-for-startups

Questions

- 1 **Explain** the concept of a 'burn rate'.
- 2 **Suggest** ways in which a business can more efficiently manage its fixed costs.
- 3 **List** four questions that could be answered by a business owner after calculating a break-even point.
- 4 **Select** data and information to **analyse** the features and benefits of cash-flow forecasting.
- 5 **Interpret** the reasons why Humphrey suggested a start-up business should seek the advice of a professional.

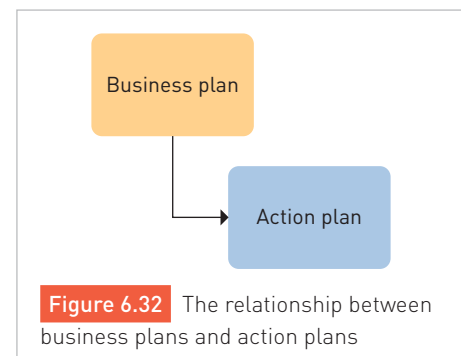
Business plans and action plans

Key learnings

You will learn about start-up business strategic planning by examining:

- business plans
- action plans.

A compilation of a business's goals, strategies and plans at start-up is recorded in business plans and actions plans. These are two distinct documents, each one having a different purpose. Some people use these terms interchangeably, so it is important to be aware of the key differences.



Business plans

As covered in Chapter 5, an entrepreneur will assess the feasibility of the business idea. If successful, the next document a business owner will create is a business plan. Business plans compile the goals and objectives of a business and how it sets out to achieve them, at the point that it is ready to begin trade. Business plans should document how the business will manage its operations and how its strategies coincide with macro environmental factors. Further, business plans are also used in the application process for debt finance; in fact, many financial institutions will not even consider offering debt finance until a business plan has been presented, and investors will also use the business plan to inform their decision-making about whether to provide equity finance to the business. However, a business plan should not be considered a static document. It should be reviewed every 12–24 months and be updated to reflect changes in the internal, operating and macro factors impacting on the business, across the entire business life cycle.

Figure 6.33 outlines the essential sections required in a business plan.

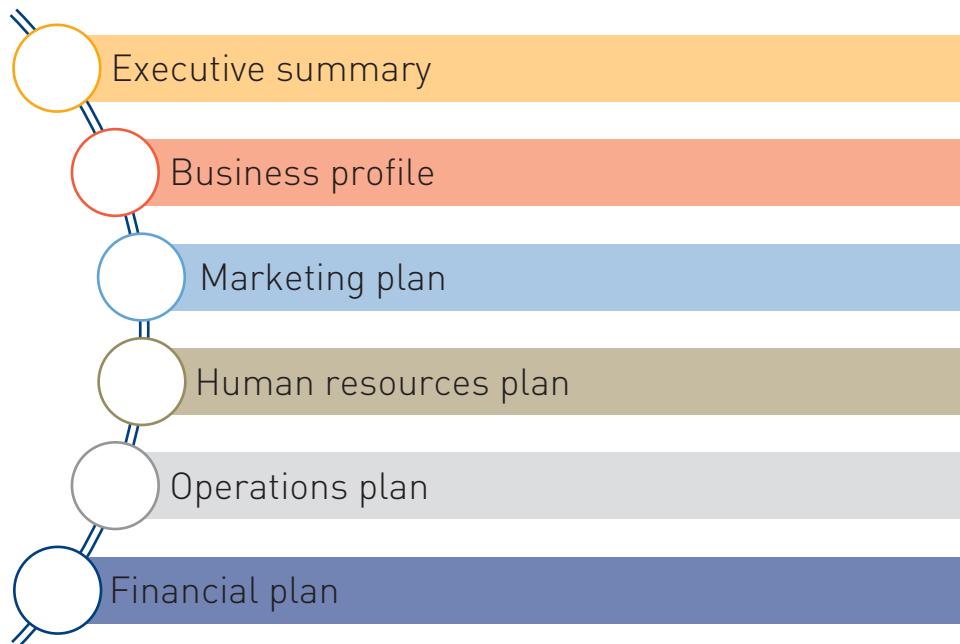


Figure 6.33 The main sections of a business plan

Action plans

An action plan will complement a business plan by prioritising tasks by date of completion. This can include monitoring key establishment dates for the business down to day-to-day planning, which is known as operational planning. An action plan should list forecast start dates and finish dates, who each task is assigned to, and when tasks were completed. This document requires careful planning at the outset so that, if amendments are required, the impact on other tasks is either minimised or easily adjusted.

In preparing an action plan, a business owner could use the key headings from their business plan as a focus, and align the business's objectives to operational tasks.

A sample action plan is set out in Figure 6.34.

Business goal or objective	Action required	To be completed by	Start date	Expected end date
To legally register the business before trading commences	• Apply for an ABN • Register business name	Business owner	June 2019	June 2019
To follow workplace health and safety requirements applicable to my business structure	• Research Act, regulations and codes of practice • Create policy documents • Purchase protective equipment and signage • Undergo necessary training	Business owner	June 2019	July 2019

Figure 6.34 A sample action plan (extract)

QUESTIONS 6.15



- 1 **Explain** the interrelationships between strategic planning, business planning and action plans.
- 2 **Describe** the elements of a business plan.
- 3 **Discuss** the following statement: 'A business plan is essential for seeking debt and equity finance.'
- 4 **Select** data and information relating to business start-ups in your local community, to **create** an action plan that focuses on registering a business, seeking equity and/or debt finance and budgeting. It should have a minimum of 10 tasks.
- 5 **Interpret** the impacts on a start-up business, providing a service, that chooses not to create a comprehensive action plan.

Connecting with strategic networks

Key learnings

You will learn about start-up business support by examining:

- strategic networks.

Businesses also benefit from building connections within their industry. Often, start-up businesses can struggle during the first years of operation as they encounter challenges but are unsure how to overcome them. By building a network of support, a business owner has the opportunity to seek help from others or, in turn, provide guidance to other business owners who have encountered similar challenges. The business owner will need to be mindful of their business's competitiveness, but seeking to learn more about an industry can prepare the business owner for any foreseeable highs and lows. Networking also allows the business owner to establish a name for themselves in their industry, and forge new and strategically beneficial contacts. Over time, the business owner may find they are the person being sought out to provide support, which will enhance the reputation of the business.

Ways in which start-up business owners can connect with strategic networks include:

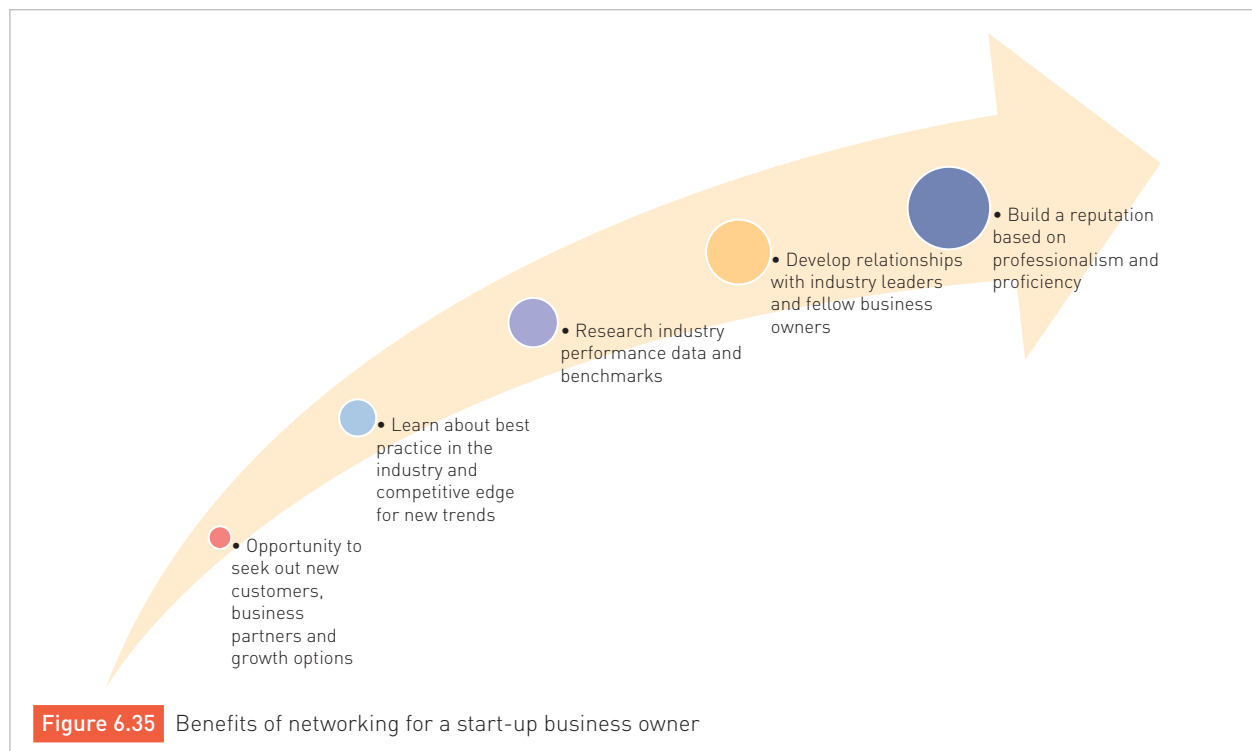
- joining professional associations, small business associations and local chambers of commerce
- engaging a mentor
- attending and presenting at conferences
- participating in events run by government agencies
- connecting with informal business networks through social media platforms.

In the operating environment, interest groups can also be considered strategic networks. Examples of these can be found in Chapter 2. Follow the weblink to view the Chamber of Commerce and Industry Queensland, an organisation that represents and provides services to small and medium-sized businesses in Queensland.

Figure 6.35 identifies the benefits of networking.



Chamber of
Commerce
and Industry
Queensland



INQUIRY



Investigating small business networks

- Using the inquiry process, **select** information from two start-up or small business networks in Queensland to **analyse** their similarities and differences using a Venn diagram.
- Interpret** the Venn diagram to **draw conclusions** about networking for start-up or small business owners.

QUESTIONS 6.16



- Explain** the role of the following strategic networks for a start-up business owner:
 - professional associations
 - chambers of commerce
 - mentors
 - government bodies.
- Select** information to **explain** the key considerations for a business owner who seeks strategic networks through social media.
- Select** data and information to **identify** the strategic network opportunities available in a range of industries using the table below.

Industry	Mentor opportunities	Professional associations to join	Relevant conferences	Social media networks
Franchises				
Retail				
Tourism				
Mining				
Medical				

- Evaluate** the statement, 'Business owners who engage with strategic networks can achieve more within their market', to **make a decision** using the criteria of competitiveness and effectiveness.

GAINING INSIGHT



Fur Get Me Not

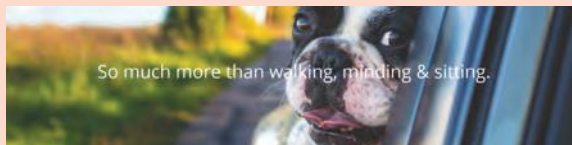


All images courtesy Cassandra Roland

Start-up businesses come in all shapes and sizes, but what is common is determination from the business owner. This determination requires support, and smart business owners know that planning well, and following a passion, is key to success. This is the case for the start-up Fur Get Me Not.

Motives for starting

In mid-2017, Cassandra Roland was walking her dog, contemplating if anyone could provide her with a high-quality service of pet care – walking, minding and training. Upon investigating the local Brisbane market, she found that dog walking and minding services had been set up as hobby jobs by a wide range of people, but lacked a formal business structure where the care and wellbeing of dogs was paramount. By the next morning, Fur Get Me Not was established, and within a few short months, the business began earning a profit and is achieving steady growth – an outstanding result for a start-up fresh to the market. Cassandra assumes the role of owner/operator who walks and minds the dogs herself, along with managing the strategic direction of the business. She sat down for an interview to share her knowledge regarding the start-up process and provides some key advice that has helped Fur Get Me Not achieve success.

**Legal considerations**

As a former chief executive officer (CEO) for a not-for-profit SME, Cassandra was clear to articulate that the dog walking/minding and pet care industry was heavily unregulated, with no specific legislation in place, making it easy for her to set up the business in a short time. But this lack of regulation brings risk, and Cassandra stated that a lack of legislation in the industry could mean the business is susceptible to civil suits. Cassandra's expertise has

guided her to create comprehensive risk-management plans, which she discusses with all her clients as well as publishing them on Fur Get Me Not's websites.

As is standard for a start-up business, Cassandra registered Fur Get Me Not as a business name, has an Australian Business Number, purchased a domain name and has a \$10 million public liability insurance policy to protect herself and her clients from unexpected events. As a differentiation strategy, Cassandra also conducts police certificate clearances on any contractors she uses, as she is conscious of unethical practices in the industry, and wants her business to run on a foundation of ethical practice, trust and genuine care for the animals she looks after. In fact, she organised a police check to be run on herself, which she openly shares with her clients as she has found this strategy has 'comforted' her clients.

At present, Cassandra discusses her clients' needs and negotiates their agreements verbally, followed by an email confirmation, but is contemplating the implementation of written contracts. 'It's the balance of knowing they [the clients] are busy people as it is. I don't want to overcomplicate it, but at the same time I need to manage the risk for myself, the business and them.'

Financial considerations

Cassandra purchased an accounting software program to record the transactions of the business for taxation purposes, but has found this more advantageous in providing real-time records of her income and expenses. At the outset she used spreadsheets, but she found as the business began to gain momentum that it was challenging to monitor her cash flow. Her clients would pay either weekly, fortnightly or monthly, and she needed to monitor this more effectively and efficiently. She advised that all start-ups should set up formal accounting procedures early, and engage with an accountant for support, particularly if not confident with money.

In regard to financing, Fur Get Me Not was funded by Cassandra, who invested her own savings from a previous full-time job into the business. She has been happy to use equity finance up until this point, but does intend to purchase a work van, and has therefore sought advice from her accountant regarding the suitability of debt finance options. Her accountant has also been able to provide advice regarding depreciation, tax benefits and when the best time to buy a vehicle would be, based on Fur Get Me Not's financial performance and position.

Cassandra acknowledges the importance of budgeting. She initially created one to work out how much she should charge for Fur Get Me Not's services. She says that, too often, start-ups don't budget correctly, and the consequence can be a failed business, as the owner estimates a selling price without aligning it to the



business expenses. While she didn't use a break-even analysis specifically, Cassandra was able to draw upon her experience as CEO and knew that a well-structured budget can provide a similar picture of a business's financial viability. Consequently, Fur Get Me Not achieved profitability within six weeks of trade, with the business expending its funds on promotional materials, insurance costs, website maintenance and equipment, and treats used within the Fur Get Me Not service. Cassandra currently pays herself by using the profits from the business, but one of her short-term financial goals is to be able to pay herself a wage, plus earn the business's profit, and she is confident this will be achieved as the business grows. Her major financial goal is for the business to be financially stable by the end of 2017.

Strategic networks

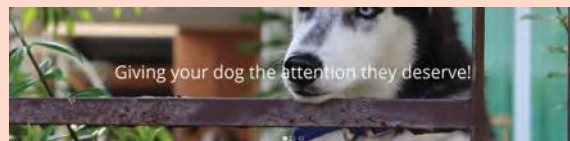
To keep abreast of changes in her industry, Cassandra regularly accesses the Pet Industry Association of Australia website, but has also found social media has provided her with a wealth of knowledge and the ability to connect with other dog walkers and sitters.

Cassandra's major piece of advice for a start-up business owner is to engage a mentor, as 'you can't expect it can be done by yourself'. She suggests finding a mentor within the industry who can provide advice and support, and not being afraid to ask for help. She has a mentor who is a dog trainer, and found connecting with her very 'organic' as most small business owners want to help others achieve success, too.

Small business ownership: benefits and challenges

Cassandra is a humble and unassuming entrepreneur who is thrilled with the success of Fur Get Me Not. She said 'every day' is a reward for her as she can provide care for animals at the same time as she earns money from doing it. Cassandra highlighted that starting Fur Get Me Not has given her a flexible, low-stress lifestyle, which is also happy as she gets to play, train and walk dogs every day.

She also acknowledges there have been challenges in starting Fur Get Me Not, such as balancing time and money, 'wanting to invest 100 per cent of my time in the business but recognising that I need money to start a business', along with monitoring weather patterns. While she will still walk dogs in the rain, or negotiate a play activity instead, Cassandra knows that dogs can be afraid of storms and her desire to look after them can become all-consuming. To overcome this, she has been able to contact her clients and suggest strategies to assist them, which in turn has built client loyalty. Finally, Cassandra has found it difficult to recruit contractors who have a



high level of skill, but who can be flexible. They are hard to find. 'I'm not willing to compromise on service.' She also chooses to use contractors rather than employing staff as she feels contractors are responsible and cognisant of their accountability to provide quality service.

Future goals and advice

When considering her goals, Cassandra wants Fur Get Me Not to become a 'one-stop shop' for dog services, where she can provide walking, health advice, training, veterinary support, equipment and healthy dog food to her clients. She knows her current pricing strategy is high (her prices start at \$50 an hour for regular dog walking or minding) compared to her competitors, but says her focus is to have regular clients, to whom she can offer discounts, rather than meeting the needs of clients who want a 'one-off' service for their dog.

Cassandra also advises that any business should pay for search engine optimisation as most of her clients have accessed the business through the Fur Get Me Not website and social media platforms. She believes that a business must get its name out there, and this is a cost- and time-efficient solution.

Overall, Cassandra and Fur Get Me Not have proved that, while start-up businesses can be challenging and risky, the lifestyle business ownership can bring is full of rewards, provided the business owner is well prepared.

Questions

- 1 **Explain** the strategic purpose of the following as described by Cassandra Roland. Provide examples from the case study.
 - a Creation of risk management plans
 - b Using accounting software
 - c Benefits of budgeting
 - d Engaging with strategic networks
 - e Paying for search engine optimisation
- 2 **a Select** information from the case study to **analyse** the macro environment factors that impact the business. **Create** a PESTLE analysis to communicate your response.
 - b **Interpret** the patterns and relationships in the PESTLE to **draw conclusions** about the implications Cassandra Roland faced in establishing Fur Get Me Not.
- 3 **Select** information from the case study to **analyse** the benefits of starting a business, using Fur Get Me Not as an example. **Create** an infographic to **communicate** your response.
- 4 Using the inquiry process, **select** information from the case study and other sources to **analyse** and **interpret** the impact that Cassandra Roland, as a former CEO, may have had on the success of Fur Get Me Not.



Chapter 6 review

This chapter introduced the legal regulations and financing considerations for start-up businesses. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

6.1 Short items

- 1 **Summarise** the taxation considerations for a start-up business, including the different taxes and reporting requirements.
- 2 **Explain** the relationship between the workplace health and safety acts, regulations and codes of practice.
- 3 **Explain** the interrelationships between the five financial objectives, including where they may conflict.
- 4 **Discuss** the relationship between equity finance and debt finance and how they assist a business in achieving financial objectives.
- 5 **Explain** the strategic importance of budgeting and outline the information required for a budget to be created.
- 6 **Explain** the relationship between the sales price and production costs per unit (variable costs) in a break-even analysis.

6.2 Interpretive items

- 1 Using the inquiry process, **create** a two-page infographic to **communicate** the following.
 - a **Describe** the characteristics of a small business in your community that you can investigate.
 - b **Select** data and information from the business and other sources to **analyse** the licences, permits and certificates the business should have.
 - c **Evaluate** two proposed business licensing strategies that the business could consider, using the criteria of effectiveness and competitiveness.
- 2 **Evaluate** the choice to open a new business or purchase an existing business for a person with entrepreneurial experience and passion to make a decision on a suitable pathway, using the criteria of competitiveness and stakeholder satisfaction.
- 3 **Evaluate** the choice for a business owner to consider only equity finance for their start-up business, and make a judgement using the criteria of competitiveness and efficiency.
- 4 **Evaluate** the decision for a business owner not to include a break-even analysis in their business plan, and make a judgement using the criteria of effectiveness and stakeholder satisfaction.

6.3 Extended-response items

Using the inquiry process, **create** a multimodal presentation to **communicate** the following:

- a **Describe** an upcoming event being run in your local community that requires business planning.
- b **Select** data and information about the event and its organisers to **analyse** the political, economic, socio-cultural, technological, legal and environmental factors (PESTLE).
- b **Interpret** the relationships, patterns and trends in the PESTLE analysis to **draw conclusions** about the implication of running an event, and how it aligns to a start-up business model.



ENGAGING STAFF

What you will learn

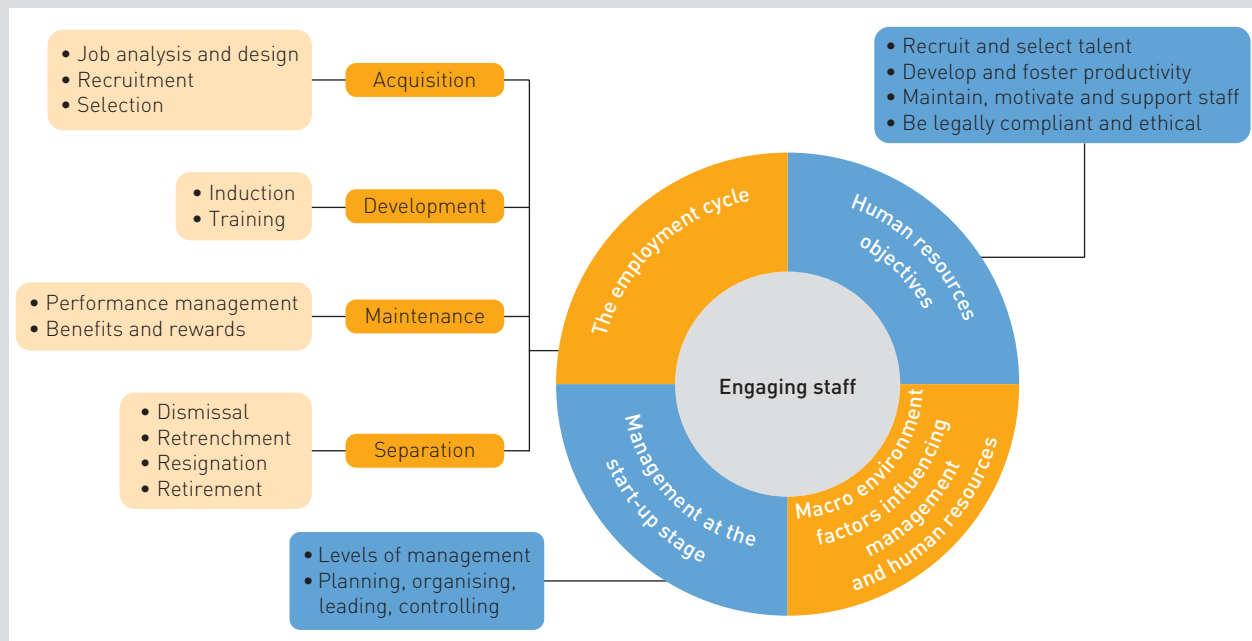
Start-up businesses face an array of challenges when they become established and begin trade. One significant challenge is how the business can recruit, select and develop staff to perform at a high level and be driven to achieve the business's goals. The ability to inspire staff to be 'on board' brings to the forefront the management skills required of the business owner. This chapter will look at the influence of human resources and management for start-up businesses, and explain a range of strategies businesses can use to achieve success when engaging staff.

This chapter will provide you with the opportunity to:

- **describe** business environments and situations relating to business start-up
- **explain** business goals and strategies, leadership and management, and business processes and systems relating to business start-up
- **select** data and information relating to establishment of a business and market entry to **analyse** the implications of establishing a business using SWOT and PESTLE
- **interpret** relationships, patterns and trends to **draw conclusions** about the implications of establishing a business
- **evaluate** business practices and strategies at start-up to **make decisions** and **propose** recommendations
- **create** responses that **communicate** meaning to suit purpose and audience.

The analytical tools used in this chapter are:

- PESTLE analysis
- SWOT analysis.



Key skills

In this chapter, you are given the opportunity to develop the following 21st-century skills:

- critical thinking
 - analytical thinking
 - decision-making
 - reasoning
 - reflecting and evaluating
- creative thinking
 - identifying alternatives
 - seeing or making new links
- communication
 - effective oral and written communication
- communicating ideas effectively with diverse audiences
- collaboration and teamwork
 - relating to others
 - recognising and using diverse perspectives
 - participating and contributing
 - community connections
- personal and social skills
 - adaptability/flexibility
- management
- character
- leadership
- cultural awareness
- ethical and moral understanding
- information & communication technologies (ICT) skills
 - accessing and analysing information
 - being productive users of technology.

(Source: Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

GAINING INSIGHT



Belle Vue Cafe and Pickle and Must

FOCUS QUESTION: How do small businesses adopt human resources practices that demonstrate strategic decision-making at start-up and establishment?



Figure 7.1 The Belle Vue Cafe

In the Queensland town of Warwick, Mark and Rowena Favero have worked passionately to build two successful businesses. In 2012 they purchased an existing business, the Belle Vue Cafe, and after two



Figure 7.2 Pickle and Must

years of planning opened their second business, a start-up delicatessen, Pickle and Must. Strategically, the two businesses are located next door to each other, and over the time of business establishment, Mark and Rowena have acquired and developed a staff that began with four and in six years has grown to twenty.

Starting the Belle Vue Cafe and Pickle and Must

A chef by trade, Mark always had the desire to open a restaurant. He and Rowena researched the Warwick food and dining market and found it was too saturated to open a new restaurant – hence they sought to buy

an existing business, the Belle Vue Cafe. The cafe is a town icon, having been in operation for over 100 years, and they maintained much of its original character but updated the equipment to be competitive in the market.

The ambition to open a continental deli is linked to Mark's Italian lineage. He identified a niche in the Warwick market for this type of business, its only competitors being the local supermarket and health food stores. Pickle and Must sells a range of gourmet foods and desserts, cured meats, cheeses, antipasti, breads, and dairy-free and vegan products to a growing number of loyal customers.

Management and organisational structure

Mark assumes the managerial role in the business, which has changed over time. In 2012, Mark was a hands-on manager, working in the kitchen every day. As the business has grown, Mark has had the opportunity to appoint a full-time chef and a front-of-house manager. Having a full-time chef has allowed Mark the opportunity to meet and serve customers in the deli during this start-up phase and focus on his managerial responsibilities in the business: sourcing suppliers and stock, organising staffing needs and connecting with his customers. The front-of-house manager handles the training and supervision of the cafe staff.

Acquisition of staff

Mark and Rowena analyse their staffing needs by considering the trading hours of both businesses and the skills that their staff need to have. To ensure the Belle Vue Cafe and Pickle and Must operate effectively, Mark and Rowena have strategically planned to have one extra staff member available to cover shifts if required. This is also a decision based on efficiency – staff are specifically employed on a permanent part-time or casual basis, allowing Mark and Rowena the flexibility to call on extra staff if required.

Their recruitment strategies are unique, as they seldom advertise for roles. Most staff have been appointed from walk-ins and by using the strategic networks Mark has established in Warwick through the local TAFE. Mark has also partnered with local employment agencies to access the Youth Boost Payment, which was a grant given to businesses that provide employment to youth in the community.

When selecting a staff member, Mark and Rowena place a high value on a positive demeanour and the way an applicant engages with others. 'You can't teach someone to have a personality ... that's your first goal – to be personable ... you need to have that in hospitality; you want customers to come back. Anything else can

be trained. If you need staff to make coffee or anything else, we can train that, and fairly quickly. But if they are a happy and hard worker, we will find a place for them in the business.'

Mark will follow up any recruitment with a one-on-one interview, and then will conduct reference checks with a phone call as he believes these are more reliable than a reference letter. He will also bring staff in for trial days, though he said that most staff continue on to be appointed once the trial period has concluded.

Development of staff

The Belle Vue Cafe and Pickle and Must have structured induction processes. Mark and Rowena will meet with the new staff member, collate paperwork, cover workplace health and safety requirements, discuss the written policies and procedures and provide access to the relevant modern award. They then provide on-the-job training to familiarise the staff member with the business's practices. Mark recognises the importance of inducting staff well, hence for the first two weeks of employment the new staff member will be rostered on in addition to the minimum staff required for a shift.

Following induction, Mark and Rowena use on-the-job training for staff. Most of this is informal, but in 2016, to ensure consistency across the businesses, all staff were barista-trained by the Belle Vue Cafe's coffee supplier.

Overall, Mark and Rowena have engaged in a range of human resources practices that have resulted in Belle Vue Cafe and Pickle and Must having stability and growth.

Questions

- 1 **Identify** why Mark and Rowena Favero purchased the Belle Vue Cafe as an existing business.
- 2 **Compare** management in a start-up to that of an established business, using the Belle Vue Cafe and Pickle and Must as examples.
- 3 **Explain** the relationship between strategic networks and recruitment, using the Belle Vue Cafe and Pickle and Must as examples.
- 4 **Create** a flow chart to **communicate** the acquisition strategy of the Belle Vue Cafe and Pickle and Must.
- 5 **Discuss** why Mark chooses to call referees rather than rely on reference letters.
- 6 **Select** information from the case study to **analyse** the strengths, weaknesses, opportunities and threats of Belle Vue Cafe and Pickle and Must's acquisition and development strategies.
- 7 **Select** information about the Youth Boost Payment online to **explain** the program.

Engaging staff

Key learnings

You will learn about engaging staff by examining:

- human resources objectives
- the interrelationship between human resources objectives and business goals.

Human resources is the business function that seeks to maintain and enhance the relationship between employer and employee. In the start-up stage of a business, the owner may assume all roles in the business and be the sole employee but, once the business becomes well-established, the need to employ more staff may become imperative. Business owners and managers who have previous leadership experience will strategically plan their staffing needs with precision and ensure that they support and maintain those employees so they are motivated, loyal to the business and driven to achieve the business's goals and objectives. Business owners who don't carefully consider their staffing needs risk employing candidates who are underqualified, or with a work ethic that does not align with the organisational culture the owner wants to achieve. Further, risk of conflict can arise, which can be a tricky situation to manage when a business owner is trying to support staff while complying with legal requirements. Hence being strategic in human resources planning is essential for businesses in the start-up stage, and at all other stages of the business life cycle.

The objectives for the human resources function of business are to:

- recruit and select talented, proficient staff whose values align with those of the business
- develop staff professionally and foster productivity and leadership
- maintain, motivate and support staff by providing benefits and opportunities for achievement
- be legally compliant and ethical in the treatment of workplace issues and staff (Figure 7.4).



Figure 7.3 Human resources focuses on the relationship between employer and employee.

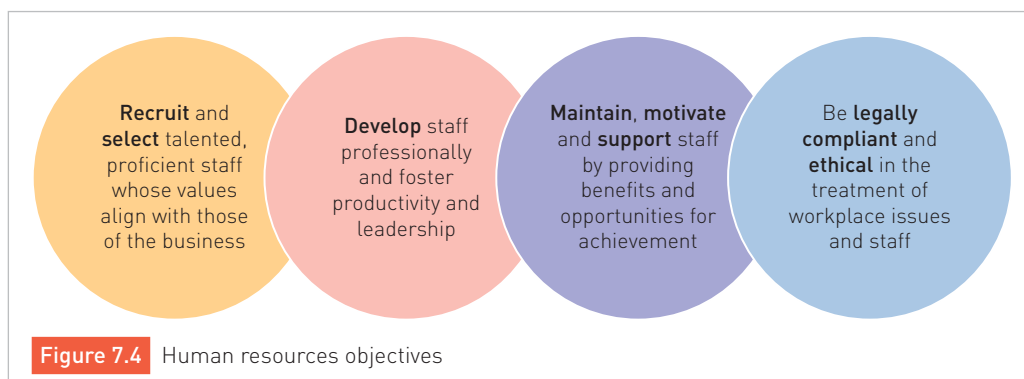


Figure 7.4 Human resources objectives

Human resources objectives and business goals

When a business owner strives to achieve human resources objectives, they need to consider how these objectives can align with the business's overall goals. A start-up business owner needs the foresight to acquire, develop and maintain staff who support the business's profitability goals and hence seek ways to maximise revenue through sales and reduce expenses. The staff they select must also promote the business

to support an increase in market share, and should ideally be passionate or interested about the goods and services provided by the business. Staff should be encouraged to seek out sustainability practices and suggest these to the business owner, and in turn the business owner can achieve their employability goal by providing fulfilling employment opportunities.

Aligning business goals with human resources objectives is achieved by using strategies and tactics. These strategies and tactics will shape the internal and operating environment of the business (Figure 7.6). This is an example of the strategic planning required of business.

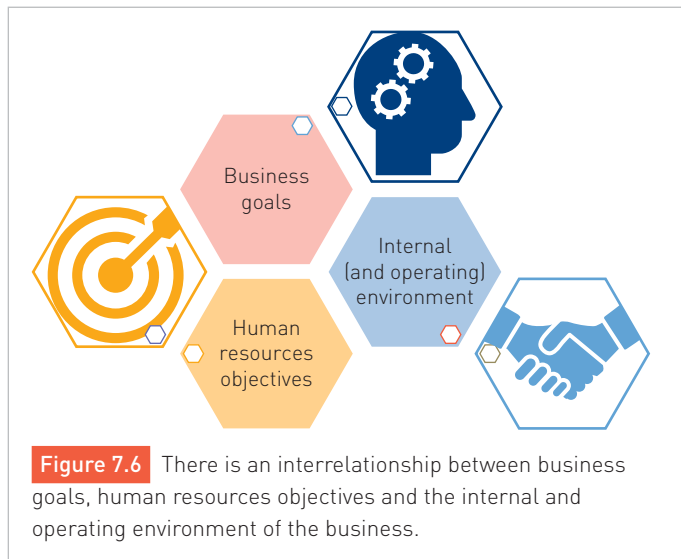


Figure 7.5 The achievement of human resources objectives brings a positive organisational culture to a business.

Internal and operating environmental factors impacting on management and human resources

This chapter will examine the internal and operating environmental factors that impact on management and human resources through the exploration of a range of strategies.

In initial strategic planning, a start-up business owner would consider some key questions regarding the internal environment to inform their decision-making, as outlined in Figure 7.7. The operating environment impact for suppliers, customers, competitors and public interest groups is less relevant at this stage as the business plans for its internal environment needs.



Owners and management

- How will the owner develop management skills?
- What is the likelihood that a manager is needed in the business alongside an owner?
- How would employing a manager help the business?

Employees

- How many staff does the business need?
- How will these staff be recruited and selected?
- What skills, qualifications and traits do staff need?
- What induction and training needs to be provided?

Organisational structures

- What strategic planning is needed for the business?
- How will the business run its day-to-day operations?
- How can the business satisfy quality, cost and customer service demands?

Organisational culture

- What should the workplace environment feel like?
- What are the business's values?
- How should customers and staff respond to the business?

Figure 7.7 Questions related to the internal environment factors that influence management and human resources for a start-up business

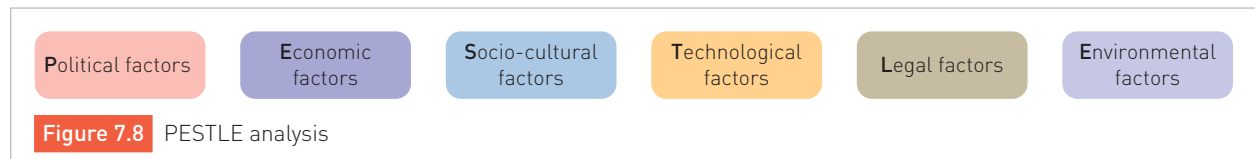
Macro environmental factors influencing management and human resources

Key learnings

You will learn about start-up management and human resources by examining:

- the influence of the macro environment.

The strategic planning that businesses need to achieve their human resources objectives and establish their internal and operating environments is also influenced by the macro environment, which can be analysed using a PESTLE analysis (Figure 7.8). A start-up business owner should familiarise themselves with these factors to inform their decision-making and ensure they place themselves in an ideal position to achieve their business goals.



Political factors

The political factors that influence the human resources strategies of a business generally relate to government policy surrounding workplace or **industrial relations** – the relationship between employers and employees. In Australia, the major political parties have historically taken different philosophical approaches to how workplaces should function, and what rights and responsibilities employers and employees will have. Of significance is the flexibility given to small business owners when organising human resources so that their businesses can remain competitive and profitable in their market. At the same time, it is important that employees are provided fair pay for their work and are protected by legislation in relation to minimum working standards. Regulation or deregulation in an industry can also impact on the qualifications that staff may need to have to work for a business. For example, a builder must have a construction licence and display this licence to the public.

Economic factors

Economic factors tend to focus upon the impact that employment or unemployment has on an economy, and whether the economy is considered stable. The Australian Bureau of Statistics collects data and regularly publishes the **unemployment rate** in Australia to inform both business and government about market trends and business growth or decline. The government may use this data to inform policy relating to workplace relations, the welfare system and education or training. An example of this was seen when the government provided incentives to businesses to employ new staff by connecting with **employment agencies**. Employment agencies are businesses whose mission is to upskill a diverse range of unemployed people and place them into sustainable jobs.

Australia is fortunate to have a low unemployment rate when compared to other countries in the world. The rate has fluctuated between 4 per cent and 6.4 per cent over the last 10 years. Because of the social consequences of unemployment, however, governments will always try to reduce the rate. The growth or decline of an economy can also influence the number of staff a business can afford to employ based on the demand for goods and services in the market.

Industrial relations: the relations that occur between employers and employees

Unemployment rate: a measure of the relationship between the number of unemployed people looking for work and the size of the labour force in a given market. It is usually given as a percentage and is calculated by:

$$\frac{\text{number unemployed}}{\text{number in labour force}} \times \frac{100}{1}$$

Employment agency: an organisation that aims to upskill unemployed people and place them into work

GAINING INSIGHT



Unemployment rate steady despite 'phenomenal' jobs boom; underemployment stays high

Australia's unemployment rate has held steady at 5.6 per cent in August, due to the creation of more than 54 000 jobs, most of them full-time.

The Bureau of Statistics estimated that 40 100 full-time positions were added to the economy last month, with a further 14 100 part-time jobs also created, seasonally adjusted.

The level of job creation was more than three times higher than what was expected by most economists, pushing the Australian dollar back above 80 US cents upon its 11:30am (AEST) release.

'Employment growth has been phenomenal and there has been a gradual tightening in the labour market,' noted Commonwealth Bank economist Gareth Aird. The reason the strong job creation did not lower the jobless rate from 5.6 per cent is that the ABS survey also recorded an increase in the proportion of people aged over 15 in work or looking for it – the participation rate – to 65.3 per cent.

That is the highest participation rate in almost five years.

The federal Employment Minister Michaelia Cash said a lot of the increase was due to a record number of women entering the workforce. 'As the Minister for Women, I am delighted the female participation rate has hit an all-time high of 60 per cent,' she told reporters. 'There are now more females participating in the workforce than at any other time in Australia's history, in excess of 6 million.'

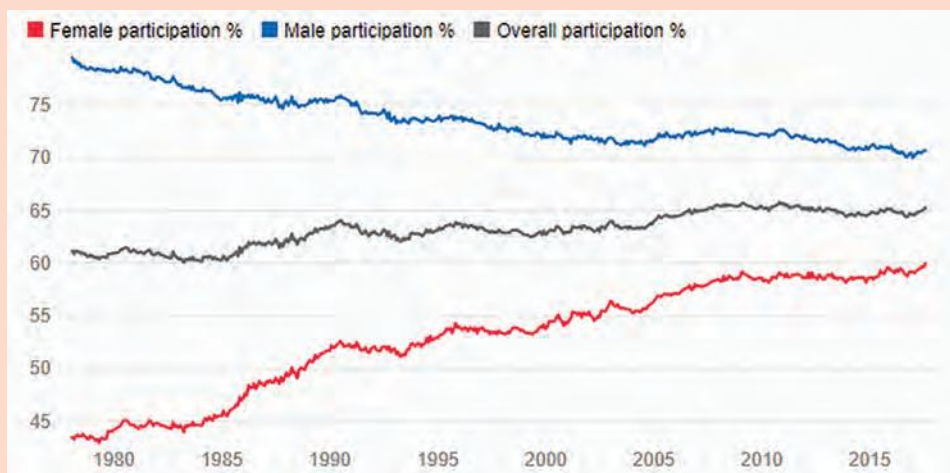
Despite the increase in full-time work and the participation rate, the ABS only recorded a 0.4 per cent increase in total hours worked last month.

The Bureau of Statistics prefers to look at the more stable trend figures and, on that basis, its chief economist Bruce Hockman noted in the report that the August numbers continue a recent move towards stronger growth in full-time employment. 'Full-time employment has now increased by around 253 000 persons since August 2016, and makes up the majority of the 307 000 person increase in employment over the period,' he wrote. The employment-to-population ratio has also risen to a four-and-a-half-year high, as job creation exceeded population growth.

Source: Michael Janda, ABC News, www.abc.net.au © ABC 2017

Questions

- 1 **Discuss** why a start-up business owner would be interested in the following information provided in the article:
 - a stability in the unemployment rate
 - b growth or decline in the participation rate
 - c the separation of full-time and part-time data.
- 2 Referring to the graph, **interpret** the three trend lines to draw conclusions about how workplace participation has changed since 1980.



ABS Data. CC BY 2.5 Australia licence.

Socio-cultural factors

The socio-cultural factors that influence management and human resources are profound. Much research has been conducted in relation to management skills, leadership ability, performance management and motivation strategies that businesses can adopt to achieve competitiveness in management and human resources. A start-up business owner

who understands their leadership strengths and weaknesses can work towards building effective and appropriate communication with their staff, which, in turn, can assist in the achievement of business goals. This can include how to manage the different generations, including baby boomers, generation X, generation Y – who are more commonly referred to today as ‘millennials’ – and generation Z, who are also referred to as iGen or ‘centennials’. Figure 7.9 shows a summary of each generation and how they engage with work.



INQUIRY



Generations and the workplace

The US Center for Generational Kinetics provides a range of sources on the different classifications of generations, including how they act in the workplace. Follow the weblink and **select** information from the website to **explain** how each generation perceives their role in the workplace. **Recommend** strategies a start-up business owner or manager could enact to cater to the needs of each generation in the business.



Socio-cultural trends relating to recruitment, selection and training can influence the management and human resources strategies of a business, particularly in relation to the internal environment. These trends can also inform the decision-making that emerges following the separation or termination of the employer–employee relationship – in other words, when someone leaves a job. Society’s expectations of equal opportunity, freedom from discrimination and workplace flexibility can alter the way a business chooses to operate, and can influence government to make changes to workplace relations law. In many cases, socio-cultural factors result in start-up businesses introducing policies and procedures that enhance the business’s organisational culture.



Figure 7.10 Providing flexibility in the workplace can allow mothers to focus on their family and their career.

Another socio-cultural factor that influences management and human resources is the data published by government in relation to skill shortages within industries. This information can help business owners to analyse the employment market to see if the jobs they are advertising are in high demand or are hard to recruit for.

INQUIRY



Investigating skill shortages

The Australian Government's Department of Employment publishes skill shortage data, both nationally and statewide.

Choose an industry and, using the inquiry process, **investigate** the reasons for Queensland's current skill shortages in that industry. **Create** an individual or small group presentation to **communicate** your findings.



Technological factors

Technology has significantly shaped how businesses operate, both positively and negatively. Technology can provide business owners and managers with exciting ways to acquire and develop talented and productive staff. For example, a business could establish a career database on its website and fund staff training by seeking out internationally recognised online courses. Technology allows staff to work more flexibly thanks to advances in communication, networks, cloud computing and web-based software, but can also reduce the need for staff through the increased use of automation and robotics in manufacturing. Start-up business owners and managers should be aware of these changes and consider how they might impact on current practices or future growth.



Figure 7.11 Technological advancement in robotics can affect business by replacing jobs that were once performed by people.

The Foundation for Young Australians (FYA) has published a range of reports in the New Work Order series, highlighting what work will look like for young Australians in the future owing to the significant influence of technology. They use creative infographics to communicate their extensive research and provide insight to young Australians about how to equip themselves with the skills of the future.



Legal factors

As introduced in Chapter 6, there is legislation in Australia that focuses on protecting businesses and their employees, including:

- the *Fair Work Act 2009*
- the *Superannuation Guarantee (Administration) Act 1992*
- the *Anti-Discrimination Act 1991* (Qld)
- the *Work Health and Safety Act 2011* (Qld)
- associated regulations and codes.

Start-up business owners and managers must ensure their human resources decisions comply with these laws along with, for example, checking that staff have relevant qualifications when appointed to a role. Changes to legislation that relate to either workplace relations or the way businesses should conduct their work could influence the start-up business owner's or manager's decisions when planning and organising their staffing needs.

Environmental factors

Environmental factors tend to impact upon business operations, rather than on management and human resources strategies. A business needs to consider the weather, including seasonal changes, and how it might impact on their staffing needs – for example, farmers may employ more staff around picking and harvesting times. In businesses not directly impacted by the environment, there are opportunities for business owners to engage staff who have a social conscience and make decisions in the workplace that encourage sustainability. Sustainability practices may include minimising waste by reusing supplies, reducing the printing budget and running recycling programs.

SUSTAINABILITY

Business Recycling

About Business Recycling

It can be difficult for a small business to find the reuse, recycling and waste services they need. Many don't have the time or the experience in finding these types of services. So the Business Recycling website and hotline have been set up to make recycling at work easier. Whether you run a cafe, a garage, a factory or an office block, you will be able to find reuse or recycling options for much of the waste generated by your business.

Visit the Business Recycling website to **describe** what types of products the organisation encourages businesses to recycle.



Images courtesy Business Recycling



QUESTIONS 7.1

Create a PESTLE analysis diagram and **suggest** a range of inquiry questions that relate to the macro influences on management and human resources.

Factor	Possible inquiry questions
Political	
Economic	
Socio-cultural	
Technological	
Legal	
Environmental	

Management at the start-up stage

Key learnings

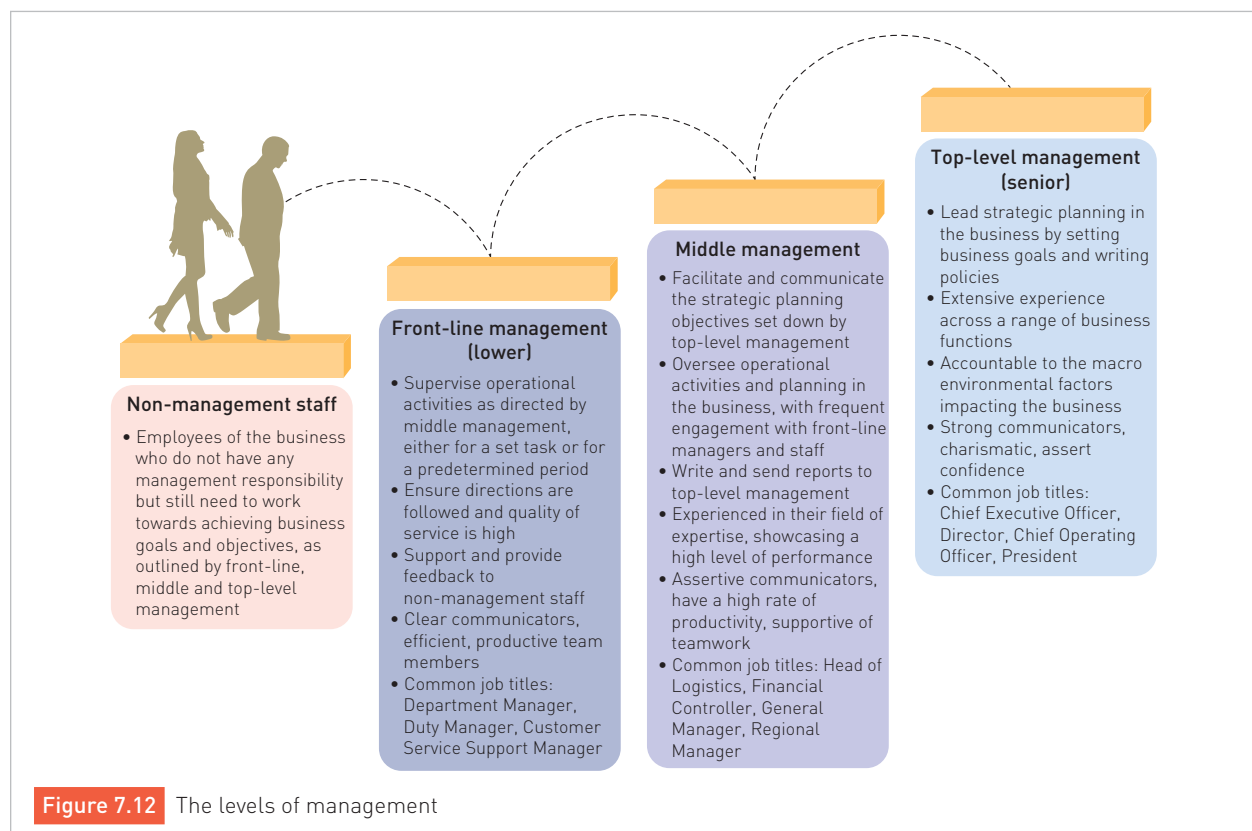
You will learn about management at the start-up stage by examining:

- top-level management
- middle management
- front-line management
- planning, organising, leading and controlling responsibilities.

In the start-up stage, the way in which management is structured is a decision made by the business owner. In the case of many start-up and small businesses, the business owner controls the entire business and is accountable for the planning, organising, leading and controlling (POLC) responsibilities of the business. However, as a start-up business grows, the owner will have to relinquish some of their responsibility and appoint managers, with defined levels of authority, to assist the owner in achieving the business's goals. An introduction to management is covered in Chapter 2.

Levels of management

The different levels of authority in management can be classified into **top-level management**, **middle management** and **front-line management**, as seen in Figure 7.12 – though this can change depending on the size and structure of a business. Classifying management also allows a business to establish a **chain of command** for decision-making, which can have a significant impact on how staff are managed in the business.



Top-level management: senior-level executives who sit at the highest level of decision-making in a business, and who have the most authority

Middle management: leaders within a business who are responsible for implementing the decisions of top-level management while also supporting front-line managers and employees in achieving business objectives

Front-line management: staff who are tasked with responsibility for supervising or overseeing day-to-day business operations and are accountable to middle management in the chain of command

Chain of command: the line of authority and responsibility of different management roles within a business

Top-level management

The most significant and highest level of decision-making in a business occurs with top-level management. In a start-up the business owner simply takes on this role and assumes all management responsibilities in the business. Top-level managers are the ultimate source of authority and control. They make decisions on the direction of the business, and develop and manage strategic plans and policies. Top-level management lead and direct all staff in a business, regardless of its size, and are responsible for its performance. They ensure that the goals and objectives of the business are achieved, and they do this through planning and organising. Top-level managers appoint middle managers to a business as it grows. They are also more accountable to the macro external environment that impacts on the business, and must keep abreast of any trends or changes to ensure that the start-up business maintains its new competitiveness in the market. This allows them to manage the internal and operating environments of the business.

Middle management

Middle management refers to the tier that sits below top-level management. Staff who are appointed to middle management are accountable to top-level management and are responsible for implementing the business's strategic plans and policies. They also liaise or communicate between top-level management and the rest of the organisation, being more visible in the workplace. This also requires middle management to report to top-level management on how the business is functioning at an operational or day-to-day level, aligning with their organising and controlling responsibilities in the business.

It is not common for a start-up business to have middle management; in most cases, the business owner will take on the middle management responsibilities. However, as the business grows, the business owner may find it beneficial to appoint or employ a staff member who is suited to the role. Middle managers are generally proficient in one of the key business functions (for example: finance, human resources, marketing or operations) or have expertise in delivering a particular program or business process. Thus, in business, some middle managers are responsible for inspiring and monitoring front-line managers and non-managerial staff to achieve better performance.

Front-line management

Front-line management is also known as lower-level management. Front-line managers take on a supervisory role in a business, ensuring that tasks are assigned and completed by staff. A front-line manager in a start-up business can improve the day-to-day functionality of a business by providing direction and control in relation to the quality delivery of products and services. They frequently communicate with customers, hence need to have developed effective interpersonal and customer-service skills. They report to middle management in large organisations, and for a start-up business would be in regular contact with the business owner, reporting on the business's performance. Introducing a front-line management level to a start-up business can also be seen as a reward to loyal staff. By increasing their level of responsibility, staff appointed to front-line manager roles can be made to feel they have achieved greater job enrichment. In start-up businesses that are micro or small, the business owner may again assume front-line responsibilities as the business becomes established, but it would be a strategic and beneficial move to appoint front-line management to the business when this becomes financially viable.

QUESTIONS 7.2



- 1 **Explain** the four human resources objectives.
- 2 **Explain** the interrelationships between top-level, middle and front-line management.
- 3 **Discuss** how a business owner may have to assume the responsibilities of all levels of management when establishing a start-up.
- 4 **a Select** information from two local small businesses to **analyse** the management structure in each business.
b Interpret the patterns and relationships to **draw conclusions** about the implication of management structures in small businesses.
- 5 **Create** a brief presentation to **discuss** the following statement: 'Small business owners are often not prepared to manage effectively.'

Management responsibilities

Every business is different, with management structures established to suit its own needs, hence no two management roles are the same. However, as outlined in Chapter 3, the POLC framework provides a guide to management responsibilities. In a start-up, the business owner or manager (depending on how the business is structured) can be guided by POLC to ensure the business will quickly achieve its start-up goals and objectives.



Figure 7.13 The POLC framework for management is introduced in Chapter 3.

Planning

The planning responsibilities for a business owner or manager in the start-up stage are immense, as many tasks must be completed before trade commences, regardless of whether the business has employed staff. These planning responsibilities are strategic and are foundational to a business achieving its goals and setting objectives. Some of these responsibilities are outlined in Chapters 5 and 6. They include:

- conducting feasibility studies
- securing trade marks and patents for the business and/or its idea
- complying with legal requirements, including registering and licensing the business
- financing the business through equity and debt finance channels
- calculating break-even points and preparing budgets
- preparing business and action plans.

Once the business commences trade, the business owner's or manager's planning responsibilities shift to become tactical, and they focus on the implementation of the business plan and action plan. This includes finalising marketing strategies for the business, planning for future staffing needs, and implementing its operational plans. It is important that business owners and managers engage with strategic networks at this time,



Figure 7.14 Planning at the start-up stage requires the business owner to strategically align the business's goals together.

particularly if they are the only staff member in the business, as decisions require careful consideration.

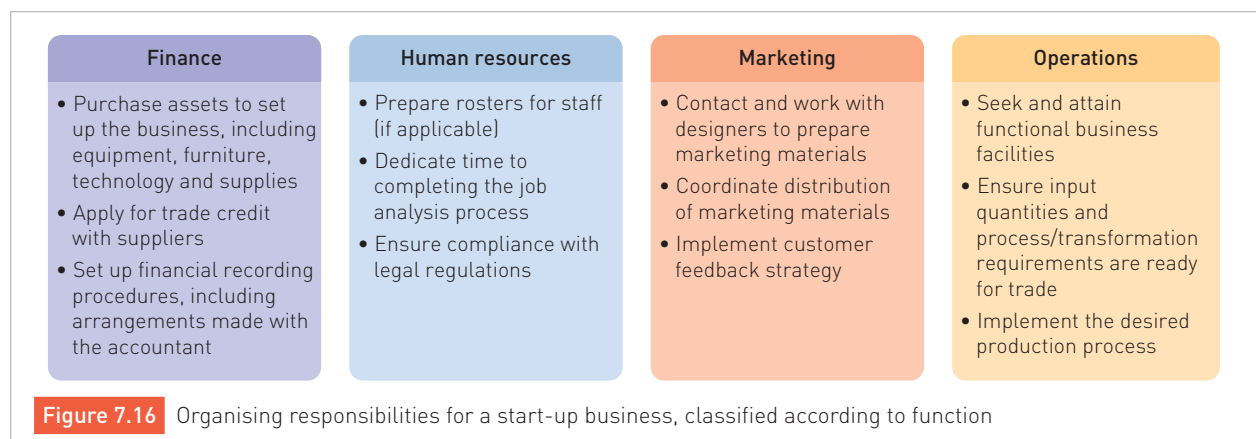
Organising

During the start-up stage, organising is often the ‘busiest’ work business owners and managers undertake, as it requires the actioning of tasks. As organising focuses on the coordination, allocation and preparation of resources (human, physical, capital and time), the number of activities to be completed is extensive. Some of the major organising tasks all start-up businesses require can be classified into the four business functions, and are presented in Figure 7.16.



Shutterstock.com/Fh Photo

Figure 7.15 Organising for a start-up business involves making sure all resources are coordinated so that the commencement of trade is successful.



Leading

Leading in the start-up stage may prove challenging if the business does not have any staff; as the business grows, however, a business owner or manager who displays leadership can ensure the business is building a positive organisation culture. Leadership focuses on how business owners and managers communicate the vision of the business to staff and, further, how this inspires staff to achieve the business’s objectives. It is important for a start-up business owner to identify their leadership style and make sure they find a balance between managing tasks and motivating their staff.

GAINING INSIGHT



Understanding the differences: leadership vs. management

Is a good manager automatically a good leader? What is the difference between leadership and management?

The main difference between leaders and managers is that leaders have people follow them while managers have people who work

for them. A successful business owner needs to be both a strong leader and manager to get their team on board to follow them towards their vision of success. Leadership is about getting people to understand and believe in your vision and to work with you to achieve your goals

while managing is more about administering and making sure the day-to-day things are happening as they should.

While there are many traits that make up a strong leader, some of the key characteristics are:

- **Honesty & Integrity:** are crucial to get your people to believe you and buy in to the journey you are taking them on
- **Vision:** know where you are, where you want to go and enroll your team in charting a path for the future
- **Inspiration:** inspire your team to be all they can be by making sure they understand their role in the bigger picture
- **Ability to Challenge:** do not be afraid to challenge the status quo, do things differently and have the courage to think outside the box
- **Communication Skills:** keep your team informed of the journey, where you are, where you are heading and share any roadblocks you may encounter along the way

Some of the common traits shared by strong managers are:

- **Being Able to Execute a Vision:** take a strategic vision and break it down into a roadmap to be followed by the team
- **Ability to Direct:** day-to-day work efforts, review resources needed and anticipate needs along the way
- **Process Management:** establish work rules, processes, standards and operating procedures

- **People Focused:** look after your people, their needs, listen to them and involve them

In order for you to engage your staff in providing the best service to your guests, clients or partners, you must enroll them in your vision and align their perceptions and behaviours. You need to get them excited about where you are taking them while making sure they know what's in it for them. With smaller organizations, the challenge lies in making sure you are both leading your team as well as managing your day-to-day operation. Those who are able to do both, will create a competitive advantage. Are you both a leader and a manager; what would your staff say if you were to ask them?

Source: go2HR, <https://www.go2hr.ca/articles/understanding-differences-leadership-vs-management>. Copyright © 2017 go2 Tourism HR Society. All Rights Reserved. Republished under licence.

Questions

- 1 **Explain** the relationship between leadership and management.
- 2 a **Select** information from the case study to **analyse** the similarities and differences between leadership and management. **Create** a double bubble map to **communicate** this.
b **Interpret** the double bubble map to **draw conclusions** about the implications of leading for a start-up business owner or manager.

Controlling

The controlling function of POLC may prove to be the most challenging for a start-up business owner or manager whose day-to-day work is heavily influenced by their organising responsibilities. Through strategic, tactical and operational planning and the establishment of standards, a business should be able to achieve its objectives and achieve its goal faster than if no planning takes place. As discussed in Chapter 2, a business's objectives need to follow the SMART framework to ensure they are achievable. When controlling, a business owner would evaluate how effectively the business has achieved its objectives and take action to correct any oversights. A way to do this is to translate business objectives into **key performance indicators**, commonly referred to as KPIs. The use of KPIs can also inform staff of the business's expected standards, so that they can monitor their own performance and support the business in achieving its goals. For a start-up business, key objectives or KPIs could include those in Table 7.1.

Key performance indicators: objectives set by a business, which can be measured to allow business performance to be assessed

Table 7.1 Key performance indicators for a start-up business

Types of key performance indicators	Example of key performance indicator for a start-up business
Improving or achieving sales (marketing and finance)	To generate sales of \$3000 per day To achieve a net profit of \$40 000 for the year To achieve a 10% increase in sales during the Christmas period To grow customer base by 20% in 3 months
Reducing expenses (finance and operations)	To reduce bank loan (debt finance) by 10% in 12 months To reduce the business's break-even point by 3% To minimise wage expenses by \$500 per month
Monitoring customer service outcomes (marketing and human resources)	To achieve fewer than four customer complaints per month To survey 10 customers a week about the business's service To respond to customer emails within 3 hours To employ three new staff to the business in the next 12 months
Maintaining staff (human resources)	To increase one part-time role to full-time in the next 12 months To transition two staff from casual to part-time employment contracts in the next 12 months To maintain the staff retention rate per year of 5% To complete a first-aid report for staff within 24 hours of an incident

QUESTIONS 7.3



- 1 Complete the following table to **analyse** the relationships between POLC and the internal and operating environments for a start-up business. Note: As part of your analysis, you may find instances where the relationship is minimal or not relevant to this stage of the business life cycle.

POLC framework	How does POLC affect the internal environment? (Owners and management, employees, organisational structure, organisational culture)	How does POLC affect the operating environment? (Customers, competitors, suppliers, interest groups)
Planning		
Organising		
Leading		
Controlling		

- 2 **Explain** the relationship between business objectives and key performance indicators.
- 3 Using a technology application, **create** an infographic which **communicates** and **explains** the POLC responsibilities of a business owner or manager of a start-up business.
- 4 **Select** information for a small business to **analyse** its controlling practices in the business. **Interpret** the controlling practices to **draw conclusions** about the use of key performance indicators. **Create** a paragraph response.
- 5 **Discuss** how POLC responsibilities are still applicable to a start-up business owner who is yet to employ staff.

The employment cycle

Key learnings

You will learn about human resources objectives and strategies by examining:

- the employment cycle.

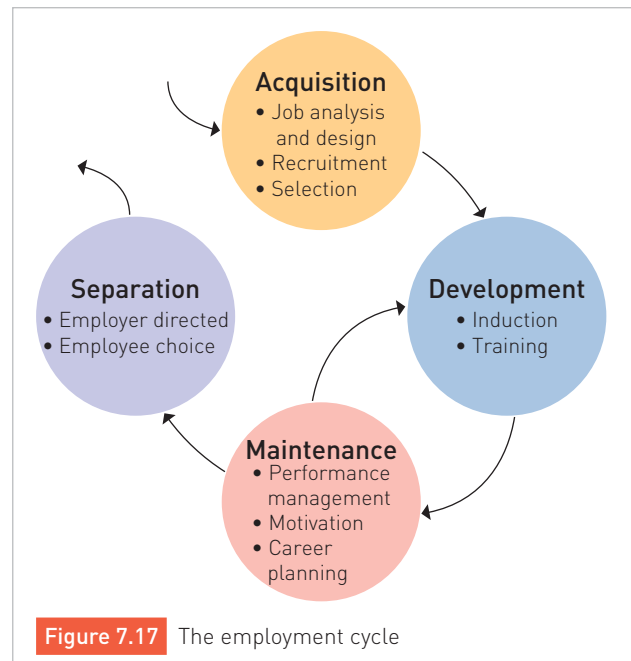
A significant part of managing a start-up business relates to how the business owner or manager engages with people – be they clients, customers, suppliers or staff. A start-up business owner or manager who sets and strives to achieve human resources objectives (outlined earlier in this chapter) will have built a staff who are productive

and motivated to work. The human resources objectives can be aligned with the employment cycle, which comprises four stages:

- acquisition
- development
- maintenance
- separation (see Figure 7.17).

This chapter will explore each of these four stages and demonstrate how strategic planning is required for a business to maximise its human resources practices.

A start-up business owner who relies on simplistic strategies to recruit, select and maintain staff could find their human resources objectives and overall business goals difficult to achieve, as they will fail to source the best staff to work in the business.



QUESTIONS 7.4



Using a technology application, **create** a diagram or infographic that **explains** the relationship between the human resources objectives and the employment cycle.

GAINING INSIGHT



Are you happy at work? Dissatisfied employees costing businesses big time



Emma Wynne ABC Radio © 2017

Professor Stephen Teo spends his days studying happiness in the workplace.

Are you happy in your job? Or do you spend your days dreaming of a life-changing lottery win?

Professor Stephen Teo from Edith Cowan University spends his days studying the secrets to happiness in the workplace. He said finding happiness at work is incredibly important – both for workers and the organisations they serve. 'If we are happy at work, our productivity is going

to up,' Professor Teo said. 'And if productivity goes up, organisational profit is going to up.'

Professor Teo said from an occupational health and safety point of view, if employees are not happy at work, the consequence is usually that they are not engaged – which can lead to injuries and accidents.

'It's a liability for the organisation,' he said.

Organisations where people are unhappy also typically have a high employee turnover rate, and that translates into high recruitment and training costs, Professor Teo said.

Adding to the woes of such employers – employees who are unhappy, but feel unable to leave their job, will take more sick leave. 'So there are quite a lot of reasons why employers should care [about happiness],' Professor Teo said.

Bad bosses the biggest source of misery

In workplaces where people are unhappy, Professor Teo said it's usually because of poor leadership and unsupportive colleagues. 'If you have a boss who is very demanding, abusive,

not very understanding ... your stress level [is] going to increase as a result of that,' Professor Teo said. 'If your colleagues around you are very supportive [and] you have a very good work environment, where your senior managers are very ethical – this is where your stress level goes down and you are more committed and engaged at work.' A happy workplace is also more likely to keep its staff, even if they are able to earn more money elsewhere, Professor Teo said.

'At the end of the day, pay is not everything,' he said.

'Career development, what can the organisation do for you and how can they help you grow as a person in this job and also prepare you for the next job, is just as important.' Conversely, a well paid job in a miserable environment is likely to have a negative effect on your personal life, Professor Teo warned.

'Your relationship with your spouse, your psychological wellbeing, insomnia, mental wellbeing [can be impacted] – you can't underrate how your wellbeing at work has a flow-on effect into your personal life,' he said.

Dreaded team building exercises don't work

Professor Teo said he is cautious about the value of office team-building exercises and workshops, saying if staff are already unhappy it can just make things worse.

'There is a place for your employees to bond with middle managers and try to understand why they are working together – but the sceptic in me would say, it's a balancing act,' he said.

'If you say one thing and do another, no matter how many team building exercises you do it is not going to work. If there is a high trust between employees and managers that sort of thing is going to add on.

'But if the trust is not there, no matter how much money is spent on team building exercises, you actually create much more negative sentiment within your workforce.' He said in a workplace where staff are unhappy or unproductive, building trust can give a better return on investment than forced fun activities.

'If you trust your employees, give them opportunities and challenging job tasks, give them feedback and respect them – that is where it is a win-win situation,' Professor Teo said.

Source: Emma Wynne, ABC Radio Perth, www.abc.net.au
ABC Radio © 2017

Questions

- 1 **Explain** the relationship between:
 - a employee satisfaction and productivity
 - b management and the engagement of staff
 - c building trust in a workplace and employee motivation.
- 2 **Describe** the impact of unhappy staff on a workplace.

Acquisition

Key learnings

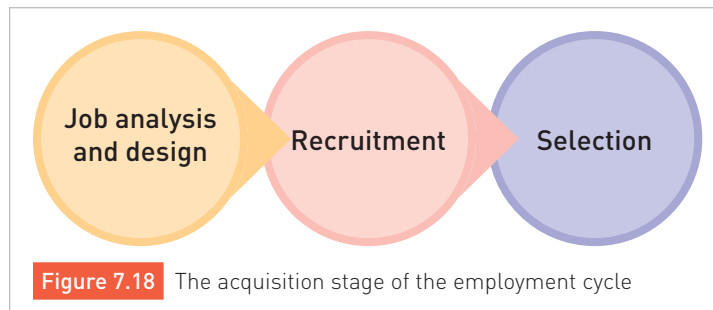
You will learn about strategic planning and human resources tools used in the employment cycle by examining:

- the **acquisition** stage
- job analysis
- recruitment
- selection.

The first stage of the employment cycle focuses on acquiring employees. It is important that staffing needs are carefully planned in all businesses, but start-up businesses in particular will benefit from having efficient and committed staff who support the business owner in navigating the early days of business success. Further, salaries and wages will quickly become the biggest expense for a business, so a business owner needs to be confident and satisfied with the staffing decisions that are made. In strategic planning for human resources, business owners and managers need to analyse the type of employee they need, then set up appropriate recruitment strategies and undertake sophisticated selection strategies to ensure the best **candidate** is placed into the role. This can be seen in Figure 7.18.

Acquisition: the first stage of the employment cycle, which focuses on assessing a business's staffing needs and continues through to the recruitment and selection process to seek the best candidate for a job or role

Candidate: a person who is shortlisted from a pool of applicants in the selection process



Job analysis and design

It is often easy for a business owner or manager to identify when staff numbers need to increase. This need is generally linked to an increase in demand for a business's goods and services and, as a result, new staff are employed to fill a gap. Performing a **job analysis** is an effective and efficient way for a business owner or manager to examine the needs of the business and identify what sort of employee they are looking for to achieve the business's objectives in the long term. A start-up business that relies on positive cash flow and strict budgeting may find that this type of strategic planning helps it to grow efficiently.

A business owner or manager can complete a job analysis by answering the general questions shown in Figure 7.20 and using the information gathered to create a **position description** (or job description).

Once these questions have been answered, a business owner or manager should evaluate the role to see if it is fair (does the wage cost align with the level of responsibility?) and sustainable (can the business afford to offer this job?). From



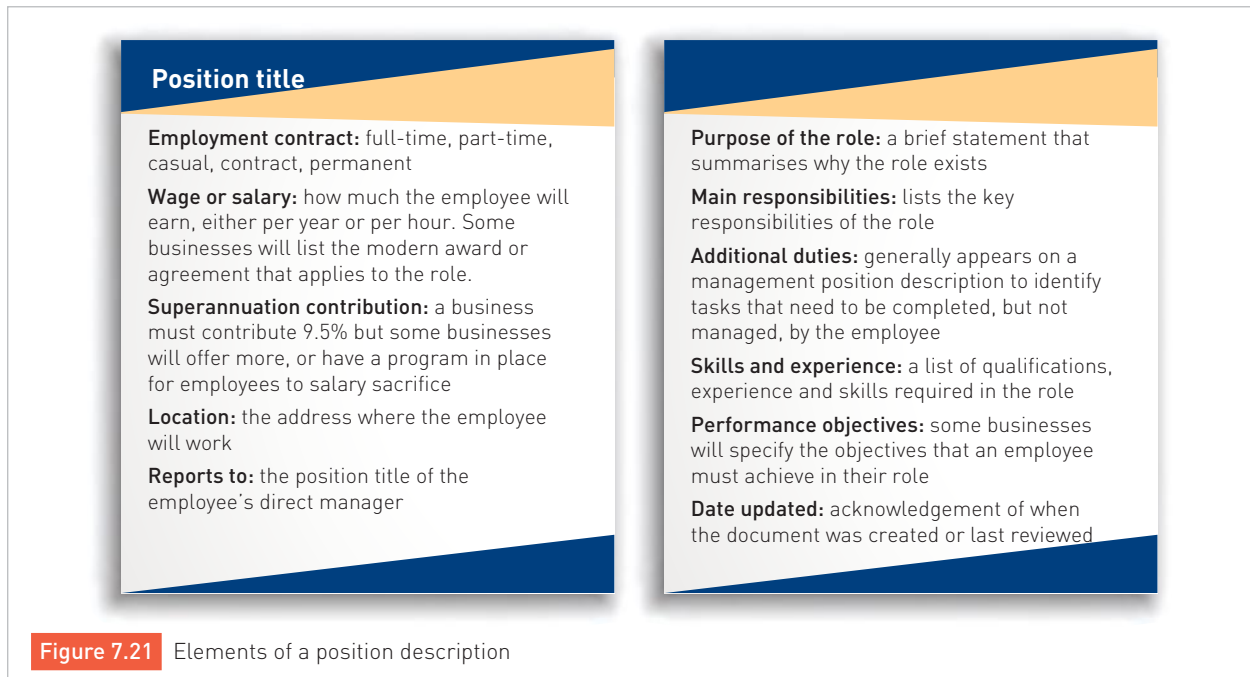
Type of position	Qualifications and experience	Reporting	Financial considerations
- What is the purpose of the role? - What tasks, duties and responsibilities are a requirement of the role? - Is this a full-time, part-time or casual position? - What are the expected hours of work? - Is it a fixed-contract or permanent role?	- What qualifications are required for the role? - What previous experience would be desired for this role? - What personality traits would bring strength to this role? - Are there any legal requirements pertaining to the role?	- Who will this role report to? - What management responsibilities are included in this role (if applicable)? - How often will this role be reviewed as part of performance management processes?	- How much can the business afford to pay for this role? - Is there a wage classification to consider? - What induction and training costs will be incurred? - Will this role add value to the business?

Figure 7.20 Questions that inform a job analysis

Job analysis: the process by which a business identifies its staffing needs

Position description: a document that outlines the key responsibilities, tasks and specifications of a role

this, a position description can be created. A position description is a business document that outlines the key responsibilities, tasks and specifications of a role. For the business, a position description is a strategically prepared document; and for potential **applicants**, it allows them to identify whether they are suitable for the role. Staff may also use their position description as a point of reference to monitor their performance, and it may also be used this way in performance management systems. It is the responsibility of business owners and managers to review and update position descriptions to ensure the staff member maintains productivity and meets the objectives of the role.



Role specification

Some businesses tend only to produce a **role specification** sheet to record staff requirements. A role specification is one element of a position description, but is more clinical than a position description in that it tends only to specify the position title, hours of work and pay scale.

QUESTIONS 7.5



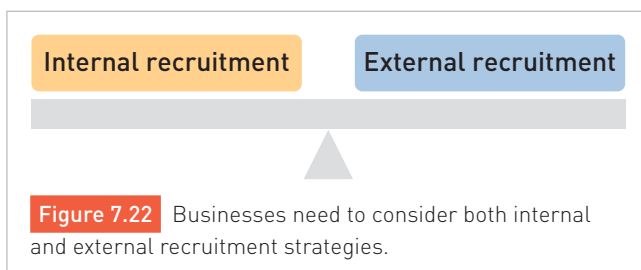
- 1 **Explain** the relationship between a job analysis and a position description.
- 2 **Select** information from a range of sources to **analyse** the main elements of a position description.
- 3 **Evaluate** position descriptions as a strategic planning tool using the criteria of effectiveness and stakeholder satisfaction.
- 4 **Create** a position description for a job role with which you are familiar to **communicate** your understanding of their purpose.

Applicant: a person who applies for a job or role

Role specification: a document that specifies the position title, hours of work and pay scale for a job or role. It does not provide the level of depth of a position description.

Recruitment

Recruiting staff is a process that, when strategically planned, can help a business achieve its goals. It involves transferring a position description into a **job advertisement**, selecting the medium in which to publish the job advertisement and setting timelines for applications to be due. Businesses that carefully plan their **recruitment** processes can save time and money by positioning themselves to receive applications from highly capable candidates. Businesses that do not consider their recruitment carefully can end up employing staff members who lack competence and don't fit into the workplace culture. This can be detrimental for a start-up business that relies on its potentially small staff to achieve the business's objectives.



Internal and external recruitment

Following a job analysis and the formation of a position description, a business needs to assess whether it wants to recruit internally or externally. **Internal recruitment** involves inviting employees from within the organisation to apply for the job. An employee might do this because they want a promotion, or just want to 'move sideways' to use new skills or pursue a role in which they have more interest. Internal recruitment can reduce the time and money a business must invest in the recruitment process, and may be perceived by staff as a motivating strategy or a reward for working in the business. **External recruitment** involves seeking applicants from outside the business. This may be appropriate due to growth in the business, or if the business is seeking a new employee who has a different skill set or who can bring new ideas to the business. While most start-up businesses will recruit externally, it is not uncommon for current staff to seek opportunities for a promotion within the business.

GAINING INSIGHT



Internal or external candidates? That is the question.

'I'm an internal candidate and management suggested I'd be a good fit for an internal vacancy. I was sure I'd be a shoo-in, but now they want me to go through the whole interview process, and are comparing me with external candidates! Surely, they should just know whether I'm good enough or not?'

A friend of mine relayed this story to me last week. He was feeling quite despondent after his hopes for an internal promotion had gone from being a 'sure thing' to now being 1 of 4 candidates. Internal candidates fear being trumped by external candidates, and external candidates hate going through a long

recruitment process to be told the successful candidate was an 'internal candidate'.

In the pursuit of finding the best candidate, it's important that an employer considers both internal and external candidates. For senior and specialised vacancies this dual approach is even more important. Still, there are some advantages and disadvantages.

Advantages of considering both:

Explores all options, ensuring the best candidate in the market is chosen. You want the best available candidate, right? Then you need to look at all the candidates, not just the ones under your nose. Choosing to just consider only known

Job advertisement: a business document created to attract potential candidates to a job by outlining what the role will entail, its pay structure, qualifications or experiences required and its location

Recruitment: a strategy within the acquisition stage of the employment cycle which focuses on how and to who a job will be advertised

Internal recruitment: refers to a business inviting employees within the organisation to apply for a job or role

External recruitment: occurs when a business seeks applicants from outside of the business

internal candidates is very appealing, but it means your candidate pool is very limited.

The successful candidate knows they were chosen on merit. Being successful after a thorough recruitment process should mean the successful candidate knows they have been chosen on merit. This should give them a sense of achievement and confidence to do well in their new position.

Other employees know that promotions are given on merit. It's not uncommon for some employees to think that they are entitled to a promotion due to tenure or other reasons. It's valuable to an employer that its employees know that promotions are based on merit and suitability, not just 'time in the role'.

Getting a good mix of external candidates and internal candidates in the workforce. It's likely that [over time] successful candidates will be a good mix of internal and external candidates. This should lead to the cream of the workforce rising, and being mixed with strong external candidates who can bring fresh ideas.

An organisation is able to benchmark its own employees ... against the market when meeting external candidates. This can help an organisation learn what it is doing well, and where it needs to improve.

Disadvantages of considering both:

Can demotivate internal employees and stunt career growth. Career advancement consistently ranks as one of the most important aspects of any job. Employers looking at external candidates when internal candidates are available can demotivate their own employees and stunt their career growth, leading to further turnover.

Potential to damage employment brand if not handled correctly. For external candidates (and agency recruiters) to hear 'we've decided to go with an internal candidate' is an extremely frustrating line. The perception is that employers should know whether an internal candidate is suitable before looking at external candidates. Not handling this correctly can discourage quality candidates from applying for future roles and damage the employment brand.

Time and cost. To go through a full external recruitment drive can take time, when an internal candidate may be able to start immediately. The drain of time on the recruitment team, line managers and associated costs with finding external candidates can be significant.

Communication is the key. My friend was disappointed because he only learned very late in the process that other candidates were involved. It's important for employers to be upfront and honest with candidates that [there] are both internal and external candidates from the start.

Candidates want honesty and transparency and employers want the best candidate for the job. There's no reason why both can't be achieved.

Source: James Witcombe, SMAART Recruitment,
<https://www.smaart.com.au/news/internal-or-external-candidates-that-is-the-question/10313/>

Question

Evaluate the decision to blend internal and external recruitment (as discussed in the article) to make a judgement based on the criterion of effectiveness.
Create paragraphs to **communicate** your response.

Job advertisement

To attract potential candidates, either internally or externally, a business needs to create a job advertisement. The job advertisement includes aspects of a position description, but with the purpose of attracting candidates. To create a job advertisement effectively, a business owner or manager should aim to extract all the most essential information from the position description and layer it with background information about the business, its mission, and the personality traits it is looking for in a candidate. As with any document that is strategically prepared, a start-up business may gain competitive advantage if it consistently delivers high-quality job advertisements, which attract high-quality candidates when compared with the competition. Where the business chooses to post the job advertisement can also have an impact. A start-up business trying to build community connections may choose to post its job advertisement in its shop window, on its website or social media pages, in the regional newspaper, or may contact an employment agency to attract a candidate.

When a start-up business is seeking to fill a position where qualifications or specific expertise are required, its owner or manager may decide to post the job advertisement on a job search website, such as Seek, or pay for it to be published in a statewide newspaper with a high readership. They would also post the job advertisement on the business's website or social media pages and, sometimes, with an employment agency. In choosing where to post job advertisements, a start-up business would need to consider its budget, along with how many applications it wants to process and within what time frame it wants the successful candidate to start. An example of an effectively constructed job advertisement can be seen in Figure 7.23.

Office Manager

CBD Hobart

Take responsibility for the smooth running of our small, dynamic CBD office where your professionalism, initiative and office skills will be welcomed. You will have plenty of room to be creative and management is always open to new ideas.

Your full-time role will include providing a full range of office management duties including:

- day-to-day running of the office
- provision of administrative support to the Director
- staff management
- accounts management
- payroll
- production of reports and educational packages
- some marketing duties
- other adhoc duties as requested.

You will have the flexibility to implement new procedures and systems to improve the smooth running of the office.

This is an autonomous role and you need to be comfortable being independent and making decisions. This position will suit you if you have good interpersonal and presentation skills, and office management experience. You need to be self-directed and have organisational and problem-solving skills.

Applicants must have:

- experience with QuickBooks or similar accounting packages and be proficient in processing pays, superannuation and preparing the BAS
- extensive experience with Microsoft Office Suite of products including advanced Microsoft Word and Excel skills
- knowledge of Lotus Notes and Desktop Publishing
- experience using database management systems
- excellent interpersonal, oral and written communication skills
- a positive disposition.

Applications outlining qualifications and demonstrating how your experience and skills match the job requirements are due by 12 December.

Please submit your resume and cover letter by email:

Amira Nawzad, Recruitment Coordinator, amira@gotechaustralia.com.au

For more information, call Amira on 0400 000 000 between 9 and 5 Monday to Friday.

www.gotechaustralia.com.au

Source: Career FAQs, www.careerfaqs.com.au. Careerfaqs.com.au is Australia's number 1 careers and course search website. Career FAQs is renowned for their expert career advice and resources, helping millions of people kickstart and advance their career each year.

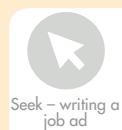
Figure 7.23 A sample job advertisement from Career FAQs

INQUIRY



Job advertisement essentials

Seek, one of Australia's leading job search websites, provides advice on how businesses can construct an effective job advertisement. Follow the weblink to read an article and, using the inquiry process, **analyse** the article to **identify** the essential elements of a job advertisement, as presented in Figure 7.23.



Headhunting

When businesses are hoping to secure a specific candidate for a position, they may choose to headhunt. Headhunting occurs when a business owner or manager seeks out the talent they are looking for and approaches one or more candidates who have a top reputation in their industry. The potential candidates may not be seeking alternative employment, but could be persuaded by an increase in salary, the position title and responsibility or additional benefits. This strategy is most often used to recruit for top-level management roles or intrapreneur positions as a business that acquires highly regarded staff can gain a competitive advantage; however, a start-up business that is building a strong reputation in the industry may headhunt staff to assist it in achieving its growth goals.



Figure 7.24 Headhunting is the practice of approaching a person and asking them to apply for a job or role in another business.

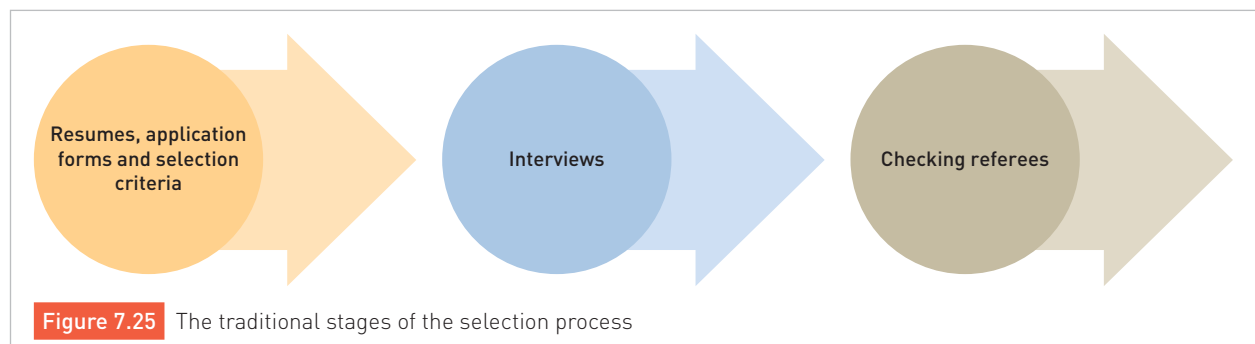
QUESTIONS 7.6



- 1 **Explain** the relationship between a position description and a job advertisement.
- 2 **Compare** internal and external recruitment.
- 3 **Select** information from a local employment agency to **identify** the services they provide.
- 4 a **Select** two job advertisements from a job search website to **analyse** the similarities and differences between them.
 b **Interpret** the similarities and differences to **draw conclusions** about the implications of preparing job advertisements for a start-up business owner.
 c **Evaluate** the two alternate job advertisements to **make a decision**, using the criterion of effectiveness.
- 5 **Evaluate** the concept of headhunting for a start-up business to **make a judgement** using the criteria of efficiency (focusing on speed and cost) and competitiveness.

Selection

The process of selection is how a business chooses to filter or screen applications gathered through the recruitment process. It is at this time that applicants may become candidates for a job or role based on their suitability. Traditionally, a business would read through application forms or resumes, shortlist candidates, conduct interviews, contact references and notify candidates of the outcome (both successful and unsuccessful). However, within each of these steps, there are strategic ways a business, including start-ups, can maximise their opportunities to seek the best candidate for a job, and do this in a timely and cost-effective manner.



Resumes, application forms and selection criteria

The first step in the **selection** process is to analyse the range of applicants who have applied for the job and to generate a short list. In most instances, businesses will ask applicants to submit a **resume**. Traditionally, a resume is a paper-based/printed document that outlines a person's work history, qualifications and experience, and is used when a person wants to apply for a job. A resume can also be referred to as a curriculum vitae. It is usually accompanied by a **cover letter**, and, if specified in the job advertisement, applicants may be required to provide copies of qualifications and registration details required for the job. Within a resume, business owners and managers will look for succinct and clean presentation of information, where previous experience or job history can be analysed alongside the features of the position description. Further, a resume that provides credible **referees** can assist an applicant in being short-listed for a role.

In addition to providing a resume, some businesses ask applicants to complete an application form. In this way, a business may be able to more easily identify stand-out candidates by considering how precisely they complete the form, and whether they satisfy key criteria (such as qualifications or availability) that the business owner or manager is looking for. This is often the case for businesses that employ staff on a regular basis, such as those in the retail, hospitality or fast-food industries. Once the application forms are screened, the business may then refer to submitted resumes to examine each applicant and decide who makes the short list for interviews. While a start-up business owner or manager may not initially use an application form when recruiting, they may find this to be a useful strategy that improves efficiency.

Businesses, including start-ups, often receive a considerable number of resumes from applicants who have no genuine interest in the job or role. A technique that businesses use to ensure that applicants are committed to a role is to ask them to respond to **selection criteria** and attach their responses to a resume or application form. Selection criteria are a set of standards or expectations that a business requires of a successful candidate – they could be considered the objectives of a job or role. Applicants are asked to respond in paragraphs, to demonstrate their understanding of the business's needs and to provide evidence of how they can meet each criterion. The business then uses the selection criteria to short-list suitable candidates, whom they may invite to an interview. Further, the responses to the selection criteria may suggest questions that the business owner or manager might ask at interview to fill gaps in the information the candidate has supplied. A start-up business owner may choose to implement this strategy if they need to appoint a manager to the business.



Figure 7.26 Business owners or managers need to process resumes in the acquisition stage.

Selection: a strategy within the acquisition stage of the employment cycle that focuses on how a pool of candidates can be shortlisted to find the ideal candidate for a job

Resume: a document that outlines a person's work history, qualifications and skills, and which they use to apply for a job

Cover letter: a document that accompanies a person's resume, communicating to a business that the person would like to be considered for a job

Referee: a person, generally a current or former manager or colleague, who vouches for a candidate's ability to complete a job. Referees' names and contact details are provided on a resume.

Selection criteria: a set of standards or expectations that a business requires of a candidate to be successful in obtaining a job or role

QUESTIONS 7.7

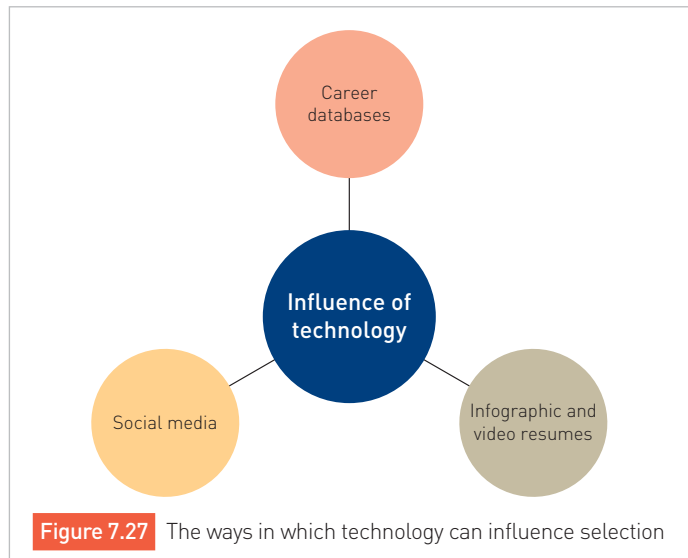


- 1 **Explain** the purpose of the following:
 - a resume
 - b cover letter
 - c application form
 - d selection criteria.
- 2 **Discuss** the relevance of a business asking applicants for a resume and responses to selection criteria.
- 3 **Create** a Venn diagram to compare resumes and application forms as selection tools.

Influence of technology in selection

In influencing the way businesses communicate and store information, technology continues to have a positive impact on the human resources strategy of selection through career databases, infographic and video resumes and the use of social media to recruit and select staff.

Businesses that invest in their websites can create career databases where applicant information is kept for a designated period. Career databases give businesses access to a greater pool of applicants, save time in the recruitment process by reducing advertising costs, and can short-list potential candidates by using search tools to define any key skills, qualifications or availability required for a specific role. It is generally large businesses that receive numerous applications for roles, particularly in the retail and labour industries, that use career databases. Start-ups too, however, could benefit from increased efficiency by retaining the information gathered from previously unsuccessful, yet capable, candidates.



QUESTIONS 7.8



Select data and information from a business that has a career database (for example, Woolworths Ltd). **Evaluate** the career database to **make a judgement** on its potential suitability for a start-up business using the criteria of efficiency and stakeholder satisfaction (focusing on management and applicants).

Technology has also led to innovation in the human resources function. To stand out from the competition, some applicants today produce resumes using an infographic genre, and some businesses ask applicants to present a video resume to accompany the traditional paper resume. These viable alternatives to traditional methods of selection have brought excitement and opportunities for greater business engagement within human resources. Start-up businesses that show an innovative approach to human resources may benefit from improved effectiveness and efficiency in the selection process.



Figure 7.28 Video resumes are becoming a popular trend in recruitment due to the influence of technology.

EMERGING TECHNOLOGIES



An infographic resume

Follow the weblinks to view examples of a single-page infographic resume and a two-page comprehensive infographic resume.



Questions

- 1 **Evaluate** Teresa Mira's infographic resume (two-page resume example) to **make a judgement** on its effectiveness as a type of resume.
- 2 Using a technology application, **create** an infographic resume for yourself, using the one-page sample as a guide.

Businesses use social media strategically, either to advertise jobs or to conduct background checks to help them judge whether a candidate will fit into the business's culture. In the last few years, businesses have found that using social media is also an efficient way to headhunt candidates, as it can reduce the time and cost it takes to recruit. However, there are limitations: not all candidates make their profiles public, and the business needs to use the right social platform based on its needs. LinkedIn, for example, was established so people around the world could build a professional profile using social media tools. This includes listing a job history, building networks with contacts, and indicating if they are interested in being pursued for other jobs.

INQUIRY



Investigating LinkedIn

About us

Welcome to LinkedIn, the world's largest professional network with more than 530 million users in more than 200 countries and territories worldwide.

Vision

Create economic opportunity for every member of the global workforce through the ongoing development of the world's first Economic Graph.

Mission

The mission of LinkedIn is simple: connect the world's professionals to make them more productive and successful.

Who are we?

LinkedIn began in co-founder Reid Hoffman's living room in 2002 and was officially launched on 5 May 2003.

Jeff Weiner is the CEO of the company, and management includes experienced executives from companies such as Yahoo!, Google, Microsoft, TiVo, PayPal and Electronic Arts.

LinkedIn leads a diversified business with revenues from membership subscriptions, advertising sales and recruitment solutions. In December 2016, Microsoft completed its acquisition of LinkedIn, bringing together the world's leading professional cloud and the world's leading professional network.

Source: <https://press.linkedin.com/about-linkedin?#>

Question

Using the inquiry process, **select** information to **analyse** the strategic benefits and potential risks of businesses using LinkedIn in their recruitment and selection process. **Create** a group or individual presentation to **communicate** your findings.

Interviews

The traditional method of a business owner or manager inviting a potential candidate to an interview continues to be a strategy used by most businesses. This is due to the success businesses have in selecting an ideal candidate for a job based on the interview process. However, businesses are exploring alternative methods to ensure that the interview process is completed efficiently, and these include one-on-one interviews, panel interviews, pitches, group interviews and testing.

One-on-one interviews

For start-up and small businesses, the interview is generally conducted in a one-on-one scenario, and can be either formal or informal. An informal interview is characterised by the location of the interview, by whether the business owner or manager has prepared a predetermined set of questions, and by wide variability in the length of the interview. This is a situation many young people who seek employment in junior positions in the retail sector will encounter. More formal proceedings allow a start-up business owner or manager to thoughtfully consider an applicant for a role, asking questions not only of the candidate's previous work experience but also about their behavioural traits, work ethic, values and problem-solving skills. Inviting a candidate to meet at a designated time, where the business owner's sole focus is on the interviewee, can allow the owner to make a more informed and strategic decision for their business. One-on-one interviews can also be conducted online, using a suitable application such as Skype. This technique is frequently used by businesses of all sizes if a potential candidate is unable to travel for the interviews. Regardless of how the interview is conducted, start-up business owners and managers must ensure that interview questions are relevant and do not infringe upon anti-discrimination law.



Figure 7.29 A one-on-one job interview



Figure 7.30 A panel job interview

Panel interviews

A more strategic approach to interviews is to establish an interviewing panel, where two or more business representatives conduct the interview with the candidate. Panel interviews are more common practice in medium and large businesses. Start-up or small businesses could benefit from inviting their most trusted staff to participate in an interview, in an effort to build loyalty, provide an alternative perspective and make sure that the selected candidate is a good fit for workplace culture. Panel interviews naturally adopt a more formal approach than one-to-one interviews. Each representative is responsible for asking questions to the candidate, allowing a wide range of relevant questions to be asked.

Some businesses choose to **outsource a recruiter** to conduct interviews with potential candidates. As a strategic move, the use of recruiters allows a business owner or manager to carry on with their normal

Outsource: to contract another business to perform services in return for a fee

Recruiter: a human resources professional, outsourced by a business to assist in the selection process

duties, and places the responsibility for selecting the right candidate on a human resources professional. The fee charged for this type of service can be high, and hence it is not often requested by start-up businesses, as the owner or manager will in any case want to meet potential candidates before making a final decision. However, a start-up business owner who seeks to employ someone in a middle or top-level management role might contract a recruiter to participate in a panel interview. Aligning with the effectiveness criterion, a recruiter may provide an objective perspective to the interview. Having a recruiter present can also protect the business owner by ensuring that the interview questions are ethically and legally appropriate.

Asking candidates to **pitch** at their interview is also suitable for a panel interview strategy and is a technique a start-up business could use. Much like responding to selection criteria, the business can ask the candidate to present their suitability for a job or role at the beginning of the interview, before asking questions. For example, a candidate applying for a sales role might be asked to persuade the panel to purchase a product, and a candidate applying for a managerial role might have to present their philosophy on leadership and how they intend to support the business in achieving its goals. Pitches can allow the panel to assess the candidate's communication skills, level of confidence, proficiency for the role and potential to work with current employees. On viewing the pitch, the interviewing panel can also customise the questions they ask the candidate.

Trials

A common practice for start-up or small businesses is to ask candidates to come into the workplace as a **trial**. During a trial, a business owner or manager may informally induct the candidate to the business and then observe them completing tasks, as outlined in the job advertisement, for a short period. This strategy allows the start-up business owner to assess the skills of the candidate and to see if they will be a good fit for the business. Trials tend to apply mostly to the employment of junior workers and in industries where particular skills need to be demonstrated, including the hospitality, construction and beauty services industries. Fair Work Australia provides information to business owners and managers regarding unpaid trials to ensure legal compliance is maintained.



Additional recruitment methods suitable for businesses in the growth and maturity stages

Once a start-up business moves into the growth stage of the business life cycle, it may choose to consider other selection strategies to find the best candidates for a job. These include:

- group interviews
- testing.

EMERGING TECHNOLOGIES



Video resumes and interviews: welcome to the brave new world

Welcome to the brave new — and impersonal — world of video resumes and interviews.

Companies such as KPMG and PricewaterhouseCoopers increasingly are turning to technology to find progressive candidates and graduates, differentiating them from those who fail to move with the times.

US-based tech company Software Advice undertook a survey earlier this year to find 60 per cent of hiring managers and recruiters in the US are using some form of video interviewing, whether it be live or recorded questions. Their survey of 400 people found 47 per cent preferred video interviews to phones.

Pitch: a type of presentation in which a person attempts to persuade others of their worth or the value of their idea. In human resources, a candidate may pitch their suitability for a job.

Trial: when a potential candidate is invited to work in a business, for the purpose of being observed, before they are offered a job

While in its infancy in Australia, more companies are likely to follow the trend and recruitment experts are already offering advice on how to make a video resume or response to a video questionnaire that stands out from the crowd.

There are obvious pitfalls, such as failing to come across as professional, inappropriate choice of work wear, bad video backgrounds and not looking directly into the camera. Career Consultancy's Catherine Cunningham says it may take a few practice goes to get the resume right.

'If someone came to me for advice on a video resume I'd say they need to have structure and come across as appealing and technically sound in their knowledge,' Cunningham says.

'It's essentially the rules of public speaking. Tell them what you're going to tell them, then tell them, then tell them what you told them.'

Cunningham advises people to include three elements in a video resume: tell the company something about themselves, what they do outside work, such as volunteering, and why they would make a good accountant, lawyer or whatever the position may be. Companies also are turning to video interviewing, with questions sent to shortlisted candidates with spaces inserted for replies.

This allows companies to save time by not having to organise a panel to interview people directly, and they can quickly weed out candidates who fail to provide adequate responses. 'They're difficult because there are no facial cues,' Cunningham says. 'There are cost and time savings because they only have to conduct that one interview instead of 100 times.'

Earlier this year, KPMG used video interviews as part of its graduate program application process, in conjunction with a new gamification exercise, a values survey and a cultural component. More than 10 000 people applied for the 2016 graduate intake, and about 1500 people eventually took part in the video interview round. Each video was watched by the firm's graduate recruitment team. National managing partner Susan Ferrier says the methodology suits the graduate market.

'All of those candidates spend a lot of time using video platforms anyway, by using Skype or Snapchat in their personal lives, and it can be a lot more comfortable for them,' Ferrier says.

Head of recruitment Nikki Harrison says the new format was well received, with few people failing to complete the video question section of the application process. As technology improves, she says, it will also spread quickly through recruitment circles. 'It's starting to become more popular in the graduate industry and where people are more comfortable with it,' she says. Internally, the video questionnaire trial was so successful the company will continue next year, and Ferrier has been fielding questions from recruiters on how it works.

Partners are giving positive feedback and some have asked if they can use the technique when recruiting for other positions. Graduates find it less confronting and there is significant time saved for those having to sort through thousands of resumes. Instead of bringing in graduates for a half-day's worth of testing and interviewing – which once involved transcribing responses to face-to-face questions – fewer people are being called in and the five-minute videos can be passed to different partners.

KPMG follows the video round with face-to-face interviews.

'Instead of inviting thousands of people in for interviews, we're inviting in about 800,' Harrison says.

Ferrier says the video interviews also have helped the company increase diversity, by being able to see different candidates and not just read their details on a page. 'It has helped us expand our view and we're hiring graduates from different areas – we're hiring music graduates, arts graduates – and we're making different choices.'



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Successful candidate clicked, but she says it's not for everyone

Accounting and finance graduate Anna Brotherson is one of a new breed of job applicants who has faced the changing world of job interviews – and she has done it in her pyjamas. This year Brotherson applied for several graduate programs and was surprised that two of the nation's largest corporate employers, KPMG and PricewaterhouseCoopers, had requested she take part in a video interview.

'It was very good because it took the pressure off because you could read the questions and you had 30 seconds to consider your answer,' Brotherson says. 'The only thing that was daunting was looking into the camera.' In both cases Brotherson was sent a web link and a password to enable her to log on, with about a week to complete the interview. There were practice questions as well.

She found the process a 'bit odd' because she prefers to speak to people face to face, but she can see how some candidates might find it easier.

She also undertook her first interview with her pyjama bottoms on and a corporate jacket on top. Realising she felt more professional when fully dressed, she did her second interview at home, in the kitchen, and dressed for work.

'You can do it at home when you're relaxed and you've got flexibility, and you can do it at a time that suits you,' she says.

'It's a little less personal but you have time to prepare.'

KPMG offered Brotherson a job in an early intake, and she started work in July.

Source: Verity Edwards, *The Australian*, 7 November 2015, www.theaustralian.com.au/business/welcome-to-the-brave-new-world-of-video-resumes-and-interviews/news-story/43cf170492ff63308ead8a9ac462f2e6

Questions

- 1 **Explain** the purpose of a video resume.
- 2 a **Select** information from the case study to **analyse** the strengths, weaknesses, opportunities and threats (SWOT) of businesses using video resumes as a strategic selection tool.
b **Interpret** the SWOT to draw conclusions about the implications of video resumes for a start-up business.
Create a paragraph response to **communicate** your findings.
- 3 **Evaluate** the use of video resumes to short-list candidates for a job or role to **make a judgement**, using the criterion of stakeholder satisfaction.

References

As mentioned previously, applicants should supply a potential employer with referees. A referee is someone whom the applicant has previously worked with, who will vouch for the applicant's skills and behaviours. Applicants will list approximately three referees, with associated contact details, on their resume. If a candidate is successful at the interview or testing stage, a business owner or manager will call referees and ask questions about the candidate's ability to complete the job or role, how they respond to certain scenarios and whether the referee would employ the candidate themselves. Three referees are generally requested, as the business may want feedback from both a current or former manager and a colleague. Having three referees also allows a business to complete two checks if one referee is unavailable. With email being a fast way to communicate, some business owners and managers will ask referees to complete a form providing feedback on the candidate. While waiting for an email response can take some time, it can also be an efficient way of contacting a referee who is unavailable to speak on the phone.

When a referee writes a letter to recommend an applicant for a job or role, and the applicant attaches it to a resume, this is known as a **reference**. References are useful to an applicant who does maintain regular contact with a referee, and can be given as a token of good faith when an employee leaves a previous job on positive terms.

Reference: a letter, written by a candidate's referee, that recommends the candidate as suitable for a job



Figure 7.31 A business owner or manager should conduct reference checks during the selection stage.

Notifying candidates of the outcome

A business should contact a successful candidate as soon as possible to offer them the job or role. A start-up business can enhance its reputation by notifying unsuccessful candidates (and in some cases, all applicants) of the outcome of their application. This task is commonly completed by email and can be structured generically. While it is not common for a start-up to do so, businesses that are well established might provide feedback to candidates who were short-listed to show appreciation for their application and provide some feedback as to why they were unsuccessful.

QUESTIONS 7.9



- 1 **Describe** the features of the following types of resumes:
 - a traditional/paper-based
 - b video
 - c infographic.
- 2 **Explain** the strategic purpose of interviews as part of the selection process.
- 3 a **Select** information to **analyse** the positives and negatives of one-on-one interviews.
 b **Interpret** the positives and negatives to draw conclusions about the skills required of a small business owner.
- 4 **Select** information regarding one-on-one, panel and group interviews and **compare** the advantages and disadvantages in a triple Venn diagram.
- 5 **Select** information to **analyse** the benefits and risks of a business contacting a candidate's referees.
- 6 **Evaluate** the use of references in the selection process to **make a judgement** based on the criterion of effectiveness.
- 7 **Explain** the strategic importance for a business of notifying unsuccessful candidates of the outcome in the selection process.

GAINING INSIGHT



Rebel Sport careers

Start-up business owners should research what other successful businesses have achieved in recruitment and selection to help inform their practice. Rebel Sport provides interested applicants with dedicated information on its website.



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Working at Rebel

Retail can provide you with a fulfilling career and rebel offers endless opportunities in stores, corporate support departments or both.

We are part of the Super Retail Group and together we are the seventh biggest retailer in Australia in terms of sales. So, working with rebel can also open up doors to opportunities in Amart Sports, Super Cheap Auto, Goldcross Cycles, BCF (Boating Camping Fishing), Ray's Outdoors and FCO (Fishing Camping Outdoors). We have a growing network of stores across Australia and New Zealand, and support offices in Brisbane and Sydney.

Why work for us

We offer an attractive team member benefits package that includes: in-store discounts; a rewards program that offers discounts with hundreds of other local and international retailers; and an employee assistance program that provides confidential counselling for any personal or professional challenges.

We also encourage our team members to pursue career paths through in-house development, and completing nationally recognised retail and management qualifications through our Enterprise Registered Training Organisation.

Recruitment

Current vacancies

We advertise all of our vacant jobs on the Seek website and our Super Retail Group careers website. Please visit <http://careers.superretailgroup.com.au> and click on 'Search'

under 'Advanced Job Search' to view current vacancies.

If there are no suitable vacancies, you can create a job alert. Setting up job alerts will ensure you receive an email when a suitable vacancy is advertised so you will never miss out.

How we recruit

We invite suitable applicants to either a group or individual interview. Group interviews are often used for store recruitment and provide our store management team the opportunity to assess your performance working within groups.

Individual interviews are often second interviews for store team member positions, or first and second interviews for store management and support office positions.

During these interviews you'll be asked behavioural and competency based questions where you'll need to provide examples of how you performed in a situation in your current or past jobs. For support office positions you may also be asked to participate in an assessment centre, which could include presentations, role plays or other assessment exercises.

Each participant is assessed against our competency and values framework with a view to selecting those who best align with the rebel culture.

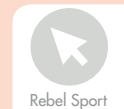
Our values are based on passion, openness, integrity, care and discipline. We actively recruit people who are aligned with our values because we expect our team members to embrace and live our values during their work with us.

If you apply for a role with us, good luck and we hope to see you soon.

Source: Rebel Sport website, www.rebelsport.com.au/helpdesk/about-rebel/careers

Questions

- 1 **Describe** the techniques Rebel Sport uses to recruit potential applicants.
- 2 **Explain** the selection process used by Rebel Sport.
- 3 **Select** information from the case study to **analyse** the strengths, weaknesses, opportunities and threats (SWOT) of Rebel Sport's acquisition strategies.
- 4 **Evaluate** the information on the Careers page for Rebel Sport to **make a judgement** based on the criteria of competitiveness and stakeholder satisfaction.
- 5 **Interpret** the strategies used by Rebel Sport to **draw conclusions** on how a start-up business could establish its recruitment process.



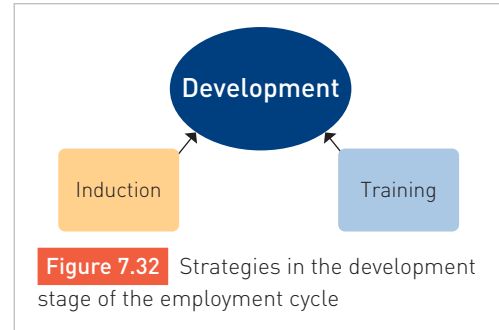
Development

Key learnings

You will learn about strategic planning and human resources tools used in the employment cycle by examining:

- the development stage
- induction
- training.

The **development** stage of the employment cycle is critical for a business in establishing a positive organisational culture as it focuses on how employees are inducted into the business, and how ongoing **training** opportunities are provided to all staff so that the business can achieve its goals. A start-up or small business may begin these processes informally. As the organisational structure takes shape and the business achieves growth, however, it is important that formal processes are implemented. This ensures that all staff feel supported, and that they know what their responsibilities are and how their efforts will contribute to the business's organisational culture.



Induction

The process of **inducting** new staff to a business occurs naturally as the new staff member is introduced to the business. The business owner or manager must provide the staff member the opportunity to familiarise themselves with the business and how it operates, and to meet other staff whom they will either work alongside or report to. The objectives of an induction process are:

- to make a new staff member feel welcome to the business
- to ensure the new staff member understands their role and where they fit within the business
- to ensure that legal and administrative requirements are finalised
- to give existing staff the opportunity to meet and discuss business processes with the new staff member.

Start-up businesses often use informal, on-the-job training to induct a new staff member. This type of induction allows a staff member to shadow the business owner or manager and be supervised when attempting tasks for the first time. However, this strategy is not effective for all staff, nor for all types of jobs. There is a risk of a lack of consistency and formal checkpoints, which can result in the new staff member not feeling confident at the workplace and, if they continue to struggle, choosing to end their employment contract. When this occurs, a business must return to the acquisition stage of the employment cycle to recruit and select a new staff member. A business that regularly struggles to retain staff is demonstrating a lack of efficiency, and a start-up business owner or manager in this situation should dedicate the time to implement a more formal induction process. One outcome of this can be that the business owner or manager creates an induction checklist, which is transparent and which ensures all aspects of induction are covered. It may also allow the business owner or manager to delegate responsibility for induction to a trusted staff member in the business, knowing the task will be completed correctly. The main elements of an induction process can be seen in Figure 7.33.

Development: the second stage of the employment cycle, which focuses on the induction and training of staff to support the business in achieving its desired corporate and organisational culture

Training: a process where a staff member is supported in acquiring new knowledge and skills

Induction: a process in which an employee is introduced to, and becomes familiar with, a business



Figure 7.33 An induction checklist should provide a new staff member with this information.

INQUIRY



Investigating induction checklists as a strategic planning tool

- 1 Individually or in small groups, **select** an induction checklist that has been published online.
- 2 Using the inquiry process, complete the following tasks.
 - a **Analyse** the positive and negative features of the checklist.
 - b **Interpret** the checklist to **draw conclusions** of the implications of the induction process.
 - c **Evaluate** the induction checklist to **make a judgement**, using the criteria of effectiveness and stakeholder satisfaction.
- 3 **Create** a presentation to **communicate** your research.

Probationary periods

A business owner may choose to employ staff on the proviso that they complete a **probationary period**. This is an agreement that allows an employer to terminate an employment contract if the employee is not meeting the expectations of their job or role within a set time. Probationary periods can run from three to 12 months, depending on the industry and the type of job. Once a new staff member completes their induction, they should be closely monitored and supported in their first few months of employment, in the hope that they will be

Probationary period: a set time during which it is agreed that an employer may terminate an employment contract if the new employee is not meeting the expectations of their job or role

able to complete the job that they have been employed to do. While probationary periods should be negotiated at the selection stage, the process and implementation of probation sits within the development stage of the employment cycle.

An effective probationary program should include a specific time frame, checkpoints at which the new staff member's performance is reviewed, and training opportunities. Some businesses will use a mentoring program for a staff member in the probationary period. This can be a strategic way for the business to build up the new staff member's confidence and proficiency in the business.

GAINING INSIGHT



Developing staff through mentoring

As a business owner, you can use mentoring as a way to develop staff skills at little or no cost to your business. This can help you promote staff internally, which can avoid expensive and time-consuming recruitment processes and ensure that valuable knowledge stays within your business.

Mentoring can also help your business:

- improve staff retention rates and team relations
- increase profits through improved performance and productivity
- foster innovative ideas.

By pairing a more-experienced person (the mentor) with a less-experienced one (the mentee), you can use mentoring:

- as a form of induction for new staff
- to develop staff skills in a particular area, such as customer service

- to groom existing staff to move into more senior roles
- for succession planning, if you plan to hand your business over to someone else.

Source: Business Queensland, www.business.qld.gov.au
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Questions

- 1 **Explain** the strategic benefits to a business of using mentors in its induction process.
- 2 **Create** a paragraph to **explain** how induction does not just involve a new staff member who is joining the business, but can also include existing staff.
- 3 Some businesses are now introducing 'reverse mentors' programs. **Select** information to **explain** this concept and its strategic purpose.

QUESTIONS 7.10



- 1 **Explain** the purpose of the acquisition stage of the employment cycle.
- 2 **Explain** how a formal induction program could assist a start-up business to be more competitive.
- 3 **Create** a T-chart to **compare** the advantages and disadvantages for a business owner of using probationary periods.

Training

To remain competitive, start-up businesses need to keep up to date with demands in their market. One way in which a business owner can achieve this is to provide training for staff as the business moves from the start-up stage to the growth stage. Training is a process by which a staff member is supported in acquiring new knowledge and skills. There is an endless range of topics in which staff can be trained. These are outlined in Figure 7.34.



On-the-job training

As the name suggests, on-the-job training occurs when a staff member learns new knowledge and skills at their workplace. It is considered a cost- and time-efficient strategy as the business can use current infrastructure, such as equipment and technology, to conduct the training. The training can be informal and led by another staff member, or an expert from outside the business can be invited to conduct the training. Hence, on-the-job training is the format that is used most frequently by start-up businesses because of its effectiveness and efficiency. The various on-the-job training methods are outlined in Table 7.2.

Table 7.2 On-the-job training methods

On-the-job training method	Explanation	Example in a start-up business
Job rotation	Occurs when a staff member learns the job of a colleague. It can be used as a contingency measure to ensure a job or role can be filled if a staff member is absent from the business.	A business owner may train a staff member in the opening and closing procedures of a store.
Coaching	When one staff member (trainer) trains another staff member (trainee) in completing a task, and takes on a supervisory and supporting role as the trainee learns new skills	A business owner may coach a staff member in how to change prices through a point-of-sale system.
Seminar or instructor-led training	When one staff member leads the training of other staff in a workshop, demonstration or seminar format, to introduce them to new knowledge, skills or business practices	A business owner may lead a workshop or invite an expert to inform staff members of changes to legislation that impact upon the business's operations. A business owner demonstrates to a staff member how to unload and store stock.
Online modules	When a staff member is required to complete an online training course and is paid to do this during work time	A business owner may request staff complete an online induction course in workplace health and safety.

Off-the-job training

Off-the-job training is an investment by a business in building the knowledge and capacity of staff in a more formal way. Off-the-job training can include attendance at conferences where the staff member gains new knowledge to bring back to the workplace, or the completion of a qualification, which may entitle the staff member to a promotion or pay rise. The cost of off-the-job training is higher than on-the-job, but, if a business is strategic in how it provides off-the-job training opportunities, it could gain a competitive advantage and become a business that people want to work for. In most cases, the business owner will engage in off-the-job training to build their own professional ability. The various off-the-job training methods suitable to a start-up business are outlined in Table 7.3.

Table 7.3 Off-the-job training methods

Off-the-job training method	Explanation	Example in a start-up business
Formal qualification or accreditation	A business may subsidise or pay for a staff member to gain a formal qualification to enhance their knowledge and skills in a business. This could be done face-to-face or online.	A business owner may pay for a staff member to attain their real estate licence.
Attending conferences, lectures and workshops	A business sends its staff to an industry conference to familiarise them with new business practices or seek information regarding emerging trends.	A business owner may pay for staff to attend the Business Summit to find out about the macro environmental trends impacting on Australia's small businesses.

QUESTIONS 7.11



- 1 **Explain** the relationship between training and a business achieving its goals and objectives.
- 2 a **Create** a table like the one below, and **select** information to classify the range of training topics as suitable for on-the-job or off-the-job training, or both.

Training topic	How it could be delivered on-the-job	How it could be delivered off-the-job
Management and leadership training		
Professional development and quality improvement training		
Communication, teamwork, customer service and skills training		
Software, hardware and technology advancement training		
Legal compliance and workplace health and safety training		

- b **Interpret** the table to **draw conclusions** about the implications of on-the-job and off-the-job training for a start-up business.
- 3 **Evaluate** the statement, 'Start-up businesses cannot afford training', using the criteria of effectiveness and competitiveness. **Create** two paragraphs to **communicate** your response.

INQUIRY



Investigating development strategies using a SWOT analysis

- 1 Using the inquiry process, **select** information from a small business in your community to **analyse** the strengths, weaknesses, opportunities and threats of its induction and training strategies.
- 2 **Interpret** the SWOT analysis to **draw conclusions** about the implications of developing staff for a small business.
- 3 **Suggest** two ways in which the business could improve its development strategies, using the criterion of efficiency.



Figure 7.35 A barber uses an instructor-led training method to teach students.

Maintenance

Key learnings

You will learn about the employment cycle by examining:

- the maintenance stage
- performance management
- rewards, benefits and career planning.

The third stage of the employment cycle is **maintenance**. This stage focuses on how the business motivates its staff and provides support to them. Initially, it investigates how staff are motivated, through using frameworks such as Maslow's hierarchy of needs (Figure 7.36), and highlights the importance of a business implementing a **performance management system** that recognises the efforts of high-performing staff and supports underperforming staff to improve. The maintenance stage also includes the way in which businesses motivate their staff through providing benefits, rewards and **career planning** opportunities. The planning of these strategies is crucial to a start-up business's success, particularly as it experiences growth and increases in size from a micro- or small business to a medium or large enterprise. Strategic and tactical planning in the maintenance phase can also increase **staff retention** rates, which helps a start-up business achieve its efficiency goals. The maintenance stage of the employment cycle will be examined in greater detail in Units 3 and 4.



Performance management

Performance management is a key human resources responsibility, particularly for start-up businesses that want their staff to grow as the business does. It is the process by which staff are regularly reviewed on their performance, and the results can be used to inform further development staff may need, such as training, or if the staff member is deserving of a pay rise or promotion. Formal performance management systems are

Maintenance: the third stage of the employment cycle, focused on motivating and supporting staff in the workplace to help the business achieve its goals and objectives

Performance management system: a process implemented by a business and used to review and assess a staff member's performance in their job or role

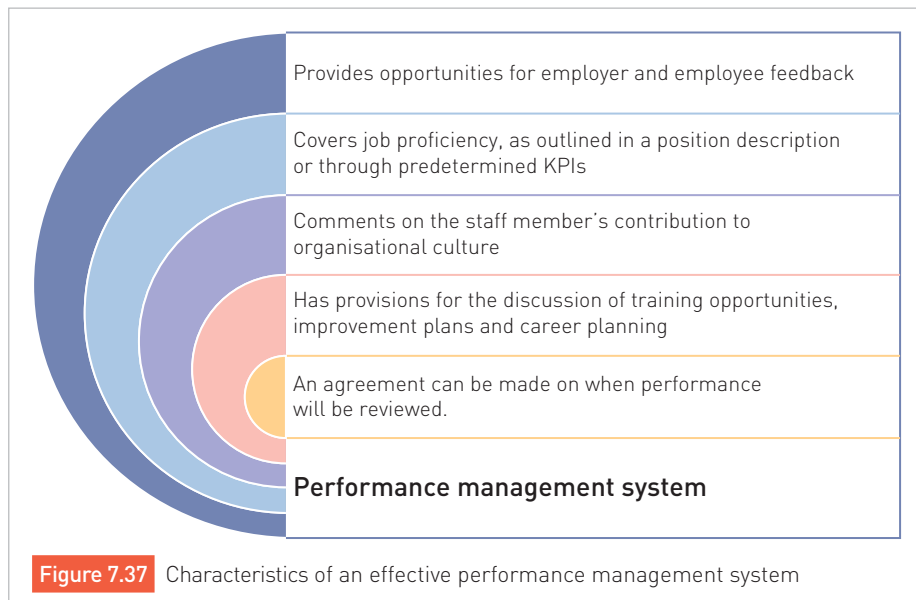
Career planning: the process in which a business tries to support a staff member in achieving their career goals such as moving into management roles, training in new areas or seeking promotion

Staff retention: the rate at which a business keeps its staff within a given period. Ensuring staff retention rates remain high can be an objective of the business.

uncommon for start-up businesses, as a business owner or manager will generally give a staff member informal feedback. However, the use of performance management systems is common practice for large businesses, and it can be a strategic move for a start-up business owner to implement one because of its effectiveness in measuring performance.

When a business chooses to implement a performance management system, it must ensure it implements a fair and effective appraisal system. This should include, to varying degrees, the following features:

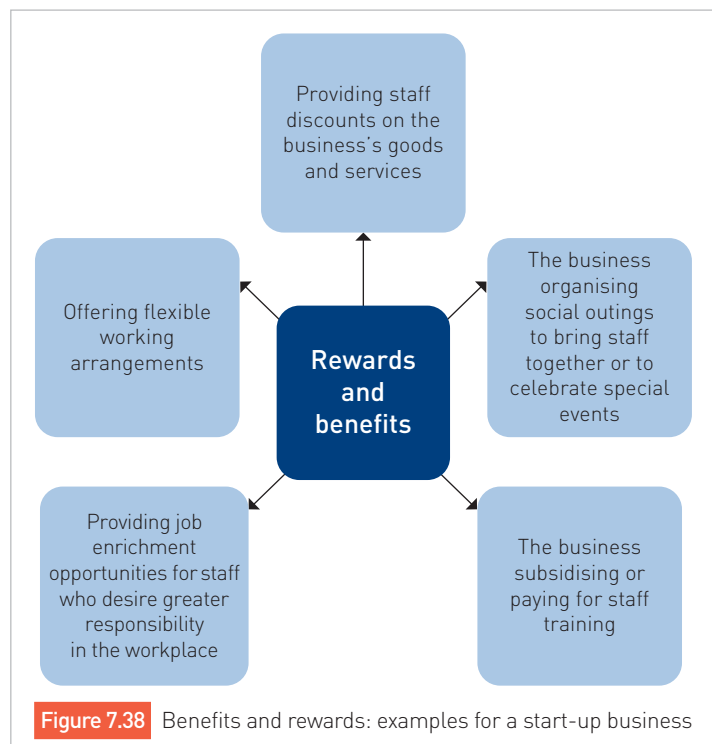
- opportunities for employer and employee feedback
- job proficiency, as outlined in a position description or through predetermined KPIs
- comments on the staff member's contribution to organisational culture
- provision for discussion of training opportunities, improvement plans and career planning
- agreement on when performance will be reviewed.



Benefits and rewards

A simple and effective strategy that start-up businesses can use to motivate staff is to provide them with benefits and rewards for working in the business. The benefits and rewards options for a particular business can attract applicants if advertised during the recruitment process, but can also instil happiness in the workplace. For a start-up business, examples of rewards and benefits could include:

- providing staff discounts on the business's goods and services
 - the business organising social outings to bring staff together or to celebrate special events
 - the business subsidising or paying for staff training
 - providing job enrichment opportunities for staff who desire greater responsibility in the workplace
 - offering flexible working arrangements
- (Figure 7.38).



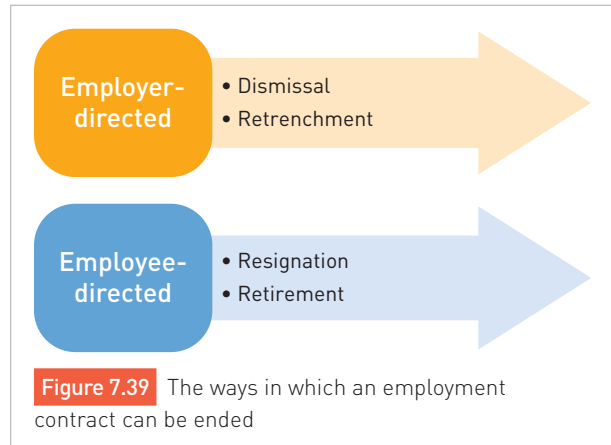
Separation

Key learnings

You will learn about the employment cycle by examining:

- the separation stage
- employer-directed dismissal and retrenchment
- employee-directed resignation and retirement.

The fourth stage of the employment cycle is separation, which occurs when the employment contract comes to an end. This can be either employer-directed or employee-directed. Regardless of the reason, a start-up business and its staff must ensure they comply with the requirements of the *Fair Work Act 2009* to ensure that the termination of the employment contract is both legally compliant and ethical. The ways in which an employment contract ends can be seen in Figure 7.39.



Dismissal

All businesses can terminate an employment contract with a staff member if the staff member is guilty of serious misconduct or has underperformed. If an employee is guilty of theft or risks the safety of other staff or customers, a business is protected by law in asking the staff member to leave immediately – or, in more common terms, be ‘fired’. Alternatively, if an employee is not meeting the requirements of their position description, or achieving the KPIs set for them, a business can pursue actions that allow them to cease the employment contract. These actions require a business to prove that the staff member was performance-managed by documenting performance reviews, that the business provided support and training for improvement over a period, and that the employee was issued with several written warnings. A business that does not follow these procedures may



Figure 7.40 A business owner or manager may need to dismiss or retrench staff.

Shutterstock.com/Antonio Guillem

face an unfair dismissal claim. Start-up business owners should seek the advice of their lawyers or solicitors if wanting to dismiss a staff member.

The Fair Work Ombudsman provides advice to both employers and employees regarding the laws that apply to dismissal, retrenchment and resignation.



Retrenchment

Retrenchment occurs when a business can no longer afford to keep an employee, or their job or role is no longer required in the business. Technological advances such as automation have influenced the rate of retrenchment in businesses, as have times of economic recession, when business's profits suffer and they need to take extreme measures to improve their financial performance and position. These circumstances affect the range of businesses from start-ups and small business up to medium and large businesses. The rules surrounding retrenchment, including notice and payout amounts, are set out in the Fair Work Act.

Resignation

An employee can decide at any time to cease their employment contract with a business. The Fair Work Act provides details regarding how much notice a staff member must give to a business, and outlines the payout requirements. A business owner or manager should support a staff member's decision to resign to maintain a positive reputation and good relations with the staff member, but it can be a challenging time for a start-up business that relies on a small number of staff. Businesses can choose to conduct exit interviews, which gather feedback on the business from the staff member, if they feel it will help the business. The staff member should also comply with intellectual property legislation, which outlines that all work performed in a business is the property of the business, and ensure they follow the employment agreement should a clause be included which prevents them moving to a competitor within a predetermined period.

Retirement

Another employee-directed decision to end an employment contract can occur when a staff member chooses to retire. This means they are exiting the workforce, and it is a time when a business should celebrate the efforts of the staff member and their career. The process to be followed on retirement is the same as for a staff member who resigns from a business.

QUESTIONS 7.12



- 1 **Explain** the separation stage of the employment cycle.
- 2 **Describe** a scenario when a staff member is:
 - a dismissed from a business
 - b chooses to resign.
- 2 **Explain** the role and purpose of the *Fair Work Act 2009* in protecting both businesses and staff members in the separation stage of the employment cycle.
- 3 **Explain** the relationship between performance management and dismissal.
- 4 **Discuss** the differences between retrenchment and dismissal.

Chapter 7 review

This chapter introduced the management and human resources strategies used by start-up businesses. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

7.1 Short items

- 1 **Explain** the relationship between the four human resources objectives and the employment cycle.
- 2 **Describe** and **explain** the challenges faced by a start-up business owner who may not have management experience.
- 3 **Describe** when it is suitable for a start-up business to use either internal or external recruitment methods.
- 4 **Explain** the purpose of a strategically planned selection strategy.
- 5 **Describe** how technology has impacted upon the human resources function.

7.2 Interpretive items

- 1 Using the inquiry process, **create** a presentation to **communicate** the following.
 - a **Describe** the features of a small business in your community.
 - b **Select** data and information from the business and other sources (e.g. employment statistics in the industry) regarding their acquisition and development strategies to **analyse** the strengths, weaknesses, opportunities and threats.
 - c **Evaluate** two alternative acquisition and development strategies the business could consider, using the criteria of effectiveness and efficiency.
- 2 **Evaluate** the choice for a start-up business owner to conduct panel interviews using the criteria of effectiveness and stakeholder satisfaction.
- 3 **Evaluate** the POLC responsibilities of a business owner who is the only staff member of a business to **make a judgement**, using the criterion of competitiveness.

7.3 Extended-response items

Using the inquiry process, **create** an extended business report to **communicate** the following.

- a **Describe** the features of a small to medium business in your community that appears to have a low staff retention rate.
- b **Select** data and information about the business to **analyse** the strengths, weaknesses, opportunities and threats, taking into account its human resources practices or strategies.
- c **Interpret** the relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implication of management, acquisition and development of staff for the business.



Case study 3: Establishment of a business – franchise

Rock-A-Bye Baby Equipment Hire

About the business

Rock-A-Bye Baby was established in 2009 in response to my own desire to have a lifestyle business I could operate while still being available to continue with my care responsibilities for my then three-year-old daughter.

This ambition from Danni Guerreiro, the owner of Rock-a-Bye Baby Equipment Hire, still hasn't wavered. After finding a niche in the market, establishing her business and successfully achieving her business goals, Danni decided in 2015 to expand the business and invest in the franchise business model. She considers herself a 'mumtrepreneur', drawing this name from the social trend whereby many mothers who have young children are seeking business opportunities that provide financial support and flexibility for women who also want to balance work with raising their children.

Rock-a-Bye Baby Equipment Hire, as the name suggests, is a business that began as 'Sydney's only luxury nursery equipment hire company'. It now has six branches (set up geographically), with Danni managing three Sydney localities and two other franchisees servicing the wider Sydney region and the Gold Coast. The business continues to offer franchise opportunities to interested parties and its expansion potential is Australia-wide.

The business offers a range of services, focusing mainly on hire of all equipment baby-related – prams, baby seats, bassinets, cots, portacots, baby monitors, high chairs, booster seats, change tables, bottle warmers and cleaners, and bouncers – but has expanded its product offering to include car seat fittings and a cloth nappy service wash and delivery service. Customers place their orders online, and hire begins with a three-day minimum and can extend to up to four weeks or more. The business also offers an airport concierge service from Sydney and Gold Coast airports for families that travel and want to hire equipment while completing their travels. Through the capabilities of the Internet, Rock-a-Bye Baby Equipment Hire has also set up an online store and is a retailer for the purchase of brand new baby equipment, furniture and supplies.

When considering the target market, Danni stated that most of her custom comes from parents who prefer to hire baby equipment rather than purchase it outright.

Seventy per cent of our customers are in the top 10 per cent of household incomes. These are people who are highly Internet literate and who are very familiar with utilising services such as meal delivery services, leasing high-end homes and cars, having home help such as cleaning etc. and when they have babies they are happy to have Rock-A-Bye Baby provide all the equipment they need for the first 6–9 months. The equipment is home delivered and professionally installed and when their baby has outgrown the products we come back and take it all away for them. They don't have time to store all this stuff for 18 months [until baby number 2] comes along, or to photograph it and list it all on eBay. This also means that when [baby number 2] does arrive, they can hire the latest products on the market rather than using models that may have been long superseded.

The franchise model

The reasoning behind Rock-a-Bye Baby Equipment Hire offering a franchise business model arose from the business's rapid growth: Danni was working six days a week after only eight months of trading. This continued for many years and demand continued as Danni would field many phone calls, emails and enquiries through social media platforms (Rock-a-Bye Baby Equipment Hire has Facebook, Instagram, Twitter and Pinterest accounts) from people across Australia wanting to use her service.

I franchised the business in 2015 to enable me to provide our services and products to a wider range of customers in areas that we could not physically reach. Each week we get many emails from customers who we cannot realistically assist due to their distance from us.



All images courtesy Rock-A-Bye Baby

Figure C3.1 Rock-A-Bye Baby Equipment Hire's branding

FEATURED HIRE PRODUCTS

Baby Jogger City Micro Double Pram
\$69.00

Babyhood Dormire Portacot
\$45.00

Babylove Ezy Switch EP
\$35.00

Bednest
\$79.00

Maclaren Major Elite Pram
\$50.00

HIRE
WHAT YOU NEED WHEN YOU NEED IT

BUY
TRIED IT & LOVE IT? WHY NOT OWN IT!

SYDNEY AIRPORT CONCIERGE SERVICE
HASSLE FREE FAMILY TRAVEL
FIND OUT MORE ►

Figure C3.2 Products offered for hire by Rock-a-Bye Baby Equipment Hire

Rock-a-Bye Baby Equipment Hire is a private company with franchisees arranging their own structure through advice sought from solicitors and financial advisors, and together they form 'the Group'. To be appointed a franchisee requires the aspiring business owner to complete an application form, attend an interview and, if successful, proceed with preparing financial and legal documents required for the business purchase.

Legal considerations

Rock-a-Bye Baby Equipment Hire also had to familiarise itself with its legal obligations when operating a franchise business model. Franchises are regulated by the Australian Competition and Consumer Commission (ACCC), which focuses on ensuring both franchisors and franchisees act in good faith at all times and maintain transparency.



ACCC –
Franchise
business
model

If there are breaches, businesses can face fines of up to \$54 000. Danni said that the Franchise Code of Conduct provides all the information needed to ensure Rock-a-Bye Baby Equipment Hire maintains compliance with the law.

Information regarding the Franchise Code of Conduct can be found in Chapter 6.

The ACCC publishes information to support the franchise business model.

Specifically, Rock-a-Bye Baby Equipment Hire's franchise agreement 'sets out all the obligations, responsibilities and expectations of both the Franchisor and the Franchisee. The Agreement is lengthy, detailed and covers the entire term of the Agreement from commencement to end'. The cost to run a branch for a franchisee is dependent on its territory or geographical spread, and Head Office is paid a monthly flat fee from each franchisee. Danni made these business decisions strategically, considering whether a branch was newly established or if the franchisee was taking over existing territory. She respects and places trust in her franchisees to comply with their obligations within the franchise agreement, hence neither party is obligated to provide financial reports to the other.

Professional advice and strategic networks

Danni also seeks the support and guidance from:

... chartered accountants, specialist lawyers, business coaches, marketing agencies and other consultants to enable us to stay abreast of legislative and other changes that may affect our business operations. Franchisees receive regular emails, telephone calls and newsletters from Head Office to ensure they are kept well informed.

She is also a member of the Australian Child Restraint Resource Initiative (ACRI), which provides 'tremendous support for the technical restraint fitting aspect of our business and all franchisees are required to be members during the term of their Agreement'. This means being legally accredited to install child restraints nationally, though some state governments require alternative specifications.

The Australian Child Restraint Resource Initiative provides training and accreditation for restraint seating at a national level.



Role of the franchisor at Rock-a-Bye Baby Equipment Hire

Danni stated that her role has changed significantly from being a small business owner to a franchisor.

My role as a franchisor is very different to my role as the manager of my own small business. I have had to learn many new skills and take a more significant training and leadership role to guide and assist the franchisees to grow their own businesses. Helping them to identify their existing skills and develop many new ones while ensuring that everyone continues to maintain uniformity in their individual operations is vital to maintain the integrity of our Group.

The franchisor's main responsibilities are:

- creating and updating the operations manual
- controlling the website
- maintaining the brand's identity
- recruiting of franchisees and processing applications
- providing franchisee induction and training
- top-level marketing, including search engine optimisation
- fleet purchasing.

Role of the franchisee at Rock-a-Bye Baby Equipment Hire

The franchisees of Rock-a-Bye Baby Equipment Hire are small business owners and, as such, are given independence in running their branch, within the bounds of the franchise agreement. The skills, qualifications and traits sought by Rock-a-Bye Baby Equipment Hire are highlighted in Figure C3.3.

To be successful we seek franchisees who:

- *have a genuine love of sales and baby products in particular*
- *are extremely conscientious and safety conscious as we are entrusted with hundreds of babies and infants using our products each year and everyone, at every step, must be safe*

- *are driven, ambitious and motivated to grow their business to its full potential*
- *are highly motivated and results driven, with outstanding customer service and communication skills*
- *are able to run a business singlehandedly as well as manage their own staff in due course*
- *have the ability to manage any family or other commitments around the needs of the customers*
- *have the drive to go above and beyond to provide exceptional customer-focused service*

- *have experience with resolving customer complaints and making quick decisions to ensure happy customers and timely accurate service delivery*
- *have flexibility and support from home to operate including weekends, public and school holiday peak periods*
- *have the passion to excel in everything they do.*

Figure C3.3 The skills, traits and characteristics required of a franchisee at Rock-a-Bye Baby Equipment Hire

Once successful, the main responsibilities of a franchisee are:

- utilising their training to provide a consistent Rock-a-Bye Baby Equipment Hire service
- complying with the operations manual
- maintaining uniformity and integrity of the brand.

Management and human resources considerations

To ensure franchisees are successful, Rock-a-Bye Baby Equipment Hire provides an intensive induction and training program: 'Franchisees are trained as Accredited Restraint Fitters as well as completing a five-day induction program where they are taught everything they need to learn and know to successfully operate their own Rock-A-Bye Baby branch.' When considering their management skills, Danni stated:

Franchisees are often working alone day to day, so they will find themselves requiring many management skills in their toolkit – namely, problem-solving, decision-making, planning, financial planning and interpretation, interpersonal communication, and time management.

However, Head Office is available to provide support to franchisees seven days a week for 12 hours of the day.

Future direction

Moving forward, Danni continues to have great pride in her business and is committed to seeing its continued growth. She has developed a sophisticated website that provides a comprehensive 'Frequently Asked Questions' page, along with a 'News' page where she shares articles with her customers about the latest in Australian parenting. She continues to find new ways of expanding her business, but does not compromise on her mission to provide efficient and competitive products and services to a booming baby market.

Danielle Guerreiro's advice for aspiring entrepreneurs

During the interview, Danni was asked what advice she would give to people who either wanted to begin their own start-up business or to seek the franchising pathway.

Only spend your time on activities that create revenue. Cleaning, administration, answering phones, filing, etc. can all be outsourced to leave you free to maximise your time making money. Also, commence any business with an exit strategy already in place. From the get go make the business saleable and separate from you so that it can be operated just as well by anyone – that means creating manuals, guidelines, maps, lists, etc. so that if something happens to you tomorrow (illness etc.) someone can walk in and take care of it for you till you're back on your feet. It will also mean you have a transferable and profitable asset to sell at the end of your journey. Finally, I don't think you have to be 'passionate' about or love what you do – for me the passion and love stems from being a small business owner and has no relationship to the product or services we offer. I love the learning, the growing, the developing and would be just as happy hiring out plants, cars or dresses as I am baby equipment.

Rock-a-Bye Baby Equipment Hire's website provides an extensive insight into the business.

Questions

- 1 **Describe** the characteristics of Rock-a-Bye Baby Equipment Hire's:
 - a products and services
 - b target market
 - c organisational culture
 - d franchise structure
 - e size and franchise distribution in Australia
 - f cost to franchise and ongoing royalty
 - e connections with strategic networks.
- 2 **Describe** how Rock-a-Bye Baby Equipment Hire meets its legal and regulatory requirements.
- 3 **Explain** the relationship between a franchise agreement and financial costs.
- 4 **Create** a Venn diagram to **analyse** the responsibilities of a franchisee and franchisor for Rock-a-Bye Baby Equipment Hire.



Figure C3.4 Rock-a-Bye Baby Equipment Hire Founder Danni Guerreiro



- 5 **Select** data and information from the case study to **analyse** the financial objectives of profitability, efficiency and growth.
- 6
 - a **Select** data and information from the case study to **analyse** the planning, organising, leading and controlling responsibilities of the franchisor.
 - b **Interpret** the relationships in your analysis to **draw conclusions** about the implications of management in the franchising business model.
- 7
 - a **Select** data and information from the case study and Rock-a-Bye Baby Equipment Hire's website and social media platforms to **analyse** the macro environment factors. **Create** a PESTLE to **communicate** your response.
 - b **Select** data and information from the case study and Rock-a-Bye Baby Equipment Hire's website and social media platforms to **analyse** the strengths, weaknesses, opportunities and threats. **Create** a SWOT analysis.
 - c **Interpret** the trends, patterns and relationships in the SWOT and PESTLE analyses to **draw conclusions** about the implications of entering a franchise agreement with Rock-a-Bye Baby Equipment Hire.
- 8 **Evaluate** Rock-a-Bye Baby Equipment Hire's induction and training program to **make a judgement**, using the criteria of effectiveness.
- 9 Griffith University offers a free "Buying a Franchise" Pre-Entry Franchise Education' course. **Evaluate** whether this program would suit potential franchisees of Rock-a-Bye Baby Equipment Hire to **make a judgement**, using the criterion of stakeholder satisfaction.
- 10 **Evaluate** Rock-a-Bye Baby Equipment Hire's franchising model to **make a judgement** using the criteria of efficiency and stakeholder satisfaction. **Propose** two ways in which Rock-a-Bye Baby Equipment Hire might enhance its franchise business model to benefit franchisees. **Create** an extended multimodal response to **communicate** your response.
- 11 Using the inquiry process, **investigate** the social trend of the 'mumtrepreneur'. **Create** paragraphs to **communicate** your response.
- 12 Using the inquiry process, **investigate** another business that could effectively utilise this start-up franchising model. **Create** a presentation to **communicate** your response.



Unit

2

Business growth

Topic 2 Entering markets

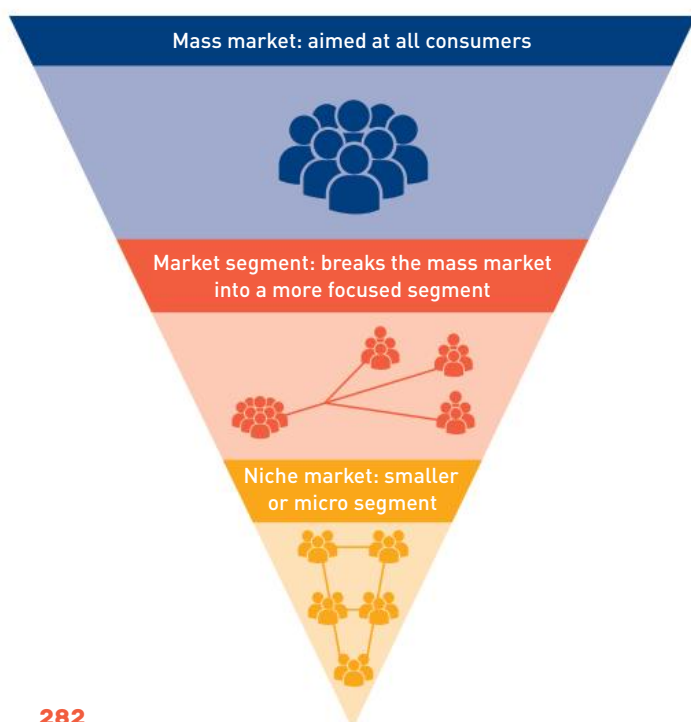
ENTERING MARKETS



AUSTRALIAN CONSUMER LAW

labelling
warranty
fair trading
ACCC
consumer protection
product safety
imaginative
advertising
deceptive
misleading
bait advertising
infringement
competition
consumer guarantees
puffery

TYPES OF CONSUMER MARKETS

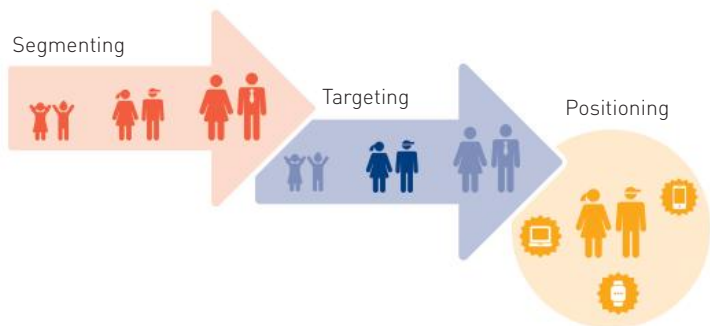


INFLUENCES ON CONSUMER BUYING BEHAVIOUR

Internal and external influences	Marketing influences	Operational influences
Psychological factors	Product	Store layout and ambient conditions
Sociocultural factors	Price	Customer service
Economic factors	Promotion	
Government	Place	

Influences on consumer buying behaviour

MARKETING OBJECTIVES IN THE GROWTH STAGE



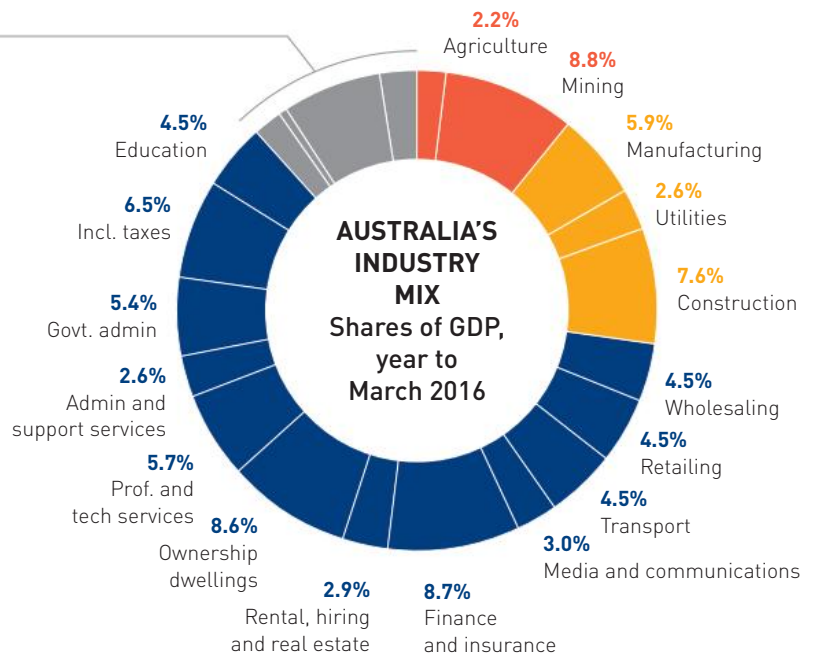
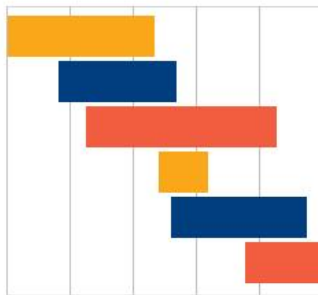
GDP \$1657 billion

2013–14 price terms

SOURCE: IBIS World 01/08/16

1.8%	6.5%
Personal and other services	Health
0.8%	2.4%
Cult. and rec. services	Hospitality

Gantt chart



core product, features, benefits, packaging, options, branding, quality, service, warranty, portfolio

market skimming, penetration pricing, premium, cost-based, psychological, dynamic



MATERIALS MANAGEMENT





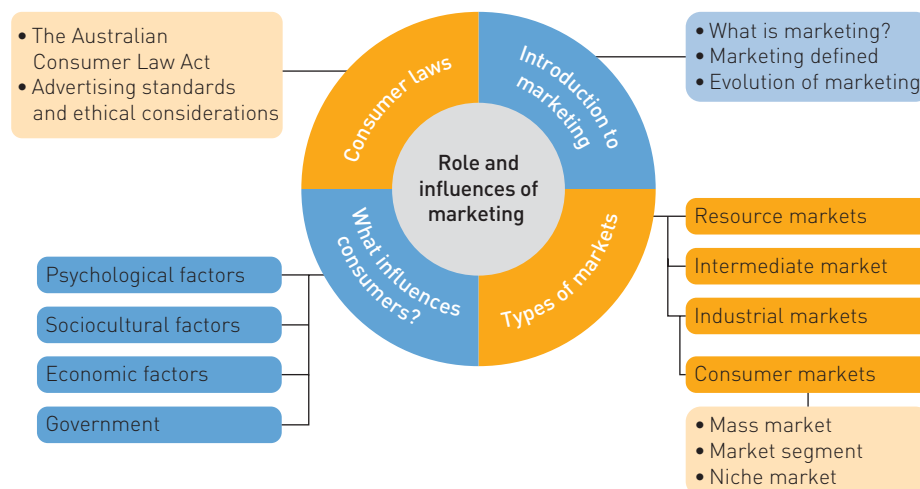
ROLE AND INFLUENCES OF MARKETING

What you will learn

Marketing is a central part of all business activity and the most visible of the business functions. It is through the processes of marketing that a business can identify consumer needs and wants, develop a product to meet those needs and promote, price and distribute to a particular group of customers. In doing so, all businesses must operate within a legal framework that functions to protect consumers from being misled or deceived and to promote fair competition in the marketplace.

A key aim of marketers is to understand consumer behaviour and what influences buying behaviour. This chapter will explore the evolution of marketing to help you understand the current assumptions and tactics employed by marketers and identify the different types of markets that businesses may appeal to. It will examine the factors that influence consumer buying behaviour and the laws that protect customers and regulate business conduct to maintain a fair, competitive business environment. This chapter will provide you with the opportunity to:

- **describe** the legislative factors affecting market entry of a business, including the Australian Consumer Law
 - **explain** the evolution of marketing to understand the varying strategies businesses use and how they aim to influence consumer buying behaviour
 - **explain** the types of markets that businesses can choose to target, noting that these markets are not always consumer markets
 - **select** data and information relating to consumer buying behaviour to **identify** the key stakeholders and **analyse** customer power interest
 - **interpret** the relationships, patterns and trends in the market to **draw conclusions** about the implications of consumer perception on marketing strategies
 - **evaluate** marketing strategies used by a business in the growth stage to **make a decision** or **recommendation** using criteria
 - **create** responses to **communicate** market entry strategies to a range of stakeholders, including paragraph responses and visual representations (market research survey, analytical tools, tables).
- The analytical tool used in this chapter is:
- power interest grid.



Key skills

In this chapter you will have the opportunity to develop the following 21st-century skills:

- critical thinking
 - analytical thinking
 - reasoning
 - reflecting and evaluating
- creative thinking
 - curiosity and imagination
- communication
 - effective oral and written communication
- collaboration and teamwork
 - participating and contributing
- personal and social skills
 - adaptability/flexibility
 - management (self, career, time, planning and organising)
 - ethical (and moral) understanding
- information & communication technologies (ICT) skills
 - accessing and analysing information
 - being productive users of technology.

(Source: Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

GAINING INSIGHT



KeepCup

FOCUS QUESTION: How do you convert an idea into a growing business that combines profit with social change and sustainability?

My brother and I started a café business called Bluebag in Melbourne in 1998. As the business grew we became increasingly concerned about the volume of packaging waste our business and customers consumed. We looked to purchase and sell reusable cups as an alternative to disposable, but observed that not only were existing options unsuitable for specialty coffee, they hadn't won the hearts of consumers.

Ceramic mugs were heavy, breakable, needing to be heated prior to filling and impossible to dose correctly with milk and coffee. Thermoses were bulky, unattractive and invariably the coffee shot had to be poured into the thermos destroying the crema on the shot. Further to this, both options were made of composite materials, making them dishwasher unfriendly and difficult to recycle at the end of life.

We had the notion to make our own, but were daunted by the enormous costs of set up and manufacture. My moment of clarity was when I was heating the milk in my daughter's sippy cup one morning. Imagine if I gave her milk in a disposable cup and then discarded it? That idea seemed so wasteful, yet I did it with coffee twice a day! This moment was the call to action.

We took a huge gamble that usability and aesthetics were the key reasons for poor take up of reusables as an alternative to disposable cups. Our café experience was invaluable in providing input to make the KeepCup work behind the coffee machine as well as for the user.

Almost four years later, with a great deal of help from design professionals, we have kick started a behavioural change in Melbourne that is spreading across the world. People purchase

KeepCups because they love the way they look and feel, and continue doing so because they form a positive habit.

KeepCup is from Australia with love. The environmental footprint of our products is really important to us, so we were committed to local manufacture. Sustainability is linked to usability, and we believe; quality and underpins the ethos of the business. As the business expanded globally we were hesitant to proclaim our Australian manufacture but it turns out this is a really positive message, and made in Melbourne even more so, given our city's reputation for specialty coffee.

Since June 2009 we have sold over eight million KeepCups, users have diverted billions of disposable cups from landfill. KeepCups are now sold in 65 countries around the world.

Abigail Forsyth, Managing Director, KeepCup

Source: From 'Our story', KeepCup website, <https://au.keepcup.com/about-us/?country=Australia#>



Figure 8.1 A growing business that combines profit with behavioural change

Questions

- 1 Using examples, outline what led to the establishment of KeepCup.
- 2 What are the key features and benefits of the product design?
- 3 **Explain** the role of sustainability in the success of this business and how this aligns with the mission of KeepCup.
- 4 **Explain** how this business is changing consumer behaviours and how this links to the business's growth.
- 5 **Identify** likely objectives for KeepCup as it grows.

Introduction to marketing

In today's increasingly competitive environment, the role of marketing has never been more important as businesses of all sizes compete for customers and market share. The success of a business is contingent on all key business functions working interdependently. This involves having motivated employees with the appropriate skills to ensure quality products or services are produced that meet the wants of a target market, along with finance creating budgets and managing revenues and expenses to optimise business objectives. In a large business, each of these functions is often undertaken by a specialist department with a team of staff. A marketing department could include product managers, market researchers, promotions managers, sales representatives, customer service specialists and online content managers. In a small-to-medium enterprise (SME), these roles may be undertaken by the owner or a small team of managers who perform a range of marketing processes.

Key learnings

You will learn the following about the role of marketing:

- the evolution of marketing
- the types of markets.

What is marketing?

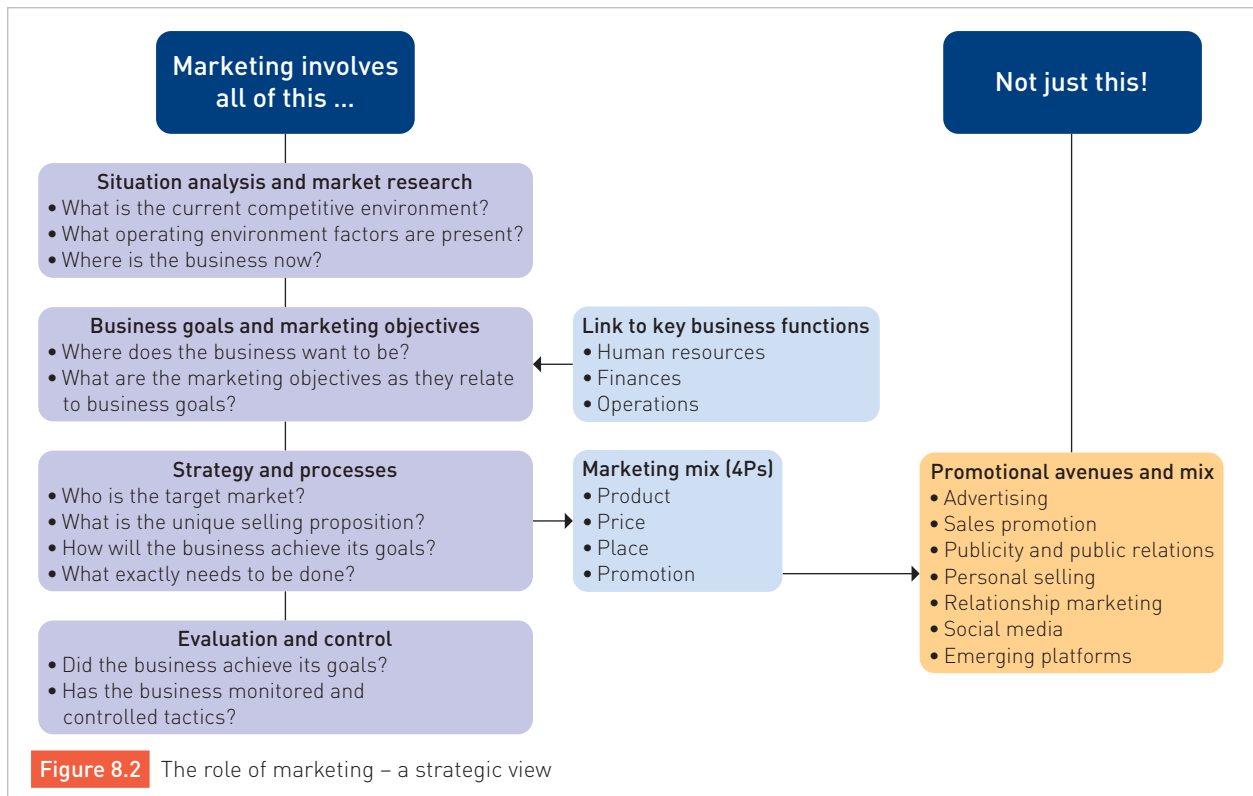
A common misconception is that marketing equates to advertising. This may be because marketing is so pervasive in our daily lives – every time someone turns on an electronic device, goes to the mailbox or travels to school or work, they are exposed to some form of marketing, which is typically an advertisement. Marketing is so influential that even young children can recognise brand names and logos for businesses and their products, and many businesses form part of our socio-cultural context. While advertising is an important element of the marketing mix, it is only one avenue in the marketing process, as seen in Figure 8.2. Marketing is critical to generating consumer awareness of a business and its products and is the primary revenue-making activity of any business. This makes it integral to **strategic planning** so that marketing activities align with and achieve business objectives.

Marketing defined

There are countless definitions of marketing, ranging from a narrow focus on planning and executing the product conception, pricing, promotion and distribution of goods and services, to more contemporary definitions by marketing experts such as Dr Philip Kotler, who states that:

... marketing is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services.

Strategic planning: a long-term view of where the business is going and how it will get there, typically over two to five years



According to the American Marketing Association (AMA) in 2013:

... marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

These definitions have commonalities that highlight the concept of marketing as:

- creating and delivering something of value, whether a good, service or idea
- identifying the needs and wants of target markets
- creating exchanges that satisfy both individual (consumer) and organisational objectives
- relevant to all organisations, including those outside the profit-based sector.

Evolution of marketing

The marketing landscape has changed significantly since Henry Ford of the Ford Motor Company was famously recorded as saying, 'You can have it in any colour, as long as it is black'. Ford's statement was indicative of the production orientation of the early 1900s, with its focus on manufacturing. In contemporary business, such an approach would likely result in a business failing to pass the start-up stage in the business life cycle. Today's customers have limitless access to information, sophisticated expectations and a wide range of products and services at their fingertips. This necessitates a focus on relationship and mobile marketing.



Figure 8.3 This federal government campaign is an example of social marketing designed to influence a target market to reject, modify or abandon behaviour for the benefit of individuals, groups or society as a whole.

Table 8.1 The evolution of marketing. There has been dramatic change since the era of mass production, with today's marketplace characterised by relationships, social interaction and real-time connections.

Era	Production orientation era (1860s–1920s)	Sales orientation era (1920s–1940s)	Marketing department era (1940s–1960s)	Marketing company era (1960s–1990s)	Relationship marketing (1990s–2010)	Social/mobile marketing era (2010–present)
Assumption	Anything that can be produced can be sold.	Management should create demand and convince buyers through selling tactics.	The starting point is the customer, not the product. Satisfy consumer wants.	Businesses exist to address customer needs. The customer is the focus.	Build a long-term, mutually beneficial relationship with customers.	Businesses and consumers connected 24/7. The key is to keep pace with changing communication channels and trends.
Aim	Keep costs of production down.	Produce the best possible product and sell to the customer.	Research and produce only what the consumer desires.	The marketing effort is strategic and spans all business functions.	Build customer loyalty and develop relationships.	Focus on social interaction and real-time connection.
Promotion	Little or no promotional effort needed. Order taking and delivery the focus.	Sales people and advertising to convince customers to purchase products.	Importance of market research before a product is launched onto the market. Marketing activities consolidated into a single department.	Strategies integrated across the business. Products targeted to particular market segments.	Customer relationship management (CRM) and data-mining. Use of loyalty schemes for retention.	Digital and emerging platforms. Exchange of information is a critical success factor. Content marketing and the use of influencers.

Production orientation

This orientation presumes that consumers have little influence in the market and will buy what is produced, with very little marketing effort required. The success of this era was based around mass production of products and limited competition in the marketplace. This era lasted from the 1860s until the 1920s, and few organisations today still embrace this approach. Businesses that enjoy a monopoly in the marketplace may still use this approach.

In contemporary business, a production-oriented example could be a technology business that is too focused on the 'tech' side of product development. Such companies love to create 'gizmos' but may fail to connect their technical efforts with an actual market need.



Alamy Stock Photo/Heritage Image Partnership Ltd

Figure 8.4 The Model T Ford represented a production orientation.

Sales orientation

The 1937 definition of marketing by the American Marketing Association (AMA) reflects the transition from the production to the sales orientation. The AMA then defined marketing as:

'business activities involved in the flow of goods and services from production to consumption'.

This emphasised supply and distribution, with a focus on consumer spending, meaning that a business must produce the best possible product and then sell it to the customer. The sales philosophy is 'goods are not bought but sold', implying that management should convince buyers through selling tactics with a focus on quick sales.

Facing increased competition in markets, businesses sought to stimulate demand through advertising and the use of trained sales representatives, whose job was to create demand by persuading people to buy products. Businesses sought to improve the abilities of the sales force rather than to understand consumer preferences. Problems with this approach included the threat of high-pressure sales tactics and the fact that selling is only one element in marketing.

Marketing department orientation

Where the sales orientation focused on persuading people to buy products, the marketing department orientation shifted towards understanding customer needs. For the first time, the starting point was the customer rather than the product, with a philosophy that a business must identify and meet customer wants if it was to succeed. The focus shifted to the analysis of consumer needs and wants, and products were designed to satisfy them. This emphasised the role of market research before a product is made available in the market, the assumption being that the marketing department is responsible for researching, identifying and satisfying consumer wants.

Marketing company orientation

From the 1960s, marketing became integrated into the wider management of a business, rather than being treated as a separate area. The marketing concept became widely accepted, and the focus was on businesses existing to address customer needs. All employees and management functions were considered integral to the marketing effort so that all departments were working towards the same goals and objectives. The role of market research also broadened beyond finding out what customers wanted, to become a continuous process that delivered customer satisfaction, resulting in loyal customers and repeat business. The 1960s also saw Australian households adopt television, allowing businesses to promote their products via television advertising for the first time.

Relationship marketing

From the 1990s marketers changed their strategy from selling products towards building brands that focus on long-term, mutually beneficial relationships with customers. Cultivating and maintaining brand loyalty is a key aspect of relationship marketing, with trust a paramount factor for consumers. Dr Philip Kotler emphasised the importance of relationships to business in 1997, asserting that ‘the cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy’ (Kotler 1997). This highlights the value of customer retention over new customer creation as a key to business success.

The aim of **relationship marketing** is to establish, maintain and enhance relationships with customers so that the objectives of both parties are met. The focus is on those customers who are likely to be long-term customers and fit with the business’s brand. **Customer relationship management (CRM)** is used to target key customer groups with personalised offers and to stay connected to loyal customers.



Mary Evans/Classic Stock/H. Armstrong Roberts

Figure 8.5 In the early to mid 20th century, salesmen made unsolicited visits to homes, demonstrating to housewives the benefits of their products and using selling tactics to achieve sales.

Relationship marketing: the process of establishing, maintaining and enhancing long-term relationships with customers so that the objectives of both parties are met

Customer relationship management [CRM]: focuses on customer retention and relationship marketing, enhanced

by technology. CRM involves sophisticated software that assists with analysis of customer revenue and costs, identifies high-value customers, targets promotional efforts, captures customer data and tracks retention.

GAINING INSIGHT



Customer loyalty schemes attracting nearly three-quarters of Australian shoppers



Getty Images/Quinn Rooney

Figure 8.6 Woolworths Rewards is the most popular loyalty program in Australia, with Coles seeking to counter this with its FlyBuys program.

Customer loyalty programs are often criticised for being too complicated and offering little in the way of savings. And yet almost three-quarters of Australian consumers over the age of 14 maintain a loyalty program membership, with one store scheme standing out as a consumer favourite.

Woolworths Rewards is Australia's most popular loyalty program, counting 49 per cent of all consumers in its membership. Close behind is the Coles-powered FlyBuys program, with 45 per cent of Australian consumers carrying a membership card.

The figures, from Roy Morgan Research, revealed membership rates in Australian loyalty programs; including Woolworths Rewards, FlyBuys, MyerOne, Priceline Sister Club, Miller's Rewards, My Dan Murphy's, My IGA, Costco and an assortment of unspecified programs ...

But consumers simply holding a membership with a particular program did not guarantee they used it.

'A large membership is obviously important for a store's customer loyalty program, but if members are inactive and don't actually shop at the store in question, then it can't really be considered successful,' said Norman Morris, industry communications director, Roy Morgan Research.

'Woolworths Rewards is a high-profile example of an extremely popular loyalty program whose members do form the majority of customers at Woolworths and BWS.'

More than 78 per cent of all Woolworths' customers used their membership at the supermarket checkout, and more than 61 per cent used it at the Woolworths-owned BWS.

In contrast, only 55.2 per cent of Myer customers used a MyerOne membership, and

just over half of all Kmart customers used a FlyBuys card at the checkout.

Among the programs researched by Roy Morgan, women made up the majority of members ... A marketing study earlier this year found 82 per cent of Australians over the age of 18 were enrolled in at least one loyalty program, with 3.9 the average number of memberships held, up from 3.8 last year.

The *For Love of Money 2016* research, by The Loyalty Point, found the most common reason for consumers leaving a membership program was a feeling that they 'were not earning enough points or rewards fast enough,' followed by a 'program chang[ing] its benefits and rewards.'

It found Coles/FlyBuys, Woolworths Rewards and the Qantas Frequent Flyer programs to be among the top most mentioned for 'doing a good job'.

Consumer group Choice advises consumers considering a loyalty program to remember 'what you are bringing to the table and what is in it for the retailer,' in particular your data.

According to Choice, 'when you sign up ... the company takes record of your age, gender, address and household size. The business is able to create a profile of your buying habits: what you buy and when, how full your basket is, how much you spend and how you pay.'

Mr Morris said it was 'perfectly reasonable for retailers to want the consumer intelligence provided by a large loyalty program', but loyalty programs had to be about more than big data.

'Calling your program a rewards program but making it hard for customers to redeem their rewards is the first step to failure.'

Source: Lucy Cormack, Sydney Morning Herald, www.smh.com.au/business/consumer-affairs/customer-loyalty-schemes-attracting-nearly-three-quarters-of-australian-shoppers-20160927-grpfwj.html

Questions

- 1 **Describe** the competitive environment present for customer loyalty programs.
- 2 **Select** data and information from the article relating to consumer loyalty behaviour and customer retention. **Draw a conclusion** as to the most successful program.
- 3 **Explain** the key success factors in a quality customer relationship management program from the perspective of the business and the customer.
- 4 Research rewards cards in Australia and **evaluate** the strategy using the criteria of competitiveness and stakeholder satisfaction.

Social/mobile marketing era

Marketing has evolved over the past century, with significant shifts in channels of communication and available promotional avenues seeing new platforms emerge. What appears to be the fastest way to reach customers today may be obsolete tomorrow. What will remain is that businesses are now connected to current and potential consumers 24/7, regardless of the digital and emerging platforms available.

While traditional marketing still accounts for approximately 50 per cent of a marketer's budget, digital channels are now an integrated part of strategy that enable real-time connections and social exchanges. Businesses must market across the traditional, digital and emerging platforms to reach as many consumers as possible.

Social media and mobile technology allow consumers and brands to connect instantly. Generationally, the millennials have grown up relying on technologies and are highly connected through social media. A strong digital presence that includes mobile-compatible options is critical for reaching this audience.

Responsiveness and engagement will be critical success factors during this era. As new marketing platforms emerge, businesses must be ready to adapt and stand out from the crowd.



Figure 8.7 The social/mobile marketing era is all about real-time connections, meaning traditional advertising is being adapted for mobile viewing.

QUESTIONS 8.1



- 1 With reference to Table 8.1, **identify** an example of a contemporary business that most closely aligns with each philosophy. **Explain** how the business reflects the era.
- 2 Using examples, **explain** how the role of marketing can be applied to all organisations.
- 3 In groups, brainstorm a list of the customer loyalty programs that group members and their families belong to. Share findings with the class to **create** a list of the different programs. **Identify** the similarities and differences between the programs. **Select** data and information about two programs and **evaluate** effectiveness based on the criteria of competitiveness.
- 4 To what extent do you agree with the view that 'the social/mobile marketing era is essentially the same as the marketing company era, it just uses different technology'? **Evaluate** the viewpoint to reach a judgment.
- 5 **Discuss** the rise of social / mobile marketing using a PCQ thinking tool (Pros, Cons, Questions) to consider its application for varying target markets.

Types of markets

Marketing exists in almost all organisations. It is not directed purely at consumers; business-to-business marketing also occurs. Different products and services are marketed by a wide variety of organisations to varying audiences. For example, consumers do not generally purchase in bulk, so marketing strategies for consumer markets will differ from those of industrial and resource markets, which typically sell in bulk and require different distribution strategies. Marketing plans and strategies must be adapted to the different types of markets and their expectations (see Figure 8.8).

Resource markets

The resource market includes businesses involved in gathering natural resources and the production and sale of raw materials. This includes agricultural products, forestry, fishing and mining. Products from this market are often used as inputs in the manufacturing process or sold to **intermediaries**. Some **primary producers** can retail their products direct to the public.

Industrial markets

An industrial product is a good, service or idea purchased for use in producing other products. These are classified as **secondary** or **tertiary**. Such products are, typically, partly processed goods, services, supplies or equipment used in the production process. For example, Gippsland Dairy buys its milk products from dairies across Victoria, and clothing designer Cue has collaborated with textile printing company KBC in Europe for over 40 years.

Intermediate markets

Intermediate markets are typically referred to as **wholesalers**, which break down the large quantities supplied by manufacturers into smaller, more saleable units. Wholesalers do not generally sell products directly to consumers, although the rise of merchant wholesalers, such as Bunnings and Costco, has altered this. These large, warehouse-styled stores or ‘superstores’ have attracted criticism based on the threat they pose to retailers.

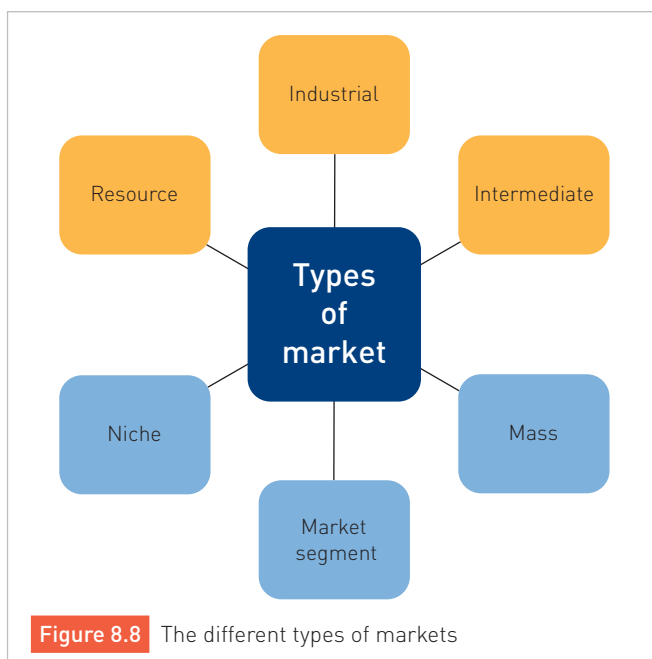


Figure 8.8 The different types of markets



Figure 8.9 An example of an agricultural business in the resource market

Intermediaries: independent organisations within the distribution channel that make it possible for products to reach the end user

Primary producer: involved in the resource market, cultivation of natural resources and the production and sale of raw materials. Output may be marketed in its raw state or sold as an input to another business.

Secondary producer: involved in the industrial market, processing raw materials and manufacturing goods. This

involves converting raw materials into partly processed or finished goods.

Tertiary producers: involved in the provision of services, rather than production of goods. In the industrial market, these producers support the production and distribution process.

Wholesalers: businesses that purchase goods from producers with an intention to onsell them to retailers



Figure 8.10 About Costco – a merchant wholesaler

WHAT IS COSTCO?

Costco is a membership warehouse club, dedicated to bringing our members the best possible prices on quality brand-name merchandise. We provide a wide selection of merchandise, plus the convenience of specialty departments and exclusive member services, all designed to make your shopping experience a pleasurable one.

GAINING INSIGHT



Petal Peddlers flower wholesaler

Petal Peddlers is a Brisbane based Fresh Flower Wholesale Business with a difference. We pride ourselves on offering a service that understands the florist's needs. We recognise the personal nature of a Florist's business and can offer you many options for ordering.

Petal Peddlers has been providing quality service and expertise to our valued florist

customers since 1997 and we intend to make every experience you have with us a pleasurable one.

The majority of flowers are delivered to the florist the same day they are received by Petal Peddlers. This guarantees delivery of the freshest flowers and greenery.

Source: www.petalpeddlers.com.au/about

Consumer markets

Consumer markets are the most visible and easily recognisable markets in the business environment and are typically referred to as **retailers**. They are where businesses sell directly to the end user of the product or service. Every time you visit a shopping centre or go to the supermarket, you are part of the consumer market. Businesses that wish to gain a competitive advantage must understand consumer behaviour and what motivates potential consumers to purchase a product or service, so that marketing strategies can be tailored to them. Consumer markets are broken into mass, market segment and niche markets.

Mass markets

A mass market is one in which a product is aimed at all consumers, regardless of their age, gender, income or location. This is also known as undifferentiated marketing, as it indicates that a business has decided not to break the market up based on common characteristics. The aim is to appeal to all consumers. While this approach was embraced during the production and sales-oriented eras (see Table 8.1), such an approach is now largely restricted to basic food items, petrol and services such as electricity and water.

Market segment

A market segment breaks down the mass market into a more focused portion, typically based on one key characteristic. For example, some secondary schools create a market segment as single-gender schools appealing to families with children of that gender; and Apia (Australian Pensioners Insurance Agency) has targeted people aged over 50 years of age.

Retailers: sell goods or services directly to the final consumer



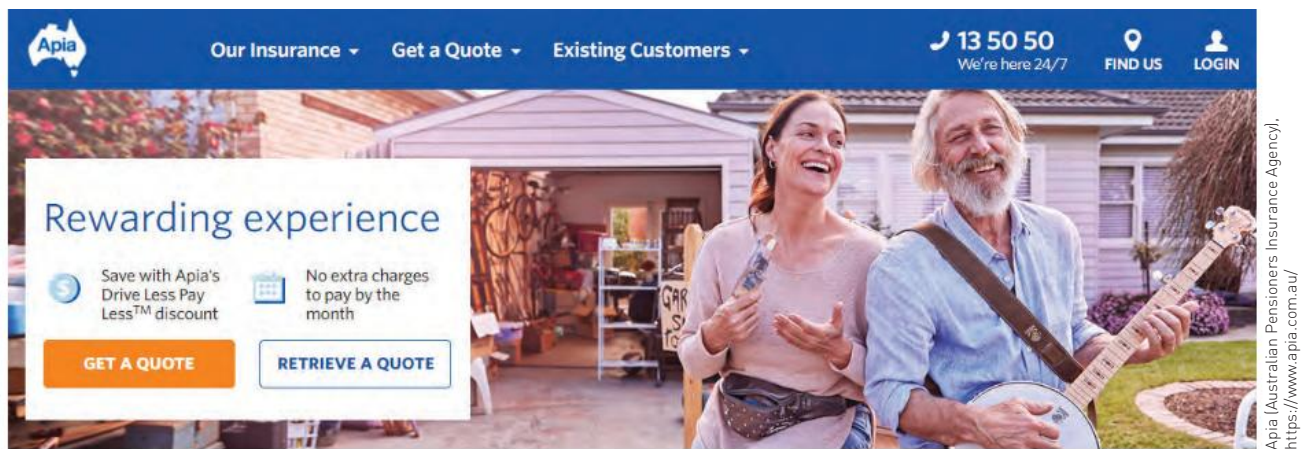


Figure 8.11 Apia (Australian Pensioners Insurance Agency) has a market segment strategy of targeting consumers over 50 years of age.

Niche markets

A **niche market** involves concentrated segmentation and breaks a larger market segment into a smaller segment or micro-segment. This is often referred to as a market within a market. A niche business is likely to be highly specialised and to cater for a smaller group of people. Due to its specialised nature, goods and services offered are customised to meet the needs of the market and the business is scaled accordingly.

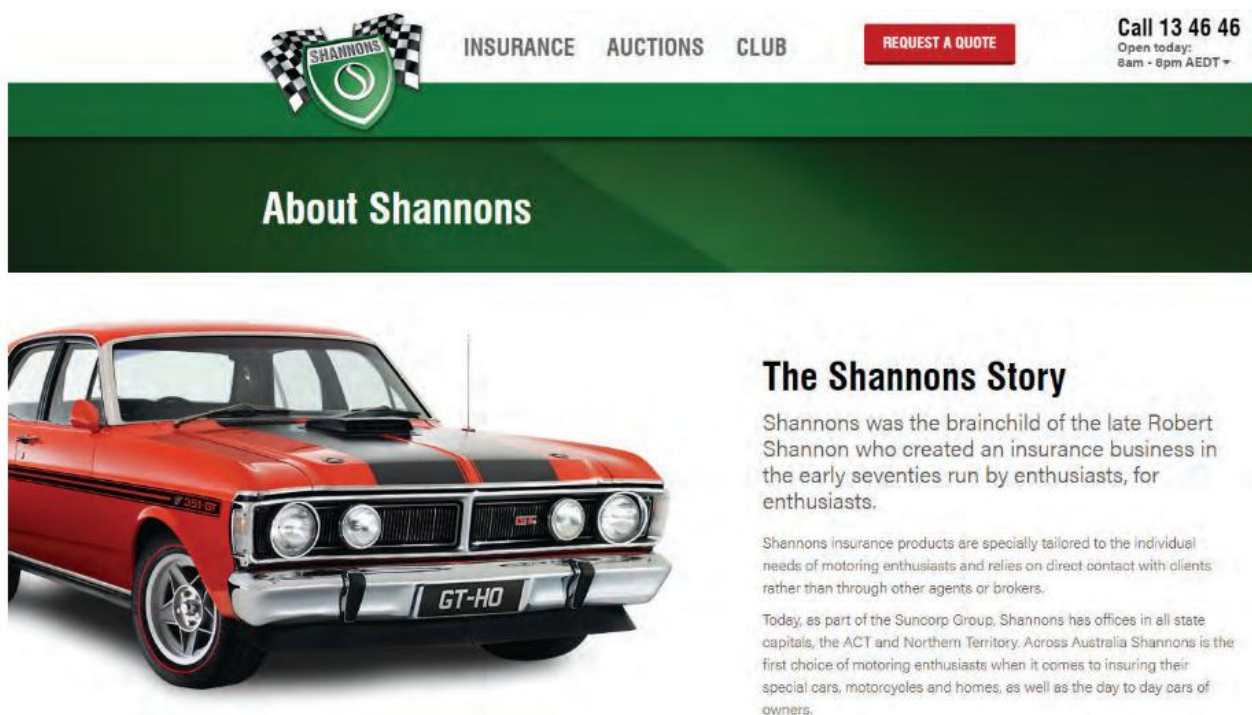


Figure 8.12 Shannons Insurance specialises in car insurance for motoring enthusiasts.

Niche market: a smaller section of a larger market segment, focusing on a select group of customers; also known as a concentrated or micro market

Larger businesses have also sought to embrace the benefits of niche markets to grow their market share and remain competitive in saturated markets. An example is the Woolworths Macro Organic range, designed to appeal to consumers who are health conscious and willing to pay more for organic products that are certified free of chemicals or pesticides.



Figure 8.13 Some retailers are seeking the benefits of niche marketing by developing 'own label' products that meet the needs of an identifiable niche. Woolworths has created the Macro Organic range for this purpose.

QUESTIONS 8.2



- 1 **Classify** the types of markets in which the following businesses operate.
 - a A lottery – for example, Golden Casket
 - b Omni skateboard manufacturers, Australia
 - c A women's-only health and fitness club, for example Fernwood
 - d A bread manufacturer with a broad range of products – for example, Helga's Bakehouse
 - e LinFox Transport and Freight
 - f A farmer who grows organic vegetables
 - g A sports watch, such as the Garmin Fenix
 - h An energy company, such as Origin Energy
- 2 Using a T-chart thinking tool, **contrast** a business using a wholesale model to consumers relative to a traditional retail model.

Wholesaler, e.g. Costco	Retailer, e.g. Coles or Woolworths
e.g. Limited locations, meaning consumers must often travel quite long distances to shop	e.g. Large number of retail locations, meaning consumers often travel short distances to shop

Understanding environmental influences

Key learnings

You will learn the following about the influences on marketing:

- factors influencing consumer buying behaviour
- the Australian Consumer Law.

The marketing function is heavily influenced by the business environment and consumer sentiment, as well as the stage in the business life cycle. When a business enters a market, it may take considerable time

for prospective customers to become aware of the business and its goods or services. Market research will be important to determine the optimum target market and identify influences on consumer behaviour so that strategies can be launched to increase consumer awareness and convert this to sales. During the growth phase, a business must be cognisant of legislative factors affecting market entry that protect consumers and regulate business processes. A business must also ensure its conduct reflects the prevailing socio-cultural environment, including ethical standards.

What influences consumers?

The domestic Australian consumer market exceeds 24 million people, and is far from homogenous. Knowing one's customer and what motivates their purchase decisions is increasingly important as a business grows and seeks to gain and retain customers and market share. The analysis of **consumer behaviour** involves researching and understanding how individuals make decisions to spend their available resources (money, time and effort) so that marketing strategies can appeal to customer motives.

The four key factors that influence consumer buying behaviour are psychological, socio-cultural, economic and government. These are intertwined to influence consumer choice and buying behaviour.

Psychological factors

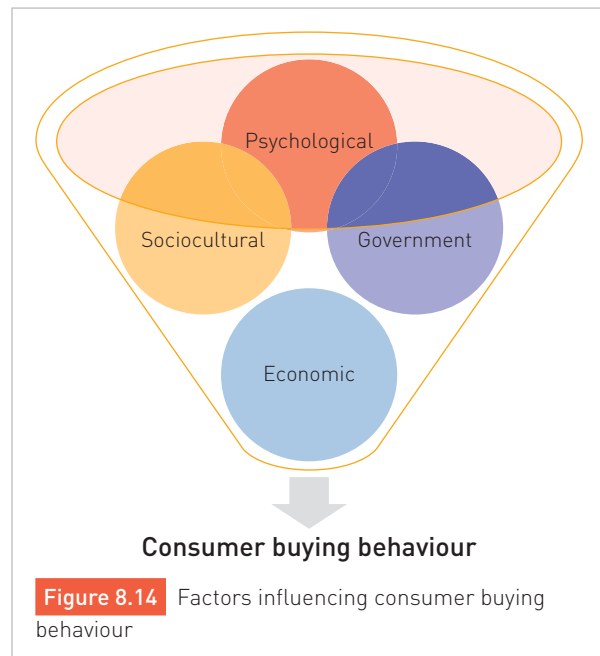
Psychological characteristics are intrinsic qualities of the individual consumer that affect his or her buying behaviour. These qualities are often used as segmentation variables and include motivation, perception, learning, attitudes, personality and self-concept.

Motivation

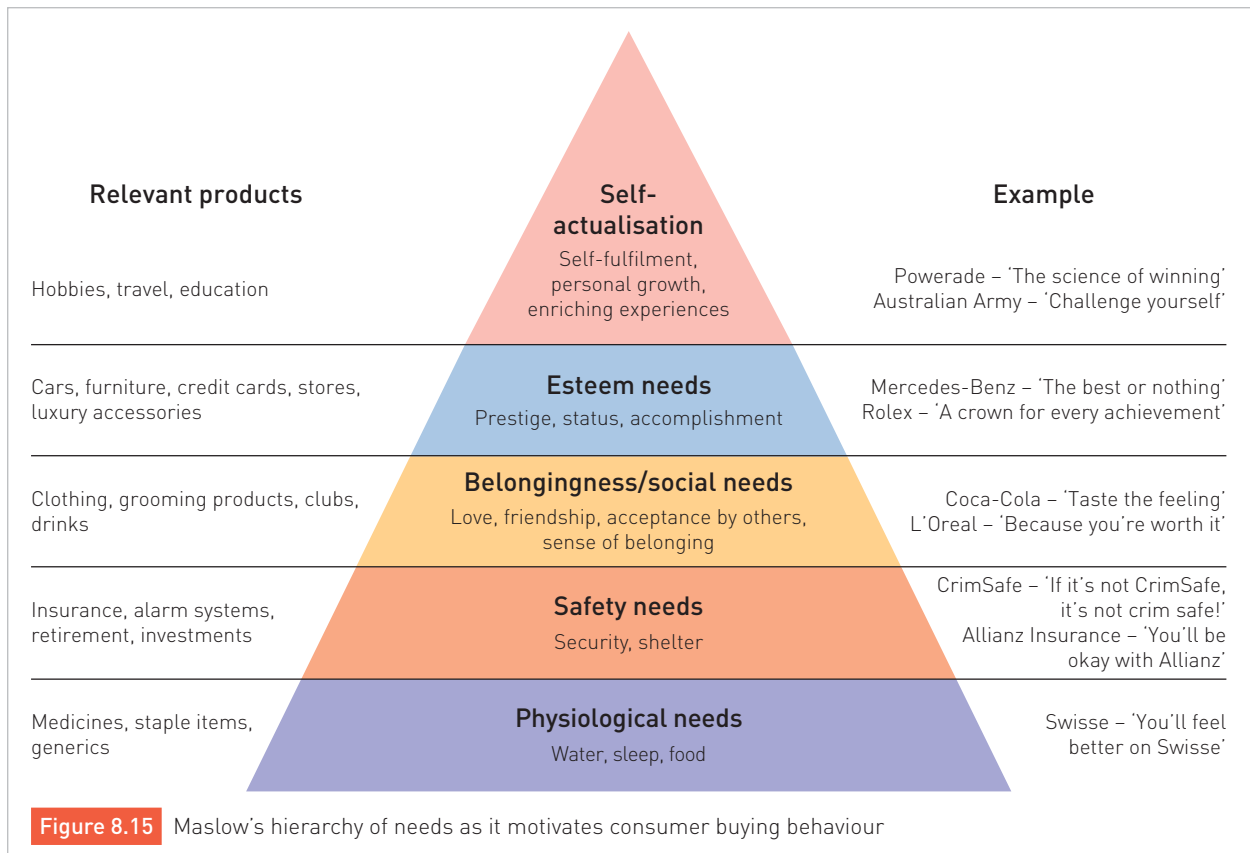
Motivation plays a key role in the consumer decision process, where the consumer has identified a need (or want) and is motivated to search for options to fulfil it. Motivational theorist Abraham Maslow depicted this as a hierarchy of needs to explain why people have different needs at various stages of their lives (refer to Chapter 4). This illustrates that, as consumers satisfy their lower-level needs, they are then motivated to move up the hierarchy and satisfy greater desires. Advertisers attempt to influence consumers by identifying their motives and using these perceived needs to compel consumers to buy products or services (see Figure 8.15).

Perception

What one person perceives may be very different from another – and from reality. This can have a significant impact on buying behaviour. One person sees a Mercedes-Benz as a sign of achievement and perceives that esteem needs have been met, while another sees the same product as pretentious and a waste



Consumer behaviour: the behaviour that consumers display in searching for, purchasing, using and evaluating goods or services that they expect will satisfy their needs and the impacts that these processes have on the consumer and society



of resources. **Perception** can be described as ‘how we see the world around us’ and is the process by which an individual selects, organises and interprets information to create meaning. This is a highly individual process based on each person’s own needs, values and expectations.

Consumer perceptions are acutely important to marketing managers, as individuals base their actions on their perception, not on reality. Consumers make purchases based on selective perception, where marketing messages are consistent with their attitudes and beliefs, while ignoring those that do not resonate. The perception a customer has of a product can be influenced by the branding, pricing strategy, promotional avenues and distribution strategy employed. On what basis did the consumer perceive the Mercedes-Benz as a sign of achievement? Perhaps their perception was influenced by its higher price, luxury branding and European origin.



Figure 8.16 Woolworths is trying to change consumer perception about the aesthetics and quality of fruit and vegetables by stocking imperfect produce that it brands as The Odd Bunch.

Perception: the process by which an individual selects, organises and interprets information into a meaningful and coherent picture of the world

SUSTAINABILITY



Fresh produce wastage in Australia

Inquiry issue: a significant proportion of fresh produce is wasted in Australia each year because of imperfections or cosmetic damage. Is this the fault of retailers refusing to stock such products or consumers who perceive these items to be inferior and of lower quality? Research the sales of fresh fruit and vegetables in Australia to:

- 1 **describe** the business environment for fresh food, including key facts related to wastage and characteristics of the suppliers
 - 2 **explain** the relationship between consumer perception and supermarket strategy for fresh food
 - 3 **select** and **analyse** business data and information to identify patterns and trends. **Interpret** how this perception impacts suppliers and retailers
 - 4 **draw a conclusion** about the impact of branding on consumer perception and the sustainability of this current practice. **Make a recommendation** about how to change consumer perception and reduce waste.
- As a starting point, you may refer to the Fresh Markets Australia and Australian Farmers Market Association websites.



Learning

Learning occurs when the consumer acquires information about a product and has experience with it. This learning will influence the consumer's future buying behaviour. Advertisements and point-of-sale displays are examples of incentives to learn about a product. Free samples or taste-tests are also a good way to promote a product as the consumer can learn about the product in a direct manner, reducing the risk in the purchase.

Consumers learn from each purchase and from the experiences of others either through direct **word-of-mouth** or via product reviews. If the learning is positive, this will favourably reinforce buying behaviour and build loyalty.

Attitudes

Consumer attitudes reflect beliefs and feeling towards a brand, product or business and are generally expressed as favourable or unfavourable. Such attitudes are learned because of direct experience, feedback from others and exposure to marketing. Attitudes are not directly observable, but can be inferred from people's behaviour. Consumer attitudes towards competing brands are a key determinant in purchasing behaviour.

Personality and self-concept

The purchasing decisions of consumers reflect their individual personality and self-concept. Personality can be defined as the inner psychological characteristics that determine how a person responds to his or her environment, and is often described using traits such as self-confidence, responsibility, sociability,



Alamy Stock Photo/grzegorz knec

Figure 8.17 Coca-Cola and Pepsi enjoy a near duopoly in the cola market, with consumer attitudes to each brand a key influence in buying behaviour.

Word-of-mouth: a promotional avenue where one customer tells a potential customer about a product or business experience. Information conveyed in this medium is often highly influential as it is not directly controllable by the business and is thus viewed as more reliable.

dominance, curiosity and adaptability. Self-concept refers to how an individual sees himself or herself and can be a major determinant on purchasing decisions.

A challenge for marketers is to align the business brand with the personality and self-image of consumers. Buying behaviour can be heavily influenced by perceived congruence between the individual's self-image and branding. Marketers aim to appeal to a person's 'ideal self', or the concept of how we would like to be, meaning that products can be pitched as helping the consumer reach his or her ideal self.

The use of endorsement by celebrities and sportspeople highlights the desire to achieve one's notion of ideal self and optimise self-concept. The use of 'expert' and celebrity endorsements by people who resonate with the self-concept of the consumer, along with the trend of 'influencers' (refer to Chapter 9), can be highly persuasive and can strongly influence buying behaviour. Brands can also develop personalities, with consumers more likely to purchase those brands that match their own personality.



Figure 8.18 Consumers buy products that align with their ideal self-image. Celebrity ambassadors, such as Jennifer Aniston, reinforce that image and add personality to the brand.

QUESTIONS 8.3

- Select** one substantial purchase you have made recently (i.e. not something from the school shop). **Explain** the factors that influenced your buying behaviour leading up to the purchase. **Describe** your level of satisfaction with the purchase, including any criteria used to evaluate the purchase.
- With reference to Figure 8.15, Maslow's hierarchy of needs, **identify** at least one product example at each stage of the hierarchy. **Explain** your choice and how the business aims to influence buying behaviour.
- Describe** a business situation that has attempted to engage you (or your family) in a learning experience. Give an account of the tactics employed and whether this influenced buying behaviour.
- Interpret** the relationship between Maslow's hierarchy of needs and the role of perception and self-concept in buying behaviour. Using an example, **draw a conclusion** about the level of influence on the target audience.

Socio-cultural factors

While psychological characteristics are identified as intrinsic qualities of the individual consumer, socio-cultural factors are exerted by other people and groups, making them external influences on consumer buying behaviour.

Culture

Over 30 years ago, Tourism Australia captured the essence of the prevailing Australian culture with its 'Come and say G'day' campaign, featuring Paul Hogan's world-famous line, 'I'll slip an extra shrimp on the barbie'. This campaign was for the North American market and sought to illustrate the typical 'Aussie' as tanned, male and uttering phrases like 'G'day, mate'. Such cultural stereotypes no longer apply. A 2006 campaign for the UK market featuring bikini-clad model Lara Bingle and the slogan 'So where the bloody hell are you?' tried to emulate the success of the Hogan campaign with its use of cultural stereotypes. However, the campaign was banned and then moderated in the UK due to the use of 'bloody'. It was ultimately considered a \$180-million failure.

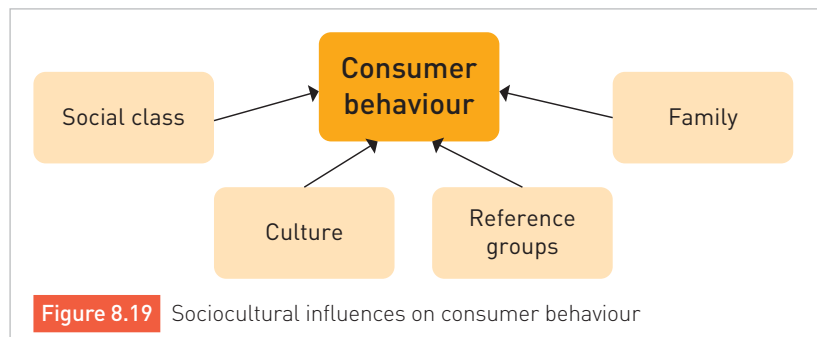


Figure 8.19 Sociocultural influences on consumer behaviour

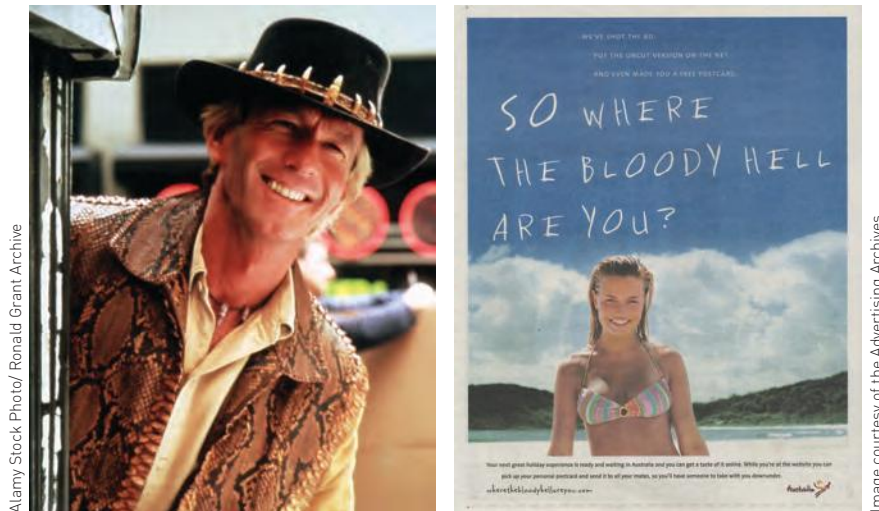


Figure 8.20 The 1984 and 2006 Tourism Australia campaigns, featuring Paul Hogan and Lara Bingle, portrayed the 'Aussie' culture of the time. Such campaigns would be outdated today.

Australian **culture** has changed considerably over the past few decades, meaning the typical 'Aussie' is now difficult to describe or portray in advertising. With over 200 languages and dialects spoken in Australia, and nearly half of all Australians today having been born overseas or having at least one parent who was born overseas, the nation is very multicultural.

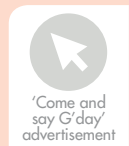
GAINING INSIGHT



Contemporary Australian culture

Watch the 60-second 'Come and say G'day' advertisement by Tourism Australia from 1984. Identify the images and symbols used to communicate culture in the 1984 and 2006 campaigns. How does this compare with contemporary Australian culture?

Research recent Tourism Australia campaigns to **analyse** similarities and differences in the message communicated and how it aims to influence consumer behaviour.



Social class

The concept of social class implies a hierarchy whereby individuals in the same class generally have a similar level of education, income and occupational classification. In Australia, for example, the 'established affluent class' is characterised as having high household incomes, large social networks, above average educational qualifications and high-prestige occupations, while the 'established working class' has the lowest household incomes, lower rates of social capital and low occupational prestige, including jobs involving manual labour. Perception of social class is said to influence product preferences and buying habits, with people from higher socio-economic backgrounds more inclined to buy products linked to prestige.

Reference groups

Reference or peer groups are groups some individuals identify with, meaning they assume some of their attitudes, values and beliefs. Individuals may modify their purchasing behaviour based on this reference group. For example, consumers' use of clothing and home furnishings may be more susceptible to the influence of reference groups than their choice of grocery items. The impact of word-of-mouth can also be strong from people within ones' reference group, meaning buying behaviour can be heavily influenced by this group.

Culture: beliefs, values, attitudes and customs shared by people in a society

Family

Family is a direct and continuous influence on the decision-making of consumers. For example, the brand of motor vehicle a person drives or the university they attend may reflect previous decisions made by family members. An individual's role within the family unit also impacts on who influences decision-making, with the 'pester power' of children and their influence reportedly being on the rise. According to a 2016 Roy Morgan Research Young Australians Survey, the opinions of children aged 6 to 13 years, known as 'tweens', can influence household purchases across a range of product areas.

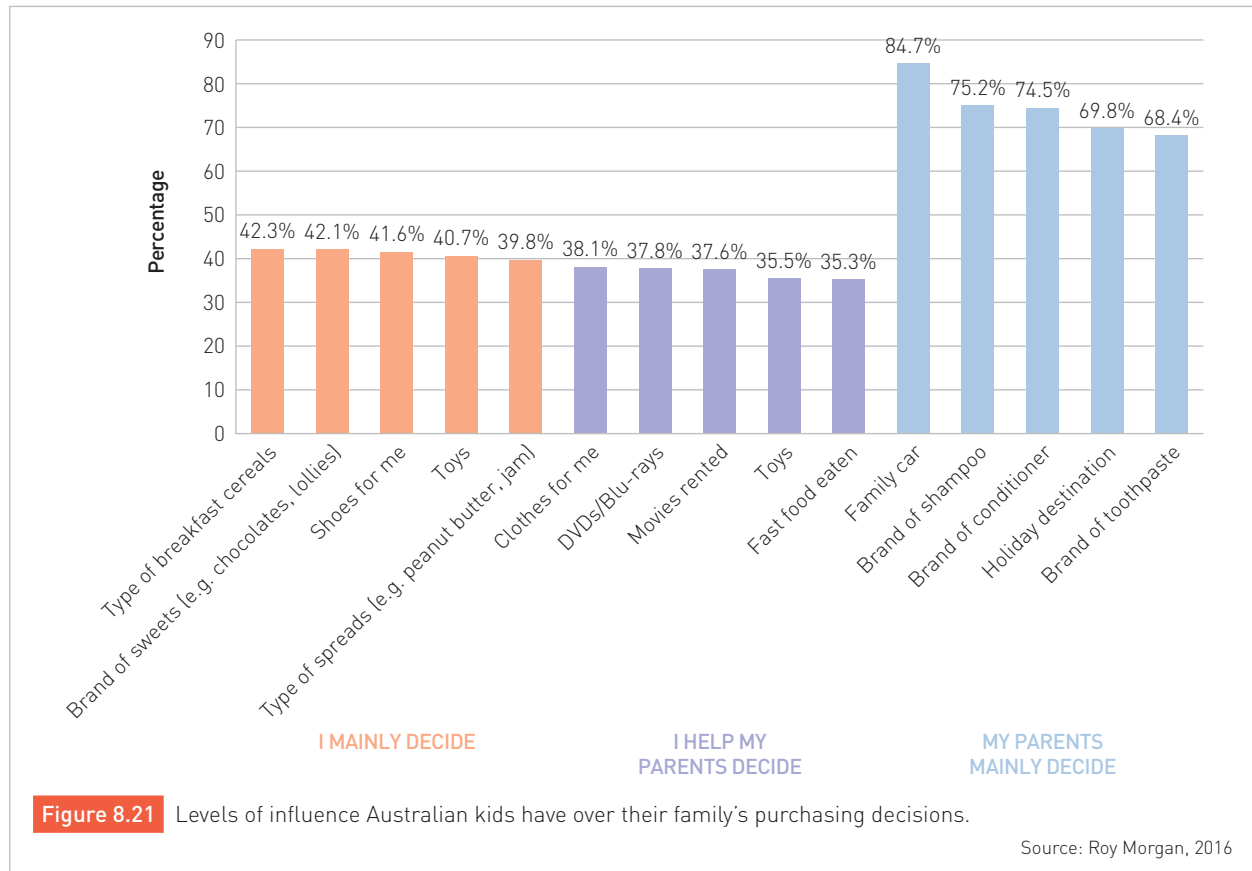


Table 8.2 Top five household purchasing decisions in which Australian children 'mainly decide'

	6–9 years	%	10–13 years	%
1	Type of breakfast cereal	40.0%	Shoes for me	55.4%
2	Type of spread	38.0%	Brand of sweets	49.5%
3	Toys	36.2%	Clothes for me	49.1%
4	Brand of sweets	34.5%	Games	49.1%
5	Brand of chips	32.2%	Toys	45.0%

Source: Roy Morgan, 2016

QUESTIONS 8.4



Referring to Figure 8.21 and Table 8.2, answer the following questions.

- Identify** the top three purchase decisions where the children in a household exert the most influence.
- Identify** the top three purchase decisions where the children in a household exert the least influence.
- Interpret** the relationship between the 'I mainly decide' and the 'I help my parents decide' categories and how the change in age from the 6–9 years to 10–13 years age category relates.
- Draw a conclusion** about the nature of influence exerted by children in these age categories and what this means for marketers.

INQUIRY



Decision-making and the 'pester power' of children

Form small groups of two or three students to research the issue of 'pester power' in Australia. A starting point is to visit the websites of parent advocacy group Parents' Voice, and Choice Shonky Awards, which name and shame the shonkiest products and companies taking advantage of Australian consumers. Complete the following steps.



- 1 **Create** a short market research survey that you can have your parents and family friends (or teachers) complete of approximately 5–8 questions. Your aim is to determine the attitudes of parents to this marketing tactic. For example, you could ask them to name three companies they think of that market to children.
- 2 **Conduct** your survey, aiming to have at least 10 respondents, and collate your findings visually in table and/or graph forms.
- 3 Using your survey and other research, **identify** the companies deemed to be the worst offenders in the past year and the past decade. Can you **interpret** any patterns and trends relevant to the situation? **Draw a conclusion** about the role of pester power as an influence on consumer buying behaviour and the challenges present for both parents and marketers.
- 4 **Evaluate** the use of emerging technologies by marketers when advertising to children. Use the criteria of competitiveness and stakeholder satisfaction to **propose recommendations** about marketing to children. Use your survey results to support your findings.
- 5 **Create** a multimodal presentation to **communicate** findings.



Shutterstock.com/urbanbuzz

Figure 8.22 McDonald's is known for its 'happy meals' that are targeted at children.

Economic factors

The economy goes through cycles, which are changing patterns of economic growth over time (see Figure 8.23). The prevailing economic conditions will influence both business and consumer decision-making, with a business's marketing strategies depending on the current stage in the cycle. Businesses must understand

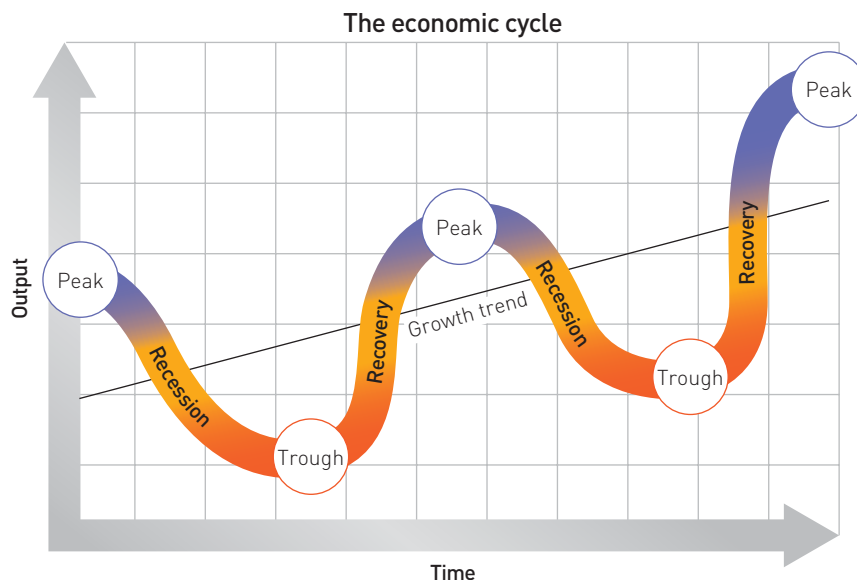


Figure 8.23 The economic cycle is characterised by peaks and troughs that influence consumer buying behaviour.

that changes in conditions as the economy moves through periods of recession and recovery will impact on **consumer sentiment** and spending and thereby impact on business activity.

Peaks and prosperity

Periods of economic growth and prosperity are characterised by low unemployment and rising household incomes, resulting in higher purchasing power. As incomes rise, consumer sentiment becomes optimistic and there is a tendency to spend more freely. Businesses experience a rise in output and will seek growth in sales and market share by increasing promotional initiatives, further stimulating the economy.

Recession and troughs

During a recession, unemployment rises and household incomes and purchasing power declines. This can have an adverse impact on consumer confidence, meaning consumers spend more carefully, become more price conscious and postpone spending where possible. The marketing manager is generally faced with a more cautious consumer, trying to spend less, although businesses selling money-saving products may experience increased demand during a recession. For example, do-it-yourself products and home brands may have a rise in sales. As businesses experience a decline in demand, their focus may be on maintaining market share and brand awareness.

Government

Economic policies

Governments at both federal and state levels use economic policy and regulations to influence the decision-making of businesses and consumers and to manage the level of economic activity. The prevailing economic conditions will dictate policies, with fiscal and monetary policies able to expand or contract the level of economic activity. Fiscal policy involves levels of government spending and taxation taken through the federal government's budget. When the economy is experiencing a recession (see Figure 8.23), the government may aim to stimulate demand and economic growth through increases in spending and/or cuts in taxation, while attempts to dampen economic activity may see cuts to government spending and/or increases in taxation.

Monetary policy is managed by the Reserve Bank of Australia (RBA) which is Australia's central bank. The RBA uses interest rates to influence the level of spending in the economy and the level of debt that households and businesses are willing to amass. Rising interest rates are intended to decrease consumer spending, while lowering interest rates is intended to stimulate business investment and consumer spending.

Regulation

Governments also influence consumer buying behaviour using regulations, such as by taxing certain products with the aim of reducing consumption and promoting social responsibility. Tobacco and alcohol products attract a tax, known as an excise tax, with the aim of changing consumer behaviour toward products with identified health risks. The tobacco industry is heavily regulated in terms of advertising, packaging and retailing, which controls the display of tobacco products. Regulation has extended to healthy eating with the introduction of front-of-pack ratings of the healthiness of food products.



Consumer sentiment: the degree of confidence consumers feel about the overall economy and their personal financial situation. This influences the level of spending that consumers will engage in.

INQUIRY



How government influences consumer buying behaviour: tobacco and other industries

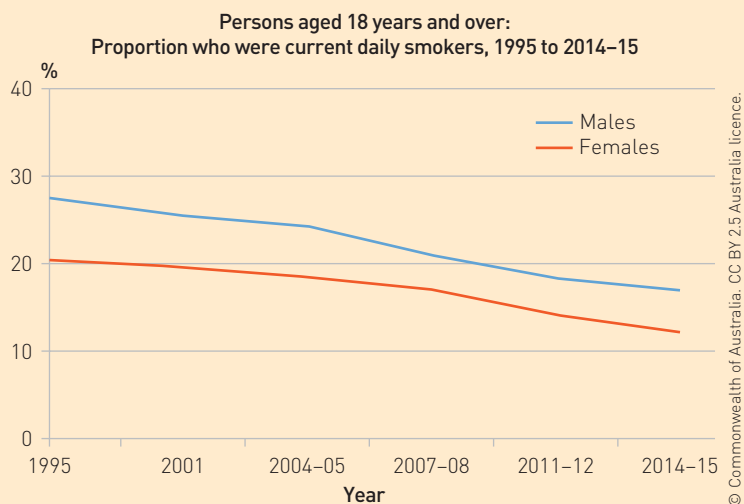
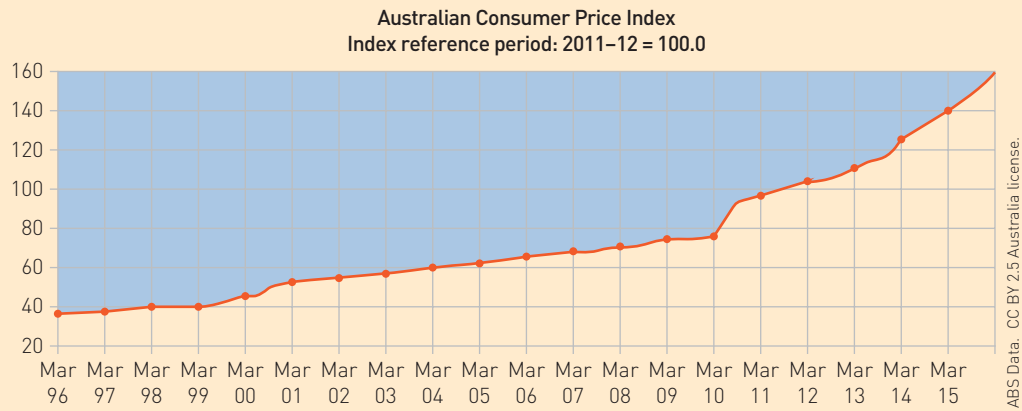


Figure 8.24 The price of tobacco has risen by more than 340 per cent over the past 20 years (top). The Australian Government regulates the tobacco market via excise taxes, which increase the price to consumers, with the aim of reducing purchasing behaviour. Marketing regulations, including plain packaging, are also designed to influence consumer buying behaviour.

Working in small groups of three or four students, select an industry/market where the government taxes and/or regulates business in the interest of societal goals, for example tobacco, alcohol, healthy eating or gambling advertising. Aim to have each group research a different industry. Complete the following steps.

- 1 **Describe** the business environment, including its facts and characteristics.
- 2 **Explain** the strategies used by both business and the government to influence consumer buying behaviour in the market.
- 3 **Analyse** and **interpret** patterns and trends in the market to make meaning of the effects of government involvement on business.
- 4 **Evaluate** the strategies employed by both business and government to determine a recommendation that meets stakeholder expectations.
- 5 **Create** a visual representation of your findings, for example an infographic, to inform the class.

Consumer laws

When entering markets, businesses aim to create consumer awareness of their product or service and to generate sales. As a business begins to grow and produce sales and profit, the financial resources may be available for more expansive marketing plans. It is critical that businesses are aware of the legal and regulatory requirements when operating in the Australian market as these provide the framework for consumer protection and a fair competitive environment, while also ensuring ethical standards and responsible communication across all platforms.

The Australian Consumer Law

The Australian Consumer Law (ACL) commenced on 1 January 2011 (as Schedule 2 of the *Competition and Consumer Act*) and applies nationally, including in all states and territories and to all businesses, regardless of size. The ACL is overseen by the Australian Competition and Consumer Commission (ACCC), which acts as the ‘consumer watchdog’, and the various state and territory consumer protection agencies, including Fair Trading Queensland.

The *Competition and Consumer Act 2010* (Cth) replaced the *Trade Practices Act 1974* (Cth) as the national legislation for consumer protection. It covers relationships between all key stakeholders in the market, including suppliers, wholesalers, retailers and consumers. Its purpose is to promote fair trading and competition, and to provide consumer protections in areas including product safety and labelling, price monitoring and unfair market practices.

See more on the Australian Consumer Law website.



Breaching the ACL

Businesses must ensure they are up to date with Australian laws and that they apply them to all marketing strategies and processes. Failure to do so may result in a breach of the *Competition and Consumer Act 2010* and proceedings being instigated by the ACCC. The maximum penalty that can be imposed for false or misleading and unconscionable conduct and breaches of product safety provisions is \$1.1million for corporations and \$220 000 for individuals. On top of this, the business will have legal fees associated with the case and may receive considerable media coverage, creating negative public relations. For all businesses, this is a costly experience, both financially and in terms of reputation and consumer confidence, but for one in the growth stage of the business life cycle, it might lead to failure.

For relatively minor contraventions of the Act, the ACCC may issue an infringement notice. This is designed to provide a timely and cost-effective enforcement outcome without the need to take the matter to court. The penalty will vary depending on the nature of the alleged violation, but in most cases, it is fixed at \$10 800 for a corporation (or \$108 000 for a public company) and \$2160 for an individual for each alleged contravention.

While creative and imaginative marketing initiatives are desirable in a competitive market, businesses must ensure they operate within the framework of the ACL and meet the ethical standards expected by society. The following are examples of prohibited practices under the ACL.

Misleading or deceptive conduct

In a competitive business environment, use of creative marketing strategies can provide an edge. However, the difference between being imaginative and being deceptive can be a subtle one. The ACCC will typically look to the consumer’s impression of the product or service when determining whether the communication is misleading. In America, Red Bull settled a claim about false advertising for \$US13 million when a class action was brought against the company claiming that its slogan ‘Red Bull gives you wings’ was misleading. The slogan was meant to assert that the energy drink would increase performance and concentration, as advertised on the company’s television, online and marketing campaigns, but it was argued that it was ‘deceptive’ and not merely **puffery** that could not be expected to be taken seriously or relied on.

Puffery: wildly exaggerated or vague claims about a product or service that no reasonable person could possibly treat seriously. For example, a cafe claiming they have the ‘best coffee on earth’. These types of statements are not considered misleading.



In Australia, businesses must ensure all marketing communication is true, accurate and able to be substantiated, or it may be deemed false or misleading. It does not matter whether the business intends to mislead or deceive. The case against Red Bull is a timely warning about the subtle distinction between imaginative advertising, puffery and misleading conduct. Businesses must also be mindful not to create a false impression about products on packaging, as highlighted by the case against Reckitt Benckiser, manufacturer of Nurofen pain relief pills, noting that the onus is on the business to ensure that consumers are not accidentally misled.



Figure 8.25 Red Bull does not 'give you wings'. The company settled a \$US13 million lawsuit over false advertising claims.

GAINING INSIGHT



Nurofen dodgy claims fine increased to \$6 million

The makers of Nurofen have been fined a record \$6 million for misleading consumers over its 'specific pain range' tablet claims.

It comes after the Australian Competition and Consumer Commission (ACCC) earlier this year appealed for the \$1.7 million fine imposed on pharmaceutical giant Reckitt Benckiser to be increased.

The consumer watchdog had taken the company to court in 2015 for its packaging highlighting back pain, period pain, migraines and tension headaches painkillers – despite the tablets being chemically identical.

As well, while Nurofen Specific Pain products were similar to other standard Nurofen ibuprofen tablets they cost almost double.

On Friday, the Federal Court found the initial \$1.7 million penalty was inadequate given the substantial consumer loss suffered.

'The objective of any penalty in this case must be to ensure that Reckitt Benckiser and other 'would-be wrongdoers' think twice and decide not to act against the strong public interest,' the three-judge panel ruled.

The tablet-maker must now pay a \$6 million fine, as well as the ACCC's legal costs.

ACCC Chairman Rodd Simms said it's the highest corporate penalty awarded for misleading conduct under Australian consumer law.

'The ACCC will continue to advocate for higher penalties for breaches of Australia's consumer laws to ensure that they act as an effective deterrent and are not simply viewed as a cost of doing business,' Mr Simms said.

Reckitt Benckiser is disappointed by the court's decision.

'The original penalty of the Federal Court in April was appropriate in all the circumstances,' it said in a statement on Friday.

'Nurofen did not intend to mislead consumers, however we recognise that we could have done more to assist our consumers in navigating the Nurofen Pain Specific Range.'

Source: <https://www.sbs.com.au>

Questions

- 1 **Explain** why the ACCC deemed Reckitt Benckiser's conduct to be misleading and deceptive.
- 2 **Evaluate** the revised penalty imposed by the Federal Court of Australia, using the criteria of stakeholder satisfaction and competitiveness.
- 3 Visit the ACCC website to **research** another recent case where a business engaged in misleading and deceptive conduct. **Interpret** whether the actions of the business were intentionally misleading and the likely influence on key stakeholders.



Advertising is a powerful promotional avenue that can influence consumer buying behaviour and provide a competitive advantage. The *Competition and Consumer Act 2010* details a range of areas that will be deemed misleading and deceptive, as outlined in Table 8.3.

Table 8.3 Examples of false and misleading statement provisions under the Competition and Consumer Act.

Example	Explanation
Fine print and qualifications	Businesses cannot rely on disclaimers or small print to excuse a message that is misleading. The 'dominant message' is key to whether a statement is misleading. For example, in 2011 TPG offered 'Unlimited ADSL2+ for \$29.95 per month'. This was only available where consumers bundled the broadband service with a TPG home phone service for a total of \$59.95 per month.
Country of origin	Accuracy in labelling is important, especially for certain food products. Country of origin claims may be made in writing or implied by images such as maps and flags. 'Made in Australia' and 'Product of Australia' have different meanings.
Bait advertising	Promotes a product at 'special' sale prices, when the business has very limited quantities available or no products at all. If using this tactic, a business must be upfront about the fact that the sale item is in short supply and state the very limited quantities.
Premium (or credence) claims	May suggest a product is safer ('non-toxic'), offers a moral/social benefit ('free range eggs') or a nutritional benefit ('fat free'). Includes assertions about 'green' or environmental products, for example 'environmentally safe' or '100% recycled'.
Special offers and 'free'	Consumers generally associate 'free' with an item being absolutely free. Use of strategies such as 'buy one, get one free' or 'receive an extra 10% for free' suggest a saving to the consumer that must be achievable. Special offers that are continuously available may also mislead consumers.

Source: adapted from 'False or misleading statements', ACCC, www.accc.gov.au
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INQUIRY



Country of origin food labelling



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Figure 8.26 Country of origin food labels

A Country of Origin Food Labelling Information Standard 2016 (Standard) commenced on 1 July 2016 under the Australian Consumer Law (ACL), to be phased in over two years. Consumers will increasingly see more labels on food products on supermarket shelves to comply with changes.

Research the changes to labelling laws to determine why they were introduced and **draw a conclusion** about the likely impact on key stakeholders.

Consumer guarantees

In competitive industries, some businesses aim to enter markets and grow market share by offering enhanced service and extended warranties. In 2014, car manufacturer Kia introduced its 7-7-7 program of a seven-year warranty, seven years of roadside assist and capped-price servicing. Such extended warranties aim to provide a point of difference from the competition. While such initiatives are a strong selling point, these warranties are voluntary and represent a contract between the manufacturer, the retailer and the consumer. As they are contractual, warranties

are for a set period of time and are often conditional on the consumer obeying the specific conditions of the contract. A warranty does not change the business's responsibilities under the ACL.

Under the ACL, consumer guarantees automatically apply, regardless of any voluntary or extended warranty given by a seller or manufacturer of goods and services, or if such a warranty has expired. It is an automatic guarantee that products and services will meet reasonable consumer expectations, and this may continue to apply after the time period for the warranty has expired.

A key consideration is that products must be of acceptable quality, meaning they are safe, lasting, with no faults, look acceptable and do all the things someone would reasonably expect. Acceptable quality takes into account what would normally be expected for the type of product and the purchase price – for example, a cheap television would not be expected to last as long as the more expensive market leader.

It is unlawful to make false or misleading representations about the existence, exclusion or effect of any condition, warranty, guarantee right or remedy, including **consumer guarantees**.



Figure 8.27 Warranties, such as Kia's seven-year warranty, are different from consumer guarantees.

Alamy.com/Helen Sessions

GAINING INSIGHT



Lululemon infringement: no refunds



Shutterstock.com/Eric Broder Van Dyke

Figure 8.28 Lululemon pays infringement notices.

Questions

Visit the ACCC website to complete the following activities.

- 1 **Describe** the legislative factors breached by Lululemon, as depicted on the ACCC website. **Draw a conclusion** about the impact of such a breach on Lululemon and its advertising strategy.
- 2 The ACCC website clearly says that signs stating 'No refunds' are unlawful. **Research** the application of such signs and how they apply to businesses and to consumers.



Consumer guarantees: a set of rules regarding goods and services purchased by consumers under the ACL that automatically apply, regardless of any voluntary or extended warranty given by a seller or manufacturer of goods and services, or if such a warranty has expired

Advertising standards and ethical considerations

The Australian Consumer Law (ACL) sets the minimum standards that a business must legally comply with when developing marketing strategies. What constitutes socially acceptable advertising and ethical standards is not clearly defined, and evolves as society changes. To guide business conduct, set ethical standards and aid responsible communication, the advertising industry is self-led by the Australian Association of National Advertisers (AANA), with the Advertising Standards Bureau and the Advertising Standards Board.

In 1997 the AANA launched a self-regulatory system for advertising and marketing communications with the publishing of a Code of Ethics. The Code has been amended to reflect the rapid changes in technology that present opportunities and challenges for the advertising and media industry. The Code aims to ensure all advertising and marketing communications are 'legal, decent, honest and truthful and that they have been prepared with a sense of obligation to the consumer and society and a sense of fairness and responsibility to competitors' (AANA Code of Ethics 2018).

Members of the community can make complaints about advertising or marketing to the Advertising Standards Bureau. If a complaint is successful, the advertiser will be requested to remove or amend the offending advertisement in a timely manner. Self-regulation aims to balance the creative freedom of advertisers with community standards and expectations. The Advertising Standards Board is responsible for determining consumer complaints based on prevailing community values and compliance with the codes of ethics.

Coveting controversy: an ethical approach?

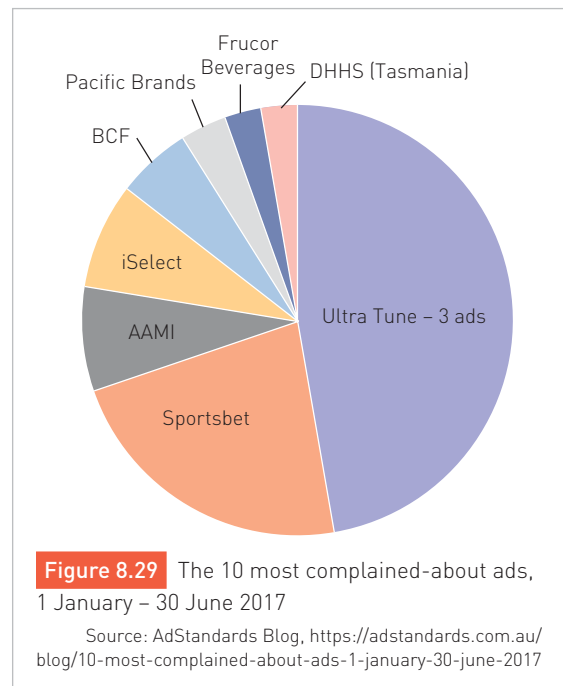
Any marketing campaign is designed to generate consumer awareness, attract interest and generate desire. Given the often substantial budgets allocated to advertising, business is looking for a return in the form of sales and profit. For a business seeking to grow its market share, any media attention could be 'good' attention. As a result, some organisations have become habitual coveters of controversy, as seen in the results of the Advertising Standards Bureau's (ASB) list of the most complained-about advertisements.

During 2016 and 2017, a series of Ultra Tune Australia advertisements featuring two less-than-mechanically-inclined women were the most complained about in the nation. However, only one in the series of advertisements was found to have breached the ASB Code of Conduct, and Ultra Tune discontinued that version. Complaints were based on discrimination, exploitation and degrading imagery. Follow the weblink to see an image of the offending advertisement.



Consumers can lodge complaints with the Advertising Standards Bureau, whose mandate is to consider and assess them based on the Codes of Ethics.

They reach a decision by way of a majority. It has been suggested by consumer organisations that the current system of self-regulation is ineffective in upholding ethical standards and meeting community expectations. According to the AdStandards Blog, released by the Advertising Standards Bureau on 29 June 2017, of the 10 most complained-about ads from 1 January to 30 June 2017, only one complaint, against Sportsbet's 'putting the roid in android', was upheld. Opponents of self-regulation argue that advertising standards should be regulated by the government to ensure advertising reflects the ethical and social standards of the community.



INQUIRY



Advertising Standards Bureau: necessary regulator or toothless tiger?

You are to **create** a two-minute presentation **arguing** either for or against the continuation of self-regulation by the Advertising Standards Bureau.

Tip: when developing an argument, you should research both sides of the topic and then form an opinion. Use persuasive techniques to advocate your finding.

Steps

- 1 Visit the Australian Advertising Standards Bureau website to **select** and **analyse** data and information relevant to trends in advertising standards and consumer complaints.
- 2 **Interpret** the information to identify patterns and trends present. **Synthesise** your findings to **draw a conclusion** about the role of regulation in meeting stakeholder expectations.
- 3 **Evaluate** the role of the Advertising Standards Bureau using the criteria of stakeholder satisfaction.
- 4 **Create** your presentation and be prepared to present your argument to the class.



EMERGING TECHNOLOGIES



The challenges of emerging technology in the advertising space

Government legislation, such as the ACL, and self-governing bodies like the AANA struggle to keep up with emerging technology in the advertising and communication space. This is due to the constantly evolving use of technology.

Research the use of digital and emerging advertising platforms, for example the use of commercial electronic messages, to determine if any legislation exists. **Examine** how this impacts on consumer rights to privacy and ethical considerations.

ANALYTICAL TOOL



Power interest grid

Watch the video to learn about stakeholder analysis and the power interest grid (PIG).

During the establishment phase of the business life cycle, and for any project throughout the life of the business, it is important that a business understand and manage key stakeholders. Stakeholder management is critical at launch and during growth as business success is largely dependent on these key groups. Without the engagement of stakeholders, it will be challenging to establish a business presence. The use of stakeholder analysis, and creation of a power interest grid, is also important for mature businesses seeking to respond to a challenge in the business environment or enact a change management process.

A power interest grid tool helps identify the viewpoint of varying stakeholders who differ in terms of their power and interest in the business situation. Understanding a power interest grid will enable a business to engage with different stakeholders in the optimal way. Key steps in the process are:

- 1 Identify all stakeholders – brainstorm who has been, or will be, affected by the business situation or has an interest in it, for example:
 - Shareholders /owners
 - Customers
 - Prospective customers
 - Suppliers
 - Government
 - Media groups
 - The public
 - Management.



- 2 Prioritise your stakeholders – some of these have the power either to block or advocate for the situation; some may be interested, while others may not care.
- 3 Understand your key stakeholders – know how they feel (or are likely to feel) and react. You also need to know how best to engage with and communicate to them.
- 4 Illustrate your findings on the stakeholder map – identify who you expect to be the blockers/critics and which stakeholders are likely to be advocates/supporters. You may colour-code – for example, show advocates in green, blockers in red, and those who are neutral may be coloured orange.

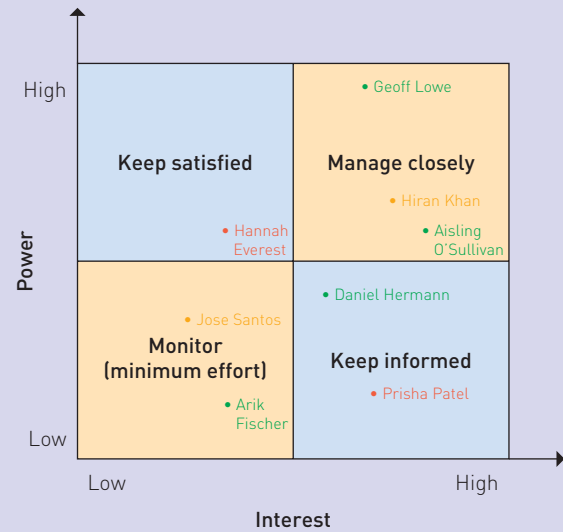


Figure 8.30 Power interest grid with stakeholders identified

GAINING INSIGHT



An evaluation of marketing practices by the TAB

TAB pleads guilty after jelly bean giveaway turns sour

Free jelly beans have left a sour taste for the betting site TAB, which faces hefty fines and legal costs for breaching gambling advertising regulations.

On March 30, TAB-branded packets of jelly beans and mints, which featured the slogan 'Nothing's as sweet as a win', were handed to commuters at Martin Place and Town Hall stations in Sydney's CBD.

The TAB promotion was timed to coincide with The Championships, Racing NSW's premier racing event, which is held on the first two Saturdays in April.

One of those receiving a packet was Greens MP Justin Field, who is the party's spokesman for gaming. Mr Field noticed there was no mention of the need to gamble responsibly on the jelly bean packet.

The same day, Mr Field wrote to Paul Toole, the Minister for Racing, alerting him to the inappropriate gambling advertising by the TAB and possible breaches of the betting rules.

Liquor and Gaming NSW launched an investigation that has resulted in the TAB entering a guilty plea to two counts of breaching the Betting and Racing Regulation.

The guilty pleas relate to the TAB's failure to include the need to gamble responsibly on the



Jane Garcia

Figure 8.31 Not so sweet: a TAB-branded packet of jelly beans, which was handed out to Greens MP Justin Field

free packets of jelly beans and mints. One guilty plea relates to Martin Place and the other to Town Hall.

The TAB is owned by the public-listed gaming giant Tabcorp, which claims on its website that its mission is to support the racing industry.

'Excellence and integrity remain at the heart of everything we do,' the website says.

As well as the early guilty pleas, David Attenborough, Tabcorp's managing director, has promised Liquor and Gaming that any future TAB-branded merchandise will have the warning to gamble responsibly.

He has also agreed that the merchandise will not be given to people under the age of 18.

The TAB has agreed to pay Liquor and Gaming's legal costs of \$10000 and the courts will determine what penalty will be imposed. With the TAB facing a maximum fine for each offence of \$5500, the free jelly bean giveaway has turned out to be a costly affair.

'The penalty of a \$5000 fine is a slap on the wrist for a big gambling organisation like the TAB who make huge profits from our community,' Mr Field said.

'It's not on to market gambling as harmless fun, when it's designed to addict people and take hard-earned money out of their pockets and communities,' he added.

A spokesman for Mr Toole said, 'It is not appropriate for the minister to comment when inquiries are ongoing, or when a matter is before the courts.'

Source: Kate McClymont, *Sydney Morning Herald Online*, www.smh.com.au/nsw/tab-pleads-guilty-after-jelly-bean-giveaway-turns-sour-20170615-gwrlkl.html

Questions

- 1 **Create** a power interest grid, using the steps in the analytical tool, to identify the key stakeholders in the TAB marketing situation. Illustrate whether they are blockers, advocates or neutral.
- 2 **Evaluate** the marketing practice in the article based on the criterion of stakeholder satisfaction. **Make a recommendation** to TAB about its future marketing practices.
- 3 **Create** a paragraph response to **interpret** the relationships present and recommendations for the business.

Chapter 8 review

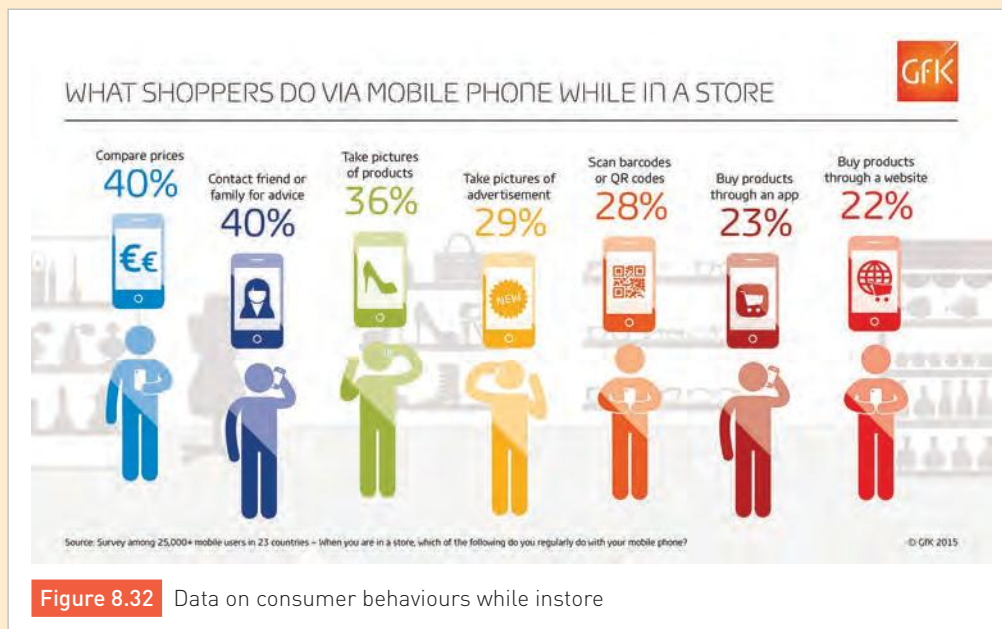
This chapter introduced the role of marketing and influences on consumer buying behaviour. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

8.1 Short items

- 1 Briefly **describe** the stages in the evolution of marketing management, including the promotional techniques used.
- 2 **Explain** the aim of relationship marketing and how this links to business success.
- 3 **Describe** the relevant characteristics of markets that are business-to-business focused.
- 4 **Distinguish** between a market segment and a niche market.
- 5 **Explain** the four broad influences on consumer buying behaviour and **identify** which factor you believe to be the most influential.
- 6 **Describe** the legislative factors affecting market entry.
- 7 Using an example, **differentiate** between creative marketing strategies and misleading or deceptive conduct.

8.2 Interpretive items

- 1 Using data from Figure 8.32, **interpret** the impact of the social/mobile marketing era on consumer buying behaviour.
- 2 **Draw a conclusion** about the role of mobile marketing on retail business and how this influences market entry for small to medium-sized enterprises.



Survey among 25,000+ mobile users in 23 countries: When you are in a store, which of the following do you regularly do with your mobile phone? © GfK 2015

8.3 Extended-response items

Visit the website of the Australian Competition and Consumer Commission (ACCC) to review the case against Aveling Homes and its use of high-rating online reviews. Aveling Homes was fined \$380 000 for withholding unfavourable feedback on its review sites to manipulate the rating system. Using the case study weblink, answer the following questions.



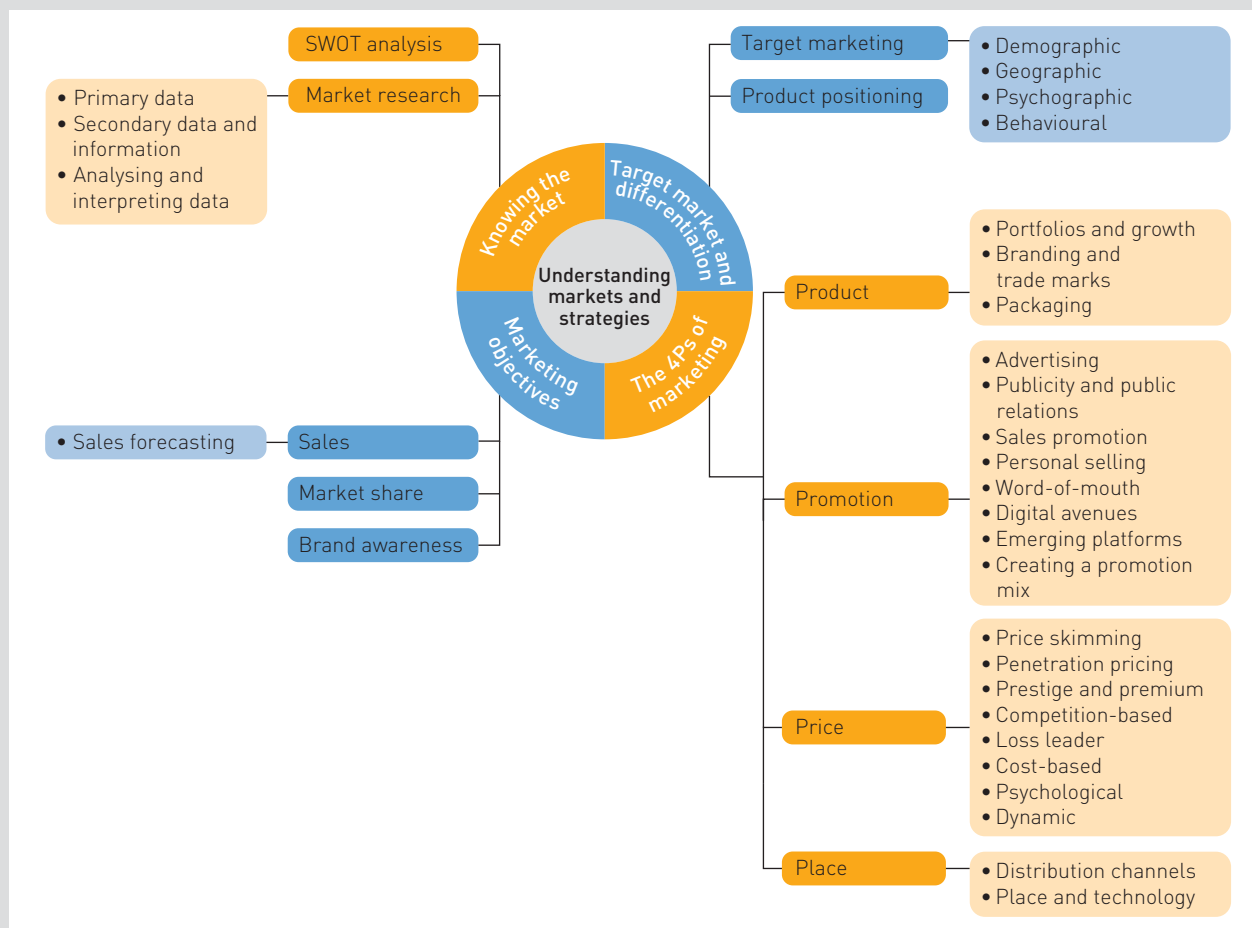
- 1 **Describe** the legislative factors relevant in the case of ACCC vs. Aveling Homes and outline why Aveling Homes was fined \$380 000.
- 2 **Explain** how Aveling Homes was trying to influence consumer buying behaviour.
- 3 **Interpret** any relationships or patterns in the business situation to **draw a conclusion** about the effects on Aveling Homes.
- 4 **Evaluate** the business practice used by Aveling Homes, based on the criteria of stakeholder satisfaction, and **make recommendations** for change.
- 5 **Create** a business report, addressed to the Group Sales and Marketing Manager, to **communicate** your findings.



UNDERSTANDING MARKETS AND STRATEGIES

What you will learn

Marketing is a critical function in all businesses, regardless of size and whether the organisation is profit-based or a not-for-profit business. Marketing directs the image and branding of the business and helps to connect businesses with their target markets in an increasingly competitive business environment. As a business moves through its life cycle, marketing will remain a key business function, while the strategies and processes employed will be adjusted to reflect opportunities and challenges.



Key skills

In this chapter you will have the opportunity to develop the following 21st-century skills:

- critical thinking
 - analytical thinking
 - decision-making
 - reasoning
 - reflecting and evaluating
- creative thinking
 - curiosity and imagination
- communication
 - effective oral and written communication
- collaboration and teamwork
 - participating and contributing

- personal and social skills
 - adaptability/flexibility
 - management (self, career, time, planning and organising)
- ethical (and moral) understanding
- information & communication technologies (ICT) skills
- accessing and analysing information
- being productive users of technology.

(Source: Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

This chapter will explore the marketing strategies and processes available to a business as it enters a market, launches products or services, attracts new and prospective customers and operates in an increasingly competitive landscape. This chapter will provide you with the opportunity to:

- **describe** the competitive environment faced by businesses competing for market share in the growth phase of the business life cycle
- **explain** marketing objectives and strategies as they relate to consumer buying behaviour
- **select** data and information relating to consumer buying behaviour and marketing strategies to **analyse** how this impacts on businesses and consumers
- **interpret** the relationships, patterns and trends in unique selling proposition analysis to **draw conclusions** about the implications of marketing strategies
- **evaluate** marketing strategies used by a business in the growth stage to **make a decision** or **recommendation** using criteria
- **create** responses to **communicate** market entry strategies to a range of stakeholders, including paragraph responses, visual representations (positioning map, market research survey, analytical tools, tables).

The analytical tools utilised in this chapter are:

- SWOT analysis
- positioning map
- unique selling proposition (USP) analysis.

GAINING INSIGHT



FRANKiE4

FOCUS QUESTION: How do you conceive a successful business concept for a target audience during the challenges of the growth stage in the business life cycle?

Australian label FRANKiE4 Footwear is the brainchild of Brisbane podiatrist and physiotherapist turned footwear designer, Caroline McCulloch. Founded in 2011 with her husband Alan, also a podiatrist, the brand is changing the way women shop for shoes. FRANKiE4 is on a mission to provide women with the ultimate foot supporting benefits, packed into styles they feel confident wearing.

Despite her health professional background, Caroline has always had a love of fashion. When treating patients, she found it was difficult to refer them to comfort footwear styles she would want to wear herself. It was the day a patient nearly cried when Caroline was showing them comfort shoe options as part of their treatment that she decided to look into designing her own styles.

'Time after time I heard my patients complaining about the 'look' of comfort footwear, and to be honest I agreed with them. But the features of a comfort shoe were absolutely necessary for their treatment. I felt I was caught between a rock and a hard place.

After one patient almost cried at the thought of having to give up shoes she loved for shoes

she said looked like 'chemist shoes', I knew I had to do something. I wanted to create shoes that women loved, shoes they felt confident and comfortable in.'

A key success factor for FRANKiE4 is the strong understanding of customers and knowing the target market. This has come about through direct observation of customers in their podiatry clinics and research into industry trends. According to Caroline:

'... as we established FRANKiE4, a key way of getting to know the market was through selling the products in our podiatry clinics. This was a brilliant opportunity to receive direct feedback and to see what women were saying about our shoes – as I am the designer, it gave great insight into what customers are looking for.'

In 2011, the brand launched with 200 pairs of shoes. Over the 12 months to July 2017, the company ordered over 100 000 pairs of FRANKiE4s from its supplier. During this period, revenue growth has been over 65 per cent year on year, and the 2017 financial year saw



Image courtesy FRANKiE4

Figure 9.1 Owner and footwear designer Caroline McCulloch (left) and Alan McCulloch, co-founder and director

the company turn over just shy of \$5.5 million. The company forecasts turnover of over \$10 million for the 2018 financial year, demonstrating strong growth. The brand's growth has required very careful management, which is led by Caroline's husband, co-founder Alan. His partnership with Caroline McCulloch has brought this successful footwear brand into being.

FRANKiE4 is marketed to women aged 30-plus who work in professions that require them to spend long hours on their feet, such as health professionals, teachers, hospitality workers and hairdressers. The brand also targets busy mothers looking for functional, yet fashionable, footwear. The audience is ultimately women crying out for comfort and style.

Marketing activities focus on two key objectives:

- brand awareness – increasing awareness to current customers, potential accounts, health professionals
- sales – online, instore, stockists.

FRANKiE4's promotion mix includes use of online media (social media and the website), print and radio media for both paid advertising and editorial content, and staging public relations events, including involvement in parades, pop-up stores and attending podiatry and physiotherapy conferences.

The business has two concept stores in Brisbane, and wholesales to 90 stockists across Australia and

New Zealand. FRANKiE4 is currently showing the range in the Netherlands, Belgium and Germany. Internet sales are also available but currently account for a small proportion of sales turnover.

Looking ahead, FRANKiE4 will continue to engage market research by analysing sales data and listening to customers and patients instore. The owners are also watching European trends and trusting instinct, which has been the cornerstone of this growing business.

Questions

- 1 **Describe** the business situation of FRANKiE4, including its position in the business life cycle and target market.
- 2 **Identify** market research processes undertaken by Caroline McCulloch when establishing FRANKiE4, and **discuss** the role of research as the business moves through the growth phase of the business life cycle.
- 3 **Explain** the relationship between establishing a customer base and developing a market presence for FRANKiE4. **Interpret** how branding could impact on this.
- 4 Using the case study information, **interpret** how FRANKiE4 is seeking to differentiate itself from the competition.
- 5 **Explain** the importance of 'product' to the success of FRANKiE4's business model.

Knowing the market

Once a business has survived the establishment stage, located suitable suppliers and attracted core customers, it enters the exciting and often fast-moving growth stage of the business life cycle. As sales revenue and profit are growing, there should be surplus funds for a wider range of marketing activities, which will increase customer awareness and sales. The objectives of a business in the growth stage will focus on increasing brand awareness and sales, gaining **market share**, generating brand loyalty and profit. To achieve these objectives, the business must know the market it is operating in, what its **unique selling proposition (USP)** is and the **target market**.

During establishment, not all businesses will operate with a marketing plan, however, as the business grows, it is important to have a strategy in place and to understand the business situation. Without careful analysis and planning, a business may grow too quickly and risk losing control or may miss opportunities and fail to thrive. A **situation analysis** involves market research and the use of a SWOT analysis to know the business and its competitive environment.

SWOT analysis

As seen on pages 49–50 in Chapter 2, a SWOT analysis identifies the internal strengths and weaknesses of a business, and scans the opportunities and threats present in the external environment. By completing an environmental scan, a business can look for opportunities to exploit and threats to monitor or avoid as it grows.

ANALYTICAL TOOL



SWOT analysis of FRANKiE4

Using the case study business FRANKiE4 (see pages 315–16), complete a SWOT analysis at this point in business growth that would be used to inform future marketing strategies.

As this is an analytical tool, ensure you closely examine the parts and their relationships in detail. It is critical that you look for connections between the parts of the SWOT – this helps you to identify patterns, trends and relationships.

Create a detailed paragraph that analyses the connections present and how these relate to the likely success of FRANKiE4 as the business moves through the growth stage of the business life cycle and prepares for maturity. Do not just restate the items listed in the table.



Figure 9.2 FRANKiE4 Footwear's key strength is the podiatrist-designed sole of the shoe – 'Save your sole in style'.

Market share: a business's share of the total industry sales for a particular product or service, often expressed as a percentage

Target market: a group of actual and potential customers whose needs and wants a business wishes to satisfy

Unique selling proposition (USP): a key factor that differentiates one product from another. It is the reason that one product or service is better than that of the competition – it is the competitive edge.

Situation analysis: an investigation of the factors internal and external to a business that influence planning and strategy

Key learnings

You will learn about the market through examining:

- market research methods
- marketing objectives in the growth phase of the business life cycle
- segmentation and target marketing.

Market research

When starting out, a business may have a broad idea of its target market and competitive situation, but this is insufficient to compete and grow in a competitive market. The business could be missing out on opportunities or facing challenges without knowing it. A review of influences on consumer buying behaviour, and knowing what motivates potential customers to make purchase decisions, will help capitalise on opportunities and convert prospective customers into sales.

The role of **market research** is to gather as much data and relevant information as possible about aspects of the market to inform decision-making. Before commencing the research process, a business should have a clear understanding of the purpose of the research and the type of information it is looking for. This will help determine the appropriate data collections method/s to use and refine the research process. Market research may be used to answer simple questions and to provide feedback for marketing strategies – for example:

- Who is the target market?
- What features/benefits are customers looking for?
- What is the maximum price customers are willing to spend?
- Who are the key competitors in the market?
- What consumer attitude to new products is being developed?
- Would customers prefer to purchase the product instore or online?
- What is the customers' preferred mode of promotional communication?

Data collection methods can be classified into two main types – primary and secondary data. Which method is most suitable will depend on the objectives of the research and the budget available.

Primary data

Primary data is new data collected from original sources. It is usually sought for a specific purpose and tailored to the objectives of the research process. This research is often undertaken by the business itself. The process can be time-consuming and expensive, meaning sufficient budget must be available and the data should not be readily accessible through secondary sources.

Observation

Observation involves collecting data by observing people's actions in specific situations. For example, management of a shopping centre may observe the types of customers visiting the centre at different times of the day or week, along with stores they enter and purchasing patterns.

Surveys

Surveys are an interactive technique that involves asking questions to gather data about consumer attitudes, preferences and buying behaviour or current product

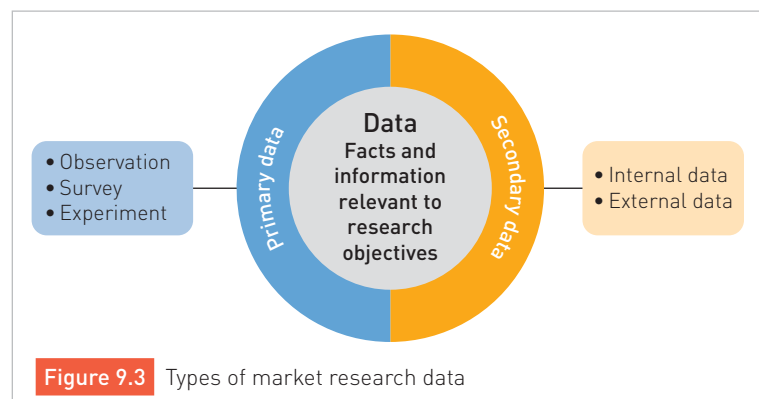


Figure 9.3 Types of market research data

EMERGING TECHNOLOGIES



Data collection methods

Investigate available electronic methods of primary data collection. Create a table listing the advantages and disadvantages of using an emerging technology for market research, compared to a personal interview.

satisfaction. A survey may be conducted face-to-face as an interview, or via electronic methods including telephone, email and Internet.

While a survey gathers relevant information for the research process, it can be difficult to achieve a high response rate. To overcome this, some businesses use competitions or incentives to elicit a response.

Some companies specialise in market research fieldwork, and consumers may be paid to participate in the research process.

Experiment

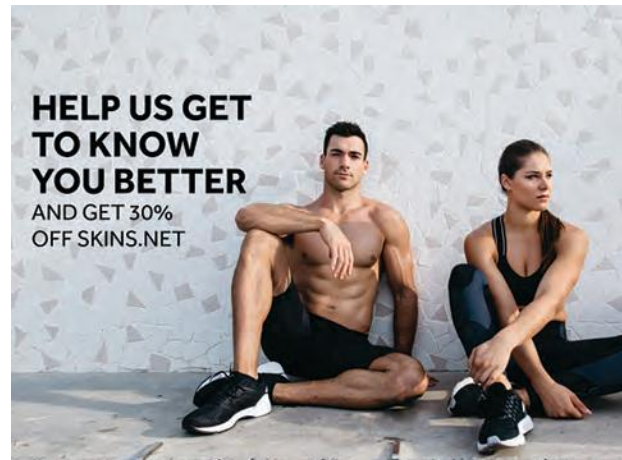
Market research experimentation is looking to determine cause and effect or using research to test how people react. For example, a food manufacturer may use an experiment to determine the appropriate level of seasoning or a specific flavour combination for a new range of potato chips. A chosen sample of people may be presented with a number of options to taste and rate in order of preference.

Secondary data and information

Secondary data already exists as it has been collected by other people or organisations. With the rise in database marketing, most businesses have access to an abundance of secondary data. Using secondary data can be more timely and less expensive than primary data, which may assist businesses in the growth stage of the life cycle. A challenge is that some data will already be out of date and may not apply directly to the research objectives or context.

Internal data

Internal data is sourced from within the business itself. It can include customer feedback, existing data from the internal customer database, previous sales data, past research reports and financial statements.



Skins International Trading

Figure 9.4 Many businesses entice customers to complete primary research surveys through inducements such as the offer of a discount on their next purchase.

Research Connections Pty. Ltd.

Figure 9.5 Some companies specialise in market research fieldwork, and consumers can be paid to participate in the research process.

External data

External data comes from sources outside the business, including agencies such as industry bodies, government agencies, libraries and local councils. This information has been collected by other organisations and will sometimes need to be paid for. However, many forms of external data are freely available, such as data from the Australian Bureau of Statistics (ABS).



Analysing and interpreting data to draw conclusions

Regardless of source, raw data must be analysed and interpreted based on the established research objectives. Practical and visually effective ways of processing data include using tables to list or group information, and creating spreadsheets of data that can be graphed. Creation of statistics can also enhance the understanding and application of data. Interpretation of the information will require the business to recognise patterns and trends and to draw conclusions based on the business situation.

QUESTIONS 9.1



- 1 Form small groups to **create** a market research survey for a new product to be available at your school tuckshop. The survey should consider the types of products that students desire and how much they would be willing to pay.
- 2 Once you have conducted the survey, **collate** the information into a table or spreadsheet and organise the findings in a visually effective way (e.g. graphs).
- 3 **Create** a paragraph that **interprets** your findings and **draws a conclusion** from the research process.
- 4 Present your research findings to the class.

Marketing objectives in the growth stage

The mission and goals of a business provide the context for developing objectives as these objectives must align with the overall direction and values espoused.

The stage in the business life cycle will also influence objectives as businesses move from the establishment stage, where the primary objective may be to inform consumers about the business and its products, to the growth stage, where a key objective may be to persuade or convert consumers across from other businesses.

Marketing objectives in the growth stage include sales, market share and brand awareness. Some of these may be SMART objectives (see Chapter 2, pages 56–7) while others may be more general.

Sales

During the growth stage, a key focus must be increasing sales to maintain momentum and grow the business. This happens as more customers become aware of the business and its product/s and are willing to try them. Sales objectives are linked to a sales forecast and can be expressed based on time, for example weekly or monthly, and by salesperson. Actual sales can be tracked using a sales report to determine sales revenue for a period of time and for each product. These reports provide financial information to management, linking the marketing and finance functions of a business, as increasing sales will increase sales revenue.

Examples of sales objectives include:

- attracting new customers to increase sales
- expanding sales to existing customers
- increasing unit sales by 10 per cent for the coming period
- achieving sales revenue growth of 8 per cent for the coming period.

Sales forecasting

A sales forecast is an essential tool for managing a business of any size and is critically important during growth to ensure the business has adequate inventory to meet projected demand and to ensure the market potential for a product. It is a month-by-month forecast of the level of sales expected, and most businesses will draw up a sales forecast once a year. The purpose of sales forecasting is to devise information that can be used to plan for growth and make smart business decisions.

For a business in the growth stage of the business life cycle, data comes from internal sales history and market research, while new businesses at start-up make assumptions based on market research and sound judgement. The number of units expected to be sold and the dollar value of sales (sales revenue) can both be forecast. This helps a business set realistic objectives and develop marketing strategies for achieving the targets. Accurate sales forecasting is also a control tool as it allows a business to judge whether targets are being met so that planning and decision-making can be adjusted.

A realistic sales forecast will analyse the market in which the business is competing and prevailing external environmental influences, including economic and socio-cultural influences on buying behaviour. A sales forecast will consider the following:

- How many new customers do you gain each year?
- How many customers do you lose each year?
- What is the average level of sales you make to each customer?
- Are there particular months in which you acquire or lose more customers than usual, or is the product or business idea seasonal in nature?

Sales forecasting for an existing business typically involves the following steps:

- 1 Analyse internal sales data based on the number of units that were sold for the previous period, usually the past year.
- 2 Research factors, both internal and external, that will affect future sales.
- 3 Judge the effect of these factors and the market potential for the coming period to estimate the number of sales of a product.

QUESTIONS 9.2



Examine the sales forecast below, which includes budgeted and actual sales results, and answer the questions that follow.

Sales forecast and report for SunGlassez Pty Ltd

	January		February		March		April	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Sales by Amy								
Ray-Ban	200	240	180	200	160	170		
Oakley	220	240	200	200	180	180		
Persol	150	130	110	100	70	60		
Sales by Sally								
Ray-Ban	200	200	180	160	160	150		
Oakley	220	230	200	170	180	140		
Persol	150	120	110	100	70	40		

- 1 Which salesperson, Amy or Sally, is meeting their sales targets?
- 2 Would you recommend keeping all stocked brands or revising the product range?
- 3 Which brand would you recommend allocating more retail space and advertising budget to? Justify your decision.
- 4 Complete the sales forecast for April and **explain** your projections.

Market share

Market share is the proportion of a market that a business retains relative to that of its competitors, often expressed as a percentage. During the growth phase, as sales increase, a business will aim to increase market share to increase overall profitability. Large businesses, in markets where there are few competitors, often enjoy a high market share, while small businesses in a competitive market may have limited market share.

GAINING INSIGHT



Bottled water: the fight for market share

In Australia, the bottled water market has become hotly contested for market share, with Australia's largest beverage company, Coca-Cola Amatil, fighting off other bottled water brands and, now, the supermarkets with their private labels. This market is worth nearly \$800 million and experiencing substantial growth, driven by private-label waters and Coca-Cola Amatil's Mount Franklin, with a market share of about 40 per cent. Forecasts indicate continued growth in units sold, with price competition potentially forcing prices down.

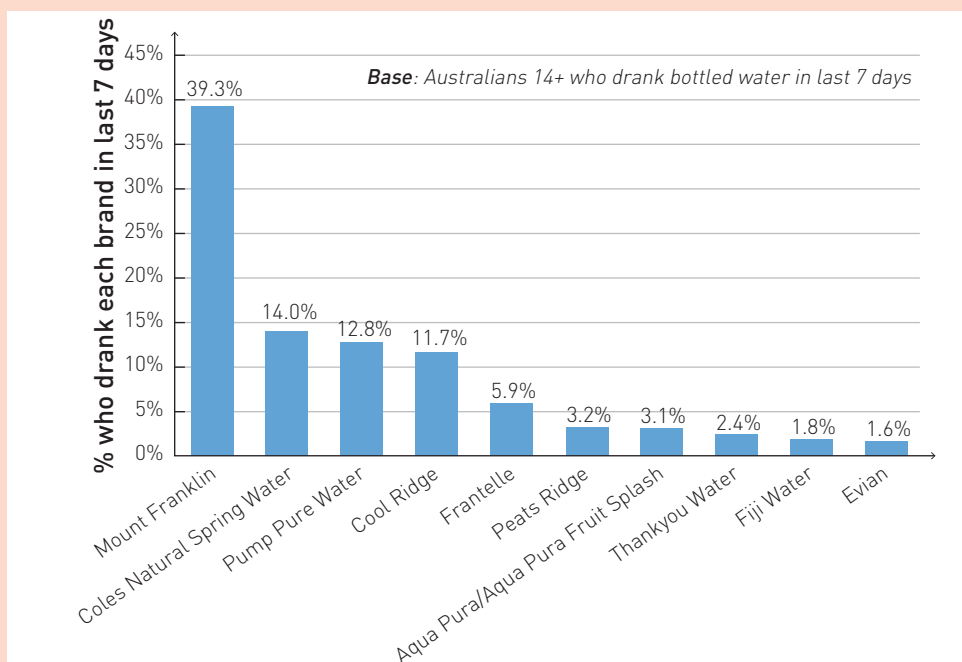


Figure 9.6 The bottled water market is highly competitive, with private labels seeking to erode the market share of top brands Mount Franklin and Frantelle.

Source: Fairfax Syndication/Quentin Jones

INQUIRY



Aldi's role in the supermarket wars: the fight for market share

Task

Research the current situation for the supermarket industry in Australia to examine the competitive landscape. Using Aldi as the case study, **identify** the marketing objectives of the business and **explain** how they are trying to influence consumer buying behaviour. Investigate patterns and trends evident and how the leading competitors are responding to the business situation.

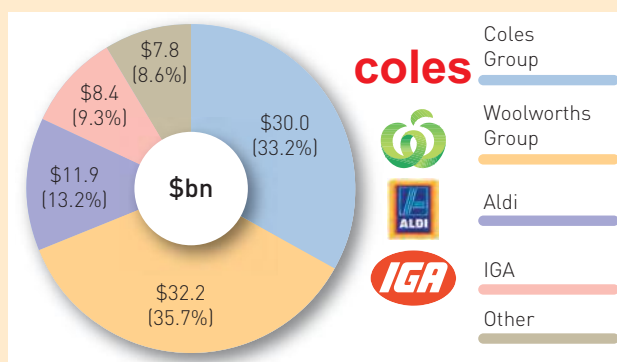


Figure 9.7 Market share of the \$90.3 billion spent at Australian supermarkets in 12 months to March 2017

Based on 'Aldi hits new high in supermarket wars', Shares of the \$90.3 billion spent at supermarkets in 12 months to March 2017, Finding no. 7234, Roy Morgan press release, 17 May 2017

Brand awareness

One of the main ways a business identifies its products is through branding, and a strong **brand** is more than just a name. Branding is a combination of the name, logo, customer service, uniforms, marketing materials and advertising that distinguish a business from its competition. For consumers, branding is a source of information that tells them what to expect in a product. For business it can be a source of competitive advantage, meaning that businesses register their brand name for their exclusive use. Some brand names have become synonymous with the products they represent – for example, a child will ask for a Band-Aid when they really want a sticking plaster.

To achieve growth objectives around sales and market share, customers need to be aware of a business, meaning brand awareness is critical to achievement of these objectives. Brand awareness is the degree to which customers associate a brand with a specific product, service or business idea, including its features, price and places to purchase. For a business in the growth stage of the life cycle, developing brand awareness is important for encouraging repeat business and customer loyalty.



Figure 9.8 Band-Aid brand launched in 1920 selling strictly bandages, and has grown to offer a wide variety of products that meet the dynamic needs of today's active families around the globe.

QUESTIONS 9.3

Using the Band-Aid example as a starting point, complete the following.

- 1 **Brainstorm** a list of other products where the brand name and product are synonymous.
- 2 **Select** one of these products and **research** the marketing tactics used by the business to reinforce the brand strength.
- 3 **Identify** a least one competitor to your selected product and examine tactics employed by this business to try to attract customers away from the entrenched brand.
- 4 **Create** a visual presentation of your findings.

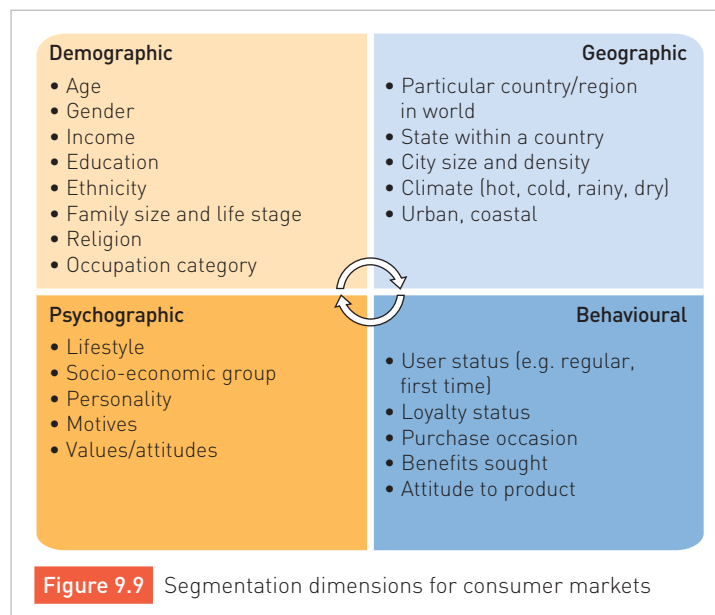
Brand: the name, term, symbol, design or a combination of these that uniquely identifies a product and distinguishes it from the competition

Target marketing and differentiation

Target marketing

‘Everyone’ is not a target market, and a vague idea of who a business is targeting is not sufficient to build a brand and achieve growth. As previously discussed (see page 293 for mass markets – under ‘Types of markets’), undifferentiated marketing or appealing to the mass market is rare when trying to reach today’s more diverse consumer market. It is important to research who the target market is so that marketing strategies can be developed that appeal to a specific audience.

A target market is a group of actual and potential customers whose needs and wants a business wishes to satisfy. Customers within this group will share similar characteristics such as age, income, lifestyle and location that enable a business to focus its promotional strategies. When segmenting consumer markets, four main dimensions are employed; these are demographic, geographic, psychographic and behavioural (see Figure 9.9).



Demographic segmentation

Demographic segmentation uses major population traits to divide the market, with common traits including gender and age. For example, Network Ten television has traditionally targeted a younger demographic than its commercial rivals, focusing on people 18–35 years old, while the Nine Network targets people aged 25–54 and grocery buyers with children. Such targeting allows the networks to tailor their programming to the target audience and appeal to a specific group of advertisers. There are marketing acronyms for different demographic groups, for example:

- DINK(Y) – double income, no kids (yet)
- NILK – no income, lots of kids
- KIPPERS – kids in parents’ pockets eroding retirement savings
- NEET – not in employment, education or training
- GLAM – greying, leisured, affluent, married.

Geographic segmentation

Geographic variables include the areas where potential customers reside. Depending on the size of the business, these may be divided by locality within a city (e.g. a suburb of Brisbane), by state (e.g. Queensland), by country (e.g. Australia) or international region (e.g. Asia), and can also feature the density or size of the city. Climate is also a consideration as for many industries – for example the textiles, clothing and footwear industry – what consumers in a cold climate like Canberra look for is different to those in a hot climate like Cairns.

For the Australian market, car manufacturers segment primarily based on where customers reside, grouping customers as urban, suburban and rural markets. Research indicates that rural markets prefer larger four-wheel drives, suburban consumers seek SUVs and urban consumers living in high-density areas prefer compact vehicles.



Figure 9.10 Toyota Australia executive director of sales and marketing, Tony Cramb, said the development of the new HiLux variant demonstrates the importance of the Australian market to the Japanese car-maker. 'This new 4 × 4 HiLux package has been uniquely developed to meet the demands of workers in the harsh and remote conditions experienced in Australia's mining and exploration industries,' he said.

Psychographic segmentation

This refers to a consumer's lifestyle and activities, personality, values, hobbies, degree of risk aversion, motives and opinions. Demographics explain the 'who' about a potential customer, while psychographics inform us as to 'why' the customer purchases. Consumer behaviour is a strong focus when basing a target market around psychographic factors. While these variables are harder to measure than demographics (research can reveal the number of females aged 18–35 years, for example), they can provide marketers with great insight into preferences in terms of the way consumers think and act. This assists with overall marketing strategy and targeting of promotional avenues.

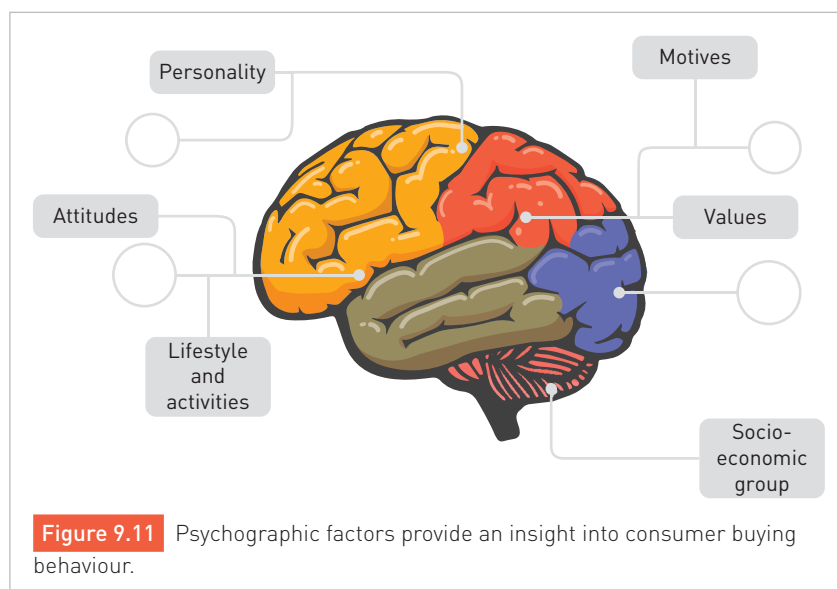


Figure 9.11 Psychographic factors provide an insight into consumer buying behaviour.

Behavioural segmentation

People seek varying benefits from products and will use them in different ways. Identifying what customers want from the product, or the benefits they seek, is a key aspect of this dimension.

Benefits may include quality, status, savings or convenience. For customers who travel frequently, membership of the Qantas Club may offer benefits they seek such as faster check-in, extra baggage allowance, accrual of frequent flyer points and use of the Qantas Club lounge for refreshments, business facilities and meeting spaces, along with shower facilities. Qantas also uses customer loyalty tools such as its Frequent Flyer program and Qantas Club to achieve loyalty status as, the more you fly with Qantas, the greater the rewards you accrue.



Figure 9.12 The Qantas Club offers benefits to members such as faster check-in, business facilities and use of the Qantas Club lounge.

GAINING INSIGHT



Southern Cross Austereo: two stations and two target markets

Southern Cross Austereo has two of the major FM radio stations in Brisbane. Each has a unique profile which outlines the audience delivery and environment. Advertisers of either or both stations aim to target a certain market and have their message delivered in an environment and tone which suits their brand, at a time when their target market is most receptive to their message.

Hit105

Hit105 targets under 40s and strongly delivers a female audience 18–39 years. We describe our fans and listeners in two distinct segments; Young and Free and Style Seekers.

Young and free: It's all about feeling great and being up for anything at any time. They seek out fun and are always on which directly fuels their social currency. They are 16–24 year old females who are tech savvy and feel that films, music and clothing contribute to their personal definition.

Style seekers: The independence that comes with being slightly older means individual well-being is more

important than what others think of them. They are 25–34 year old females who are more certain of themselves. Experiences are the number one thing that defines them along with relationships, family and friends.

Total listeners: 481 000 people tune into hit105 across Brisbane each week.

Triple M

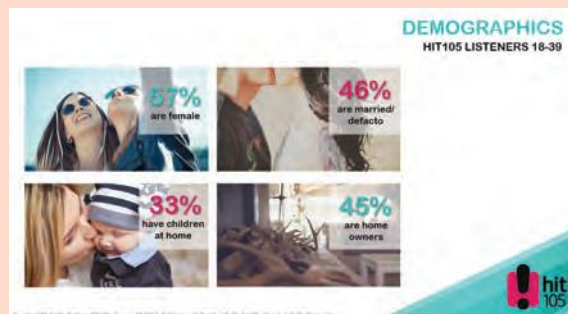
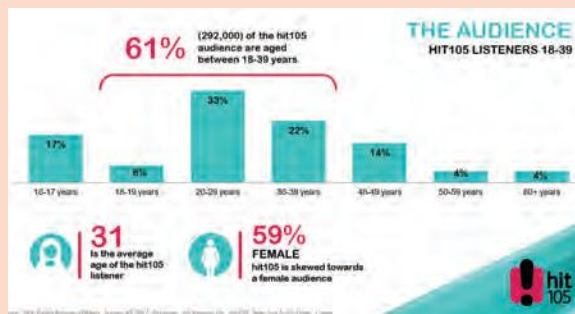
The Triple M brand is made up of three main components that drive what is heard on air.

Rock: Triple M is bold, daring and edgy with music that rocks and programming that gets people talking.

Sport: Triple M loves sport. It is proudly Aussie and always ready to go into bat. Coverage of sports is one of Triple M's priorities.

Comedy: Passionate about life and living it to the fullest, taking it seriously but having fun along the way.

Total listeners: 378 000 people tune into Triple M across Brisbane each week.



HOUSEHOLD INCOME

HIT105 LISTENERS 18-39



Source: GfK Audio-Visual Research, Survey of 10,000+ listeners, 18-39, 2014. Data as of 31/12/14.

OCCUPATION

HIT105 LISTENERS 18-39



Source: GfK Audio-Visual Research, Survey of 10,000+ listeners, 18-39, 2014. Data as of 31/12/14.

PERSONALITY

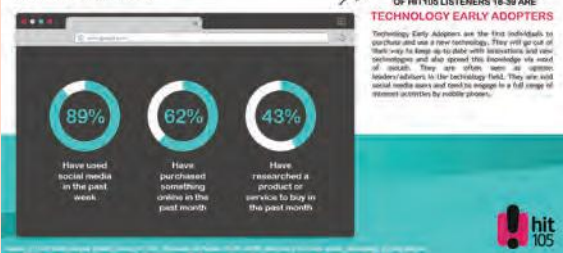
HIT105 LISTENERS 18-39



Source: GfK Audio-Visual Research, Survey of 10,000+ listeners, 18-39, 2014. Data as of 31/12/14.

TECHNOLOGY HABITS

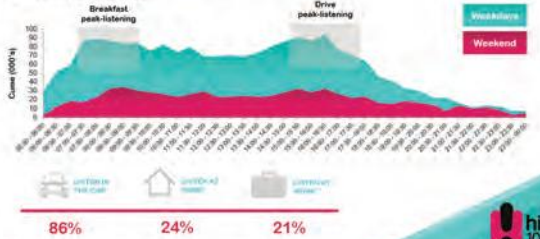
HIT105 LISTENERS 18-39



Source: GfK Audio-Visual Research, Survey of 10,000+ listeners, 18-39, 2014. Data as of 31/12/14.

WHEN ARE THEY LISTENING?

HIT105 LISTENERS 18-39



Source: GfK Audio-Visual Research, Survey of 10,000+ listeners, 18-39, 2014. Data as of 31/12/14.

THE HIT105 SHOWS

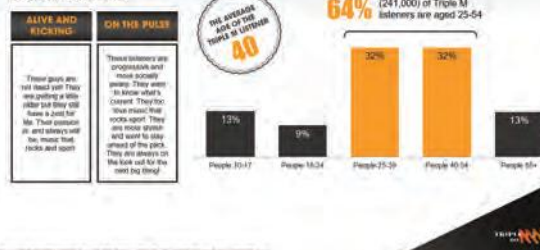
HIT105 LISTENERS 18-39



Source: GfK Audio-Visual Research, Survey of 10,000+ listeners, 18-39, 2014. Data as of 31/12/14.

OUR AUDIENCE

Here's how we define them:



Source: GfK Audio-Visual Research, Survey of 10,000+ listeners, 18-39, 2014. Data as of 31/12/14.

DEMOGRAPHICS

OF OUR 25-34 AUDIENCE



Source: GfK Audio-Visual Research, Survey of 10,000+ listeners, 18-39, 2014. Data as of 31/12/14.

HOUSEHOLD INCOME

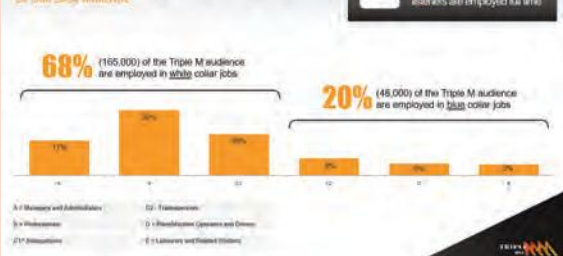
OF OUR 25-34 AUDIENCE



Source: GfK Audio-Visual Research, Survey of 10,000+ listeners, 18-39, 2014. Data as of 31/12/14.

OCCUPATION STATUS

OF OUR 25-34 AUDIENCE



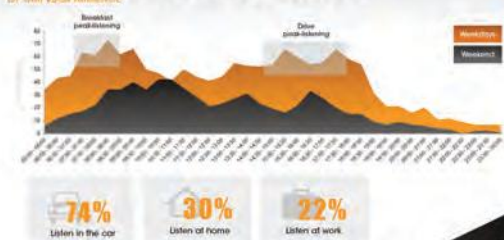
Source: GfK Audio-Visual Research, Survey of 10,000+ listeners, 18-39, 2014. Data as of 31/12/14.

THEIR PERSONALITY

OF OUR 25-34 AUDIENCE

**WHEN ARE THEY LISTENING?**

OF OUR 25-34 AUDIENCE

**SPORTS THEY'RE INTO**

OF OUR 25-34 AUDIENCE

**TECHNOLOGY HABITS**

OF OUR 25-34 AUDIENCE

**Questions**

- Describe** the business environment that Southern Cross Austereo (SCA) operates in.
- Explain** the role of market research for a business like SCA and the ways in which such research may be used.
- Examine** the target markets for hit105 and Triple M. Use a T-chart tool to contrast the target audience for each station.

Hit105

e.g. 60% are female

Triple M

e.g. 65% are male

- Interpret** the data and information for both stations to **draw conclusions** about the types of businesses, and products or services, that will advertise on each station. Use specific examples to support your findings.

Differentiation

Successful new products are the ones that can differentiate from competitors and verify a unique selling proposition (USP) – a key factor that differentiates one product from another. The distinguishing attributes designed into the product concept aim to influence the purchasing decisions of a target market and differentiate the offering from competitors. Differentiation helps to make the business less sensitive to price competition: if two products are identical in the mind of the consumer, they are likely to choose the cheaper option; if there are distinguishable features, then the consumer may choose on attributes beyond price. Attributes should be meaningful to the customer and, for a product, typically include features, quality and appearance (including packaging and branding). Service differentiation may include free and fast delivery, installation, customer training, and maintenance and repair. The differentiation strategy should reflect the expectations of the target market and support the USP.

GAINING INSIGHT**Coca-Cola markets numerous bottled water brands, each differentiated for a target market**

In the highly competitive bottled water market, Coca-Cola Amatil (CCA) offers seven brands, including Mount Franklin and Pump. According to the CCA website:

Mount Franklin is Australian spring water of exceptional quality and purity as nature intended and has been keeping Australians hydrated for

over 30 years. Mount Franklin is the Nation's Hydration.

On a 600 mL bottle of Mount Franklin, the word 'pure' is used four times, emphasising the attribute of the natural and untouched quality of their water. This may be implying that it is better for the consumer than tap water.



Alamy Stock Photo/Alisha Arif



Coca-Cola Amatil

Figure 9.13 Coca-Cola Amatil has seven brands of bottled water, including Mount Franklin and Pump. These brands are differentiated using a number of attributes to position them in the market.

The CCA website asserts that:

Pump is a pure water that has been hydrating active Australians for over 7 years. Pump is the BIG HIT of water that leaves you feeling hydrated and invigorated, for people with busy lives who are constantly on the go Pump is action water!

Questions

- 1 **Explain** the differentiation strategy being used by Coca-Cola Amatil (CCA) for the Mount Franklin and Pump brands.
- 2 Using the segmentation dimensions, **define** the target market for Mount Franklin and for Pump.
- 3 **Explain** why CCA has multiple brands for different target markets. **Interpret** what this means about the competitive environment and consumer buying behaviour (refer to Gaining insight, 'Bottled water: the fight for market share', on page 322).

Product positioning

Product positioning involves establishing, in the mind of consumers, an identifiable image or identity, including attributes, of a product (or service) in relation to competitor products. It is how consumers perceive a product, and some brand names immediately conjure an image of the product – for example, the Toyota Prado is seen as the king of large off-road wagons or 'proper' four-wheel drives, while Kmart has an image of low prices. Positioning is closely related to differentiation strategy, and both are used to create a positioning map.

For a business trying to establish itself or grow in a competitive market, management must clearly determine the desired positioning so that all marketing strategies can be used to build and reinforce the image. This helps achieve the objective of brand awareness, which should lead to sales and market share.

Segmentation, targeting and positioning (STP)

Segmenting, targeting and positioning (STP) is a strategic approach to marketing that helps a business to prioritise communications and deliver relevant messages to consumers. Using an STP map helps a business focus on the audience, rather than on the product or service. As STP maps are based on perceptions from the consumer, they are also called perceptual maps. The STP map shows how consumers perceive competing products in the market, based on key attributes. When viewing an STP map, a business can either position its product to fill an identifiable gap in the market or elect to compete against other businesses with awareness of their relative positioning. Formulating a unique product position helps to protect a product or brand from competitive forces (see page 354 for USP analysis).

ANALYTICAL TOOL



Creating a positioning map

A positioning map is completed after the business has conducted research to segment the market and defined its target market using the segmentation dimensions. While a positioning map may have any number of lines, to keep things clear and simple to interpret, they usually have an x- and a y-axis only. Any criteria can be used to map perceptions, for example price, quality, value for money, status, reliability, safety and mass vs. exclusive market. Steps are as shown in Figure 9.14.

Product positioning: establishing, in the mind of consumers, the identifiable image and attributes of a product (or service) in relation to competing products

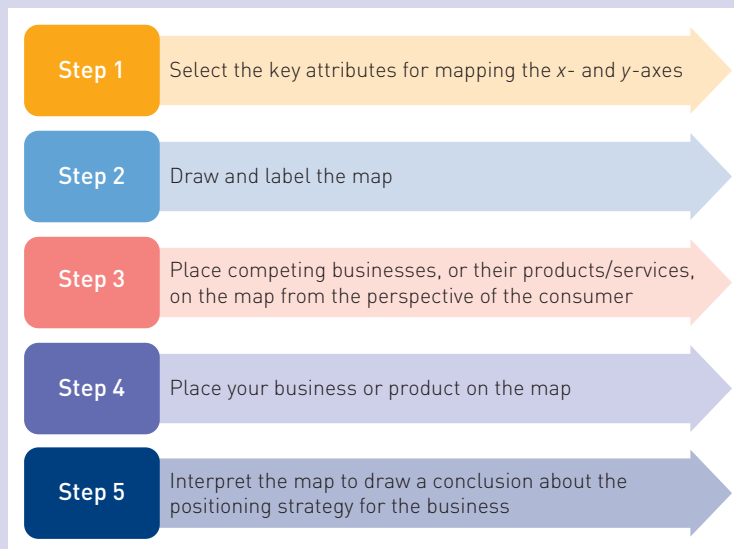
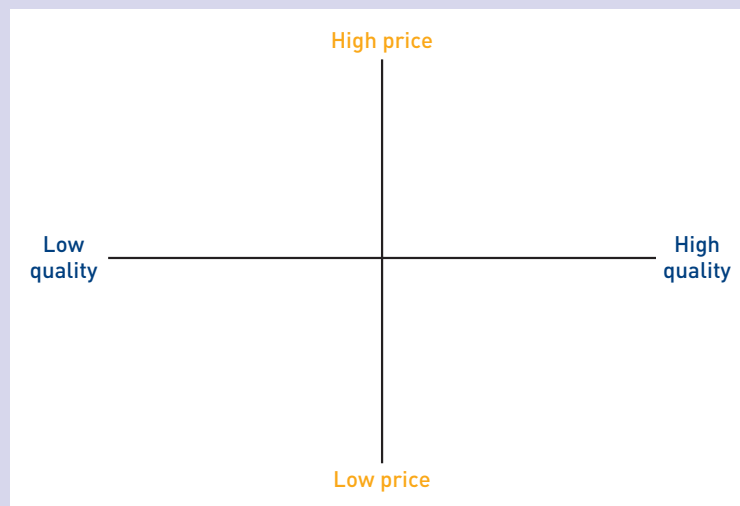


Figure 9.14 Steps in creating a positioning map

Questions

- Follow the weblink to the Country Road Group's Statement to the Australian Securities Exchange, 2014. Go to page 24 and view the infographic 'Our framework to beat the market trend'. **Interpret** the positioning strategy of the four brands owned by the Country Road Group (CRG) – Country Road, Trenery, Mimco and Witchery. **Draw a conclusion** about how this strategy supports the brands and the CRG in such a competitive environment.
- Select one business from the CRG and **evaluate** its positioning strategy based on the criterion of competitiveness.
- Select** a small to medium-sized business of your choice and complete a positioning map for the business in its local community. Ensure you research the market and its segmentation and **define** the target market before completing the mapping process.
 - Interpret** your findings based on the criterion of competitiveness for your chosen business.



The 4Ps of marketing

An effective marketing strategy combines the four Ps (4Ps) of the marketing mix. It is designed to generate sales and achieve the marketing objectives by providing customers with value. The 4Ps of the marketing mix are controllable factors marketers use to establish the product's positioning within its target market/s. To be effective, the 4Ps must operate in harmony. The categories of the 4Ps are:

- product (or service) offering* – what the business is selling to satisfy customer needs and wants
- price* – how much the offering will sell for
- promotion* – how best to communicate with potential and actual customers
- place* – where, or through what mode, the business is selling.

Key learnings

You will learn the following about product marketing through examining:

- the total product concept
- product portfolios and growth
- branding and the use of trade marks
- packaging.

Product: goods and/or services

A product is a good, service or idea whose combined attributes, both tangible and intangible, satisfy consumer needs or wants. Businesses should adopt a consumer perspective when marketing their products as customers do not buy features, they seek benefits. For example, when someone decides to purchase a motor vehicle and reviews features such as number of airbags and ABS brakes, they are looking to acquire benefits of safety and peace of mind.

A product will have a core function or key benefit that it provides to the consumer to satisfy their unmet need or want, along with other tangible or physical offerings such as packaging, colour and size options, accessories and optional features. It can also consist of service offerings including financing, delivery, maintenance and repair, and warranty. Intangible, but equally important, aspects that impact product positioning include brand image, quality, prestige and reputation. Combined, these elements reflect the **total product concept**. The service-based and intangible attributes that come with the physical product can be used to differentiate a business or product from the competition and provide a unique selling point.



Figure 9.15 The marketing mix is known as the 4Ps – product, promotion, price and place. All four variables are interrelated and affect each other.

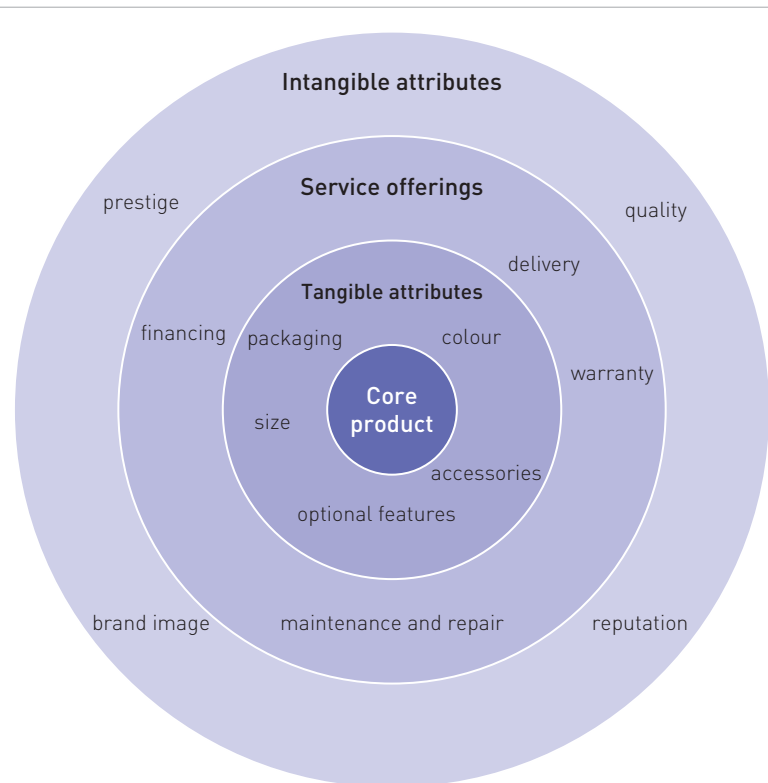


Figure 9.16 The total product concept is made up of tangible and intangible attributes that differentiate the offering from competitors' and position it in the minds of consumers.

Total product concept: when customers purchase products, they are buying both the tangible attributes and intangible benefits that make up the total product. This could include the packaging, branding, warranty and after-sales service.

QUESTIONS 9.4



Complete the total product concept for the following organisations or products.

- 1 Your school
- 2 Apple iPhone
- 3 PlayStation
- 4 Sea World
- 5 Garmin Fenix sports watch
- 6 Beach Club (or another accommodation option) on Hamilton Island

GAINING INSIGHT



Honda Australia Introduces Five-Year Warranty



Shutterstock.com/designs by Jack

Figure 9.17 Honda announced a five-year warranty to aid customer appeal and enhance its total product offering relative to key competitors such as Hyundai, Skoda and Renault.

Honda Australia will roll out a self-funded five-year and unlimited kilometre warranty on all vehicles it sells from July 1 this year.

Capitalising on what it calls its reputation for reliability, the company becomes the first Japanese manufacturer to offer such coverage in Australia (Mitsubishi does five years/100 000 km). It previously covered three years/100 000 km.

Honda's five-year warranty matches the package offered by challenger brands Skoda and Renault, though falls short of Kia's industry leading seven-year term.

The warranty covers all new and 'selected' demonstrator vehicles, and will include the imminent Civic Type-R hot hatch.

Note that Honda vehicles used for 'commercial purposes' will instead receive a five-year/140 000 km warranty – a sure indication that most private buyers will not do 140 km inside that term.

'In the competitive Australia market, customers expect brands to be innovative and Honda Australia is aiming to do this right across the business,' said Honda Australia director Stephen Collins.

'Through our network of 107 dealers, we're continually focused on improving how we interact with our customers.'

The new warranty does not affect other Honda factory-backed warranties, such as the existing six-year rust perforation warranty and three-year paint warranty. Honda Australia said it would retain its current 10 000 km service intervals, however, unlike some rivals with 15 000 km intervals.

'Our new five-year, unlimited kilometre Honda warranty, combined with Honda Tailored Servicing, reinforces Honda as a superior ownership proposition ahead of some key rivals,' Collins said.

'Given the quality of Honda vehicles, they can sometimes be perceived as more expensive, when this is simply not the case ... Honda is very competitive.'

Source: Mike Costello, Car Advice, 3 July 2017,
<http://www.caradvice.com.au/563683/honda-australia-introduces-five-year-warranty/>

Questions

- 1 Using terminology, **describe** the business environment presented in the article.
- 2 **Identify** all the elements that Honda is using to enhance its product offering.
- 3 **Explain** why Honda has increased its warranty to five years and **draw a conclusion** as to why other well established and premium brands have not. Use the total product concept in your reasoning.

Product portfolios and growth

A business at the start-up stage of the life cycle will typically have only one or a small number of products. These products are usually in the same **product line**, meaning a group of closely related products, because they are meant for the same end use (for example, cereal products) or are positioned toward the same target market (for example, organic baby food).

As a business evolves into the growth phase, reliance on a single product is unlikely to be sustainable and the business will seek to grow its product line, usually within a common theme (for example, market a range of breakfast cereals). During growth, depth to the product line may increase as different variants of the product are added – for example, new varieties of cereal or packaging sizes.

Many businesses aim to have a range of complimentary products available to create a product mix, or assortment of product lines. For example, a cereal business may create a new product line of yoghurts or muesli bars. These add together to create the **product portfolio** of a business. The benefit of introducing additional products to an existing product line or creating a new product line entirely is that a business can have products spread across the product life cycle (which operates in much the same way as the business life cycle). A new product introduced into the mix may attract new customers and generate sales growth.

GAINING INSIGHT



five:am Organic



Visit the five:am Organic website to answer the following questions.

- 1 Using concepts, **explain** the product portfolio for the five:am Organic business.
- 2 Research the business to **identify** stages in its business life cycle and explain how development of the product portfolio has supported business growth.



Figure 9.18 The five:am Organic product range

Branding

Products must be easily identifiable by consumers, which is why branding is an integral part of marketing decision-making – it is one of the major ways that a business will identify its product or service. Defining the brand and how it will be positioned are key considerations before the business grows too much so that a consistent message is presented. A brand is a name, term, symbol, design or a combination of these that uniquely identifies a product (or group of products such as the Coca-Cola range) and distinguishes it from the competition. Branding consists of:

- *a brand name* – that part of a brand that can be voiced, e.g. Nike
- *a brand mark* – that part of a brand that can be seen but not voiced. It is usually a symbol or design – for example, the Nike ‘swoosh’
- *a trade mark* – the brand name and/or brand mark that the business has the exclusive legal right to use.

Product line: a group of products that are closely related because they are intended for the same end use or same target market

Product portfolio: the total combination of products that a business sells



A strong brand is a major asset to a business as it gains repeat sales and builds brand loyalty. This can help a business seeking to grow by introducing new products into its portfolio as the consumer is already familiar with the business and its products. This familiarity removes the risk to the consumer of trying a new product and encourages a change in buying behaviour. There can also be a psychological reward for the consumer from purchasing a brand that symbolises status and prestige (refer to Maslow's hierarchy of needs, page 297).



Alamy Stock Photo/360b

Figure 9.19 The Nike swoosh was created in 1971 by design student Carolyn Davidson. Nike founder Phil Knight is reported to have said, 'I don't love it but maybe it will grow on me', and paid her \$35 for her time. Davidson was later given Nike shares now worth well over half a million dollars.

GAINING INSIGHT



The most valuable brands in Australia



Questions

Visit the Brand Finance website to research the most valuable brands in Australia and complete the following.

- 1 **Identify** the most valuable brand in Australia for the current year and the previous year. **Explain** why you think this/these brand(s) are the most powerful in the Australian market.
- 2 Review the list for Australia's 10 most valuable brands to **identify** any trends between periods.
- 3 **Compare** at least two major brands in the same market (e.g. banking or supermarkets). Which one enjoys greater brand recognition? Can you **explain** why this is the case?

Rank					Brand Value  (AUD Millions)		Brand rating	
2017	2016	Logo	Name	Country	2017	2016	2017	2016
1	 2	 Google			142,796	120,078	AAA+	AAA+

Figure 9.20 Google took top spot in the most valuable brands of 2017, with brand value of A\$142 796 million. This equates to branding strength and the value of trade marks.

Brand Finance, 'Global 500 2017', http://brandirectory.com/league_tables/table/global-500-2017

The use of trade marks

By the commencement of the growth stage in the life cycle, it is critical that a business establish strong intellectual property (IP) protection. Businesses are at risk of having marketing strategies copied by competitors if adequate protection is not taken. If a business is trying to grow and has not applied for a trade mark, it is exposing itself to legal and financial risk. Risks include being forced to rebrand the business, the risk of being sued by a competing business for infringing its IP and the risk of 'copycats' starting up without the legal avenues to stop them.

In the past, an SME operating in one state could potentially co-exist with a similar-sounding business in another state. However, increasing travel and the power of the Internet mean the potential for trade mark conflict is great and risks could present much sooner in the business life cycle. While trade marking is an expense at a time when budgets are tight, protection will help a business preserve its brand and maintain its **market presence**.

Market presence: the message a business communicates to prospective and actual customers. This message should be clear and reflect the key attributes from the total product concept and branding.

Trade marks are granted to the first party that applies, so it is prudent to be proactive in protecting a business's name (see pages 160–2, Chapter 5, for more on trade marks).

Packaging

From a marketing viewpoint, the packaging a product is encased in can be almost as important as the product itself. Packaging goes beyond protecting the product to convey an image and reinforce the positioning and branding strategy. Packaging can be used when segmenting the market by offering the same product in different sizes or forms to enhance usage. For example, Chobani yoghurt is packaged in a variety of ways to appeal to different target markets.

Appropriately designed packaging should reinforce the positioning strategy adopted by the business and aid differentiation from competitors. As seen in Figure 9.13 (page 329), Coca-Cola Amatil uses packaging to reinforce the positioning of its Mount Franklin and Pump brands and influence consumer buying behaviour. Packaging fulfils other roles, including:

- attracting customer attention
- preserving the produce to ensure quality
- containment and protection of contents
- division of the product into smaller units (e.g. multi-packs)
- enabling transportation and storage
- communication of product benefits at the point-of-sale or while displayed instore.



Figure 9.21 Chobani packages yoghurt in a variety of sizes and forms to appeal to different target markets.

Chobani

Legal and ethical considerations of packaging

Legal and ethical considerations mean that packaging and labelling should be truthful and meet relevant standards. As the consumer watchdog, the ACCC investigates claims made on packaging, such as 'free range' and 'organic', and the use of imagery that suggests environmental credentials, for example 'dolphin-friendly' tuna. Consumers are often willing to pay a premium price for such product attributes or choose a product over that of competitors, while not all claims are credible.

GAINING INSIGHT

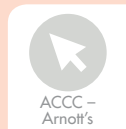


Arnott's infringement for Shapes

Arnott's Biscuits Ltd was issued with infringement notices by the ACCC related to its Shapes Light & Crispy product. This was based on statements on the packaging that the product contained '75% less saturated fat ...' when it was closer to 60 per cent less than Shapes originals. As the consumer watchdog, it is

the ACCC's role to ensure advertising, in all its forms, is truthful and does not mislead or deceive consumers.

Read the full judgement and view a photo of the offending pack on the ACCC website.



According to ShopEthical, Australians consume over 3.4 million tonnes of packaging every year, or about 165 kilograms per person, only 48 per cent of which is recycled. Consumer awareness about the issue of packaging and environmental sustainability has increased and seen a change in consumer buying behaviour. This presents both opportunities and threats for business. Some businesses have been established on the basis of this issue – for example, KeepCup (see Chapter 8, page 285) – while others, notably the supermarkets, continue to grapple with the issue of packaging and shopping bags from an ethical and environmental viewpoint.

Single-use plastic shopping bags have been banned by the Queensland Government as of July 2018, with the aim of reducing landfill and mitigating the threat to land and marine environments. This applies to lightweight bags only and presents a branding opportunity for businesses that use heavier plastic bags or paper/cardboard. Some retailers have already capitalised on this concern and use shopping bags as a form of branding and promotion.



Figure 9.22 While single-use shopping bags are being phased out, some retailers, such as Woolworths and Lululemon, have been proactive and already package purchases in reusable bags that also present a branding and promotion initiative.

SUSTAINABILITY



Sustainability in packaging is increasingly important to key stakeholders

Task 1: Sustainable packaging

Kathmandu was one of two winners of the Australian Packaging Covenant Organisation (APCO) – Sustainable Packaging (Clothing, Footwear and Fashion category) 2017 Awards. According to the Kathmandu website, its goal is 'to send zero waste to landfill by 2018'.



Research the issue of sustainable packaging in Australia to make recommendations to Kathmandu on how it can improve its business practices.

Task 2: Food waste and packaging

'One-third of all food produced – nearly nine million tonnes – ends up in garbage bins across Australia and New Zealand, only to make its way to landfill.' (Source: www.packagingnews.com.au)

Investigate the issue of food wastage in Australia as it relates to sustainable practices. Provide at least three **recommendations** to food manufacturers and packaging businesses about how to improve business practices and reduce waste. **Justify** your findings using the criteria of sustainability and competitiveness.



Figure 9.23 Food waste is largely due to spoilage – that is, food that has gone past its 'best before' date. Innovative packaging may keep food fresher for longer, which will reduce waste and improve sustainability.

Key learnings

You will learn about price strategies through examining:

- price skimming and penetration pricing
- prestige and premium pricing
- competition-based and cost-based pricing
- loss leader, psychological and dynamic pricing.

Price

Price is the amount of money a consumer is willing to offer in exchange for a product. Of the four elements comprising the marketing mix, price is the sole source of revenue – the other three elements produce a cost. For this reason alone, having the optimal pricing strategy is critical to business success. In the establishment phase of the

business life cycle, setting an appropriate price can be the difference between moving to the growth phase and not surviving – setting prices too low could result in cash-flow problems that cause the business to close, and setting them too high may discourage consumers from purchasing the product. Price will influence consumer buying behaviour and must support the other strategies of the business, including positioning and branding.

Factors influencing price strategy include:

- manufacturing or production costs associated with the good or service
- marketing objectives, such as sales volume, market share, profit, image creation
- how much the consumer is willing to pay and how price-sensitive they are
- the competitive environment – the number of competitors and their prices
- whether it is a new or an existing product to the market.

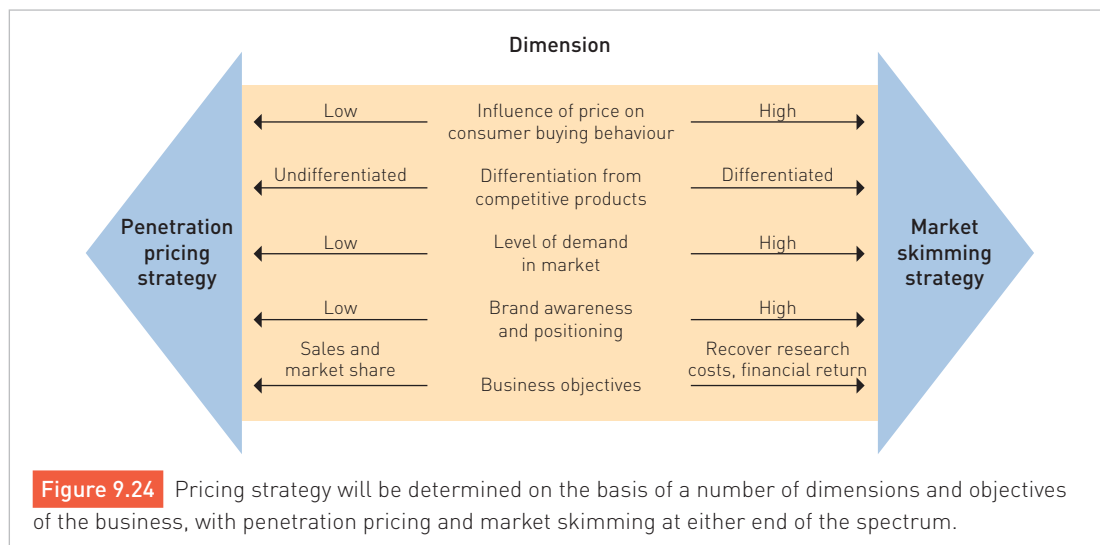
Price strategies

When a business is at start-up or releasing a new product into the life cycle, setting a price to reflect the product offering is important. There is a spectrum of pricing strategies, with market skimming and penetration pricing sitting at either end and a variety of other strategies in the midst.

Market skimming vs. penetration pricing

When introducing a product with strong differentiation and few competitors, **market skimming** can be profitable. Market skimming involves setting the highest possible price, to earn a high profit on each item sold, and gradually decreasing it over the next few weeks or months. This strategy is often employed for innovative products, such as technology, where a business aims to recover the research and development costs by setting a higher price. Market skimming can also support the positioning strategy of a business if it aims to project a high-quality, exclusive or innovative image. Market skimming works on the notion that early adopters – consumers who want to start using a product or technology as soon as it is on the market – are willing and able to pay more.

Penetration pricing is the opposite of skimming. A business will decide to charge a very low price to generate high sales volume and meet the sales objective of the business. The aim is to penetrate the market and encourage consumers to try the product or switch from the competition. The aim is to sell a large volume of product during the establishment phase of the life cycle and then gradually raise prices without losing customers. This strategy usually generates minimal profit in the short term, with the business projecting longer-term gains. The greatest challenge is being able to raise prices while maintaining market share.



Market skimming: charging the highest possible price in the short term to earn a high profit on each item sold and gradually decreasing it in the longer term

Penetration pricing: charging a very low price in the short term to generate high sales volume and meet sales objectives of the business

GAINING INSIGHT



iPhone X puts exclamation point on Apple's pricing strategy

Apple has made a luxury iPhone that punctuates its technological swagger with a high-priced exclamation point. And that exclamation point appears to be a sign of things to come.

The long-anticipated iPhone X unveiled Tuesday will sell for \$999, double what the original iPhone cost a decade ago and more than any other competing device on the market. That's very much in line with Apple's long-term positioning of itself as a purveyor of pricey aspirational gadgets.

But it's also a clear sign that Apple is ramping up that strategy by continuing to push its prices higher, even though improvements it's bringing to its products are often incremental or derivative. Among other things, that runs contrary to decades in which high-tech device prices have fallen over time, often dramatically, even as the gadgets themselves ran faster and acquired new powers ...

Source: Associated Press, www.billboard.com/articles/business/7964782/iphone-x-apple-pricing-strategy-analysis

AAP/AP Photo/Marcio Jose Sanchez



Figure 9.25 When launching the new iPhone X, Apple maintained its aspirational pricing strategy.

Questions

- 1 **Identify** Apple's iPhone pricing strategy and **explain** the relationship between pricing and the product positioning strategy.
- 2 **Research** and **select** business data and information about the smartphone market in Australia to identify the key competitors to Apple. **Interpret** Apple's strategy based on consumer buying behaviour and relative to the competition.
- 3 **Evaluate** Apple's pricing strategy using the criterion of competitiveness.

Prestige and premium pricing

Price strategy must be consistent with the branding and positioning strategy of the business. Price can communicate a strong message to the market about the value of the product: if the aim is to create a prestige brand, setting the price too low or adopting a penetration pricing strategy can undermine this. If a business offers a niche product to a higher income target market, then prestige pricing may apply. This is suitable for high-quality, prestige products that consumers associate with esteem and self-actualisation needs from owning the product (see page 133).

Premium pricing involves establishing a price higher than those charged by competitors. It is effective for products that have been differentiated such that the 'total product' represents a competitive advantage, and for products that are launched first into the market – for example, when Apple launched the first iPhone. This strategy aims to maximise sales revenue during the establishment phase of the life cycle.

Competition-based pricing

Competition-based pricing is often used when there is a high degree of competition from businesses with similar products. In this situation, consumers may shop around and compare prices. With the increasing use of smartphones, this research is easier than ever. An awareness of competitor prices is important and involves conducting market research to determine who the key competitors are and what they are charging. This could involve checking a website or going instore to determine how the product mix and prices compare. A business that uses this strategy is Dan Murphy's, which employs a 'price change team' to check competitor prices every morning and throughout the day to ensure theirs are always the lowest. Bunnings Warehouse uses a similar approach with a price guarantee (see weblink).



Cost-based pricing

Cost-based pricing involves setting prices based on the costs for producing, distributing and selling on a per-unit basis. 'Cost-plus' pricing is typically used by retailers, who use the price they paid to the producer or wholesaler

GAINING INSIGHT



Audi and prestige pricing

Audi sticking by Q2 pricing strategy

Audi's local arm has defended its premium price positioning for the all-new Q2 baby SUV, saying it will go with 'what the market wants' rather than try to directly compete with more affordable mainstream rivals.

When questioned on the Q2's value proposition against something like a Mazda CX-3 – which starts at less than half the price of the most affordable Q2 – Anna Burgdorf, general manager for corporate communications at Audi Australia, said the company has carefully assessed the demands of the market.

'We see an incredibly good-quality small car with a high level of standard specification, that's going to meet the needs of our consumers,' she said.

'We're really pleased with the pricing that we've achieved for the Q2.' ... The company has already received 700 orders for its newest family member, with many being the highly-specified Launch Edition, which starts at \$49 900 and adds S Line exterior styling, 19-inch alloy wheels, and the Assistance package – which includes adaptive cruise control and active lane keep assist – as standard.

Source: James Wong, Car Advice, www.caradvice.com.au/525015/audi-sticking-by-q2-pricing-strategy



Audi AG

Questions

- 1 **Identify** and **explain** the price strategy used by Audi to launch the new Audi Q2 into the market. **Draw a conclusion** as to the key factors used in determining this strategy.
- 2 **Identify** the key competitors for the Audi Q2 and explain how their pricing strategies are either similar or different. **Draw a conclusion** about the consumer buying behaviour and motives for this product.

and add a percentage mark-up to create a profit margin. The percentage mark-up is determined by factors such as the type of product and strength of demand.

For example, suppose a retailer purchased a product from a wholesaler for \$20 and used a mark-up of 50 per cent. Then 50 per cent of \$20 is \$10, so the retail price would be \$20 (cost per unit) + \$10 (cost × mark-up percentage) = \$30 (full retail price).

While simple to use, the shortcomings of this approach are that it does not take into consideration the price customers are willing to pay, the competitive situation or positioning strategy (see 'Analytical tool: Break-even analysis' in Chapter 5, pages 174–5).

Loss leader

A loss leader is a good or service offered at a significant discount, often below cost price. This strategy is linked to sales promotion, notably for retailers aiming to attract customers to a business and stimulate sales. The purpose is to have the customer purchase not only the loss leader, but other products that are not discounted as well. The business can recoup the loss on one item from the sale of other products that are not discounted. The major supermarkets are known to use this strategy to influence where consumers shop. Businesses that undertake this practice need to be mindful of the predatory pricing provisions of the *Competition and Consumer Act 2010* (Cth).

Psychological pricing

Psychological pricing has two aspects. The first is the practice of 'odd-even' pricing, whereby many products are priced at an odd number of dollars or cents, just below an even number – for example, \$19.99, \$49.95 or \$999.00 rather than \$20, \$50 or \$1000. The belief is that consumers see odd prices as lower than even prices. This pricing tactic remains common across most products and price points.

Customer perception of price, rather than the actual price itself, is also a key psychological consideration. There is a general perception that the higher the price, the better the quality must be. A more expensive item of clothing is

likely to be perceived as of higher quality and more stylish than an inexpensive item. This strategy links to prestige pricing, where a high price is directly associated with an image of quality and a low price may actually dissuade consumers due to a negative perception. Market research should be used to determine the optimal price based on consumer perceptions of quality and value.

Dynamic pricing

Dynamic pricing is a strategy in which prices continuously adjust, sometimes in a matter of minutes, in response to real-time supply and demand. The aim is to manage the flow of customer traffic and sales to maximise sales revenue. For example, a coffee shop could raise the price of coffee in the high-demand morning rush between 7.45 and 9.00 am. The coffee shop earns an extra mark-up for each coffee sold during this peak time as the likelihood is high that consumers will pay slightly more before work.

This pricing strategy is already used in certain industries, such as for online booking of airline fares and hotel rooms and by sharing-economy businesses Uber and Airbnb. Prices fluctuate based on demand and supply, meaning one day there is a great deal and the next you pay a bit extra. Uber uses a price surge algorithm to identify spikes in demand, and increases its charges accordingly. Dynamic pricing for business models like Uber's relies on the prevalence of smartphones and the widespread use of apps.

Figure 9.26 Businesses, such as Vuly, often use psychological pricing to influence customer perception and stimulate sales.

Vuly Play

EMERGING TECHNOLOGIES



Emerging technology and the trend of dynamic pricing

What is Choovie?

It's like Uber for the movies!

On demand ticket pricing means great bargains. Plus the best, fastest easiest way to buy tickets anywhere, anytime.

Choovie. It's the movies, only awesomer!

About Choovie

We reckon that all movie sessions are not created equal. Some movies are popular; some not so much. Some session times suit the masses, some suit only a few. So we had this idea – how about we make the cinema ticket prices match demand?

Choovie's unique on-demand pricing for cinema tickets means great bargains, access to those hard-to-get tickets, and the best, fastest and easiest way to find and buy tickets. Anywhere, anytime.

Anyone can buy tickets with Choovie, but if you join – and joining is free – you get access to exclusive features and extras, including bonus offers, lightning fast one-click box office, and personalised notifications – so you can see what you want, at a price that is right for you.

Choovie. It's the movies, only awesomer!



Alamy Stock Photo/Rawpixel

Inquiry activity: Dynamic pricing – the ups and downs

Choose a business that uses dynamic pricing, for example Choovie, to **investigate** the trend of dynamic pricing.

- 1 **Select** business data and information relevant to this situation to **examine** patterns using a PEST analysis.
- 2 **Interpret** the likely effects of this trend on key stakeholders in the business situation.
- 3 **Evaluate** the use of dynamic pricing relative to more traditional pricing strategies used by the business. Use criteria of competitiveness and stakeholder satisfaction to **make a recommendation** about this strategy.
- 4 **Create** a short report on dynamic pricing to **communicate** findings.

QUESTIONS 9.5

- 1 **Research** two companies that use a price-matching guarantee in Australia. **Create** a table demonstrating the advantages and disadvantages of this strategy. Do you believe this is the best strategy for these businesses?
- 2 Visit the Queensland Government 'Business and industry portal' to read more about pricing strategies.

**Key learnings**

You will learn about promotion through examining:

- traditional promotion avenues
- digital and emerging promotion avenues.

Promotion

Promotion involves communicating with actual and potential customers to inform, persuade and create sales. During the start-up and early growth stages of the business life cycle, it is vital that promotional strategies inform potential customers about the arrival of a new product into the market and persuade consumers to try the product. Once this has been achieved, key objectives include increasing sales by raising consumer awareness of a product, attracting new customers and encouraging repeat purchases by existing customers. Effective promotion will also create brand image and awareness and reinforce the positioning strategy.

While advertising is often the most easily identifiable form of promotion, there are a variety of promotional avenues that make up the promotion mix. The promotion mix will vary based on the marketing objectives, target audience, size of the business and budget available. Promotional avenues include:

- traditional avenues, including radio and television advertising, public relations, sales promotion, personal selling and word-of-mouth
- digital avenues, such as electronic direct mail (EDM), search engine optimisation (SEO), social media and content marketing
- emerging platforms, for example the use of social influencers, video and live streaming and augmented reality.

Advertising

Advertising is probably the most prevalent form of promotion: all consumers are exposed to varying forms of advertising across their day. Advertising is any form of paid, non-personal communication, by an identified sponsor, through a mass medium. Advertising is persuasive communication; it is not neutral and it is not free from bias.

This area of the promotion mix has evolved considerably in recent years, with a vast array of traditional and digital media available and technology acting as a constant source of disruption to bring with it ever-emerging

Promotion: use of advertising, sales promotion, publicity, personal selling, digital, social and emerging platforms to communicate with consumers and create sales

Advertising: any form of paid, non-personal communication, by an identified sponsor, through a mass medium



platforms. There are now thousands of ways to communicate a message to the consumer. However, the core purpose of advertising – to inform, persuade and remind – remains unchanged and advertisers must still select the appropriate medium to suit the audience and purpose. Advertising media include:

- *broadcast advertising* – a mass-market communication medium, with commercials aired on television and/or radio. Until recently, this medium dominated advertising, however technological change has shifted the mix. Broadcast ads are now typically released online too, for example using YouTube, to overcome ad skipping technology and increase awareness
- *print advertising* – can be a mass marketing medium using newspapers and magazines or a direct marketing tool by using direct mail, newsletters, brochures and letterbox drops. While the future of print advertising in magazines is being challenged by changes in technology, well-executed direct mail has the potential to reach consumers and influence buying behaviour
- *outdoor advertising* – typically in the form of billboards, bus shelter posters and digital boards, such as those featured in Times Square (see Figure 9.28). Transit advertising on buses, trams and rail is used in major urban localities to target commuters and residents. Outdoor modes can be geographically focused and relatively permanent for a set period.

Digital advertising

Digital advertising technology exists on the Internet, on smartphones and handheld media devices, as well as digital billboards. Now that 84 per cent of Australians access the Internet daily and 56 per cent of people use the Internet more than five times a day, this medium has reach and frequency of contact with consumers. Businesses of all sizes are embracing digital advertising: 47 per cent of small businesses have a social media presence and 26 per cent of these pay to advertise with social media. The proportion of businesses advertising with social media increases in line with business size.



Go Transit

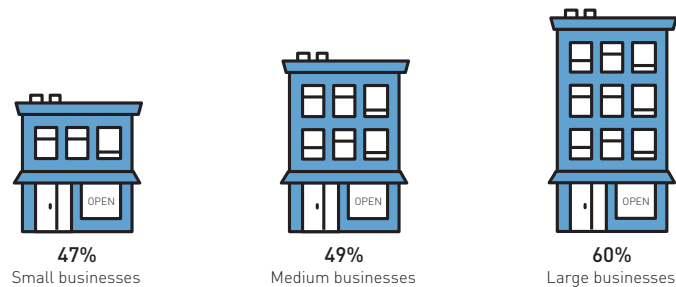
Figure 9.27 Outdoor transit advertising includes advertising on buses and other vehicles, and on bus shelters.



Shutterstock.com/Hit1912

Figure 9.28 Times Square in New York City is one of the most valuable and visible advertising displays in the world. It combines outdoor advertising with the digital medium via live-streaming and interactive capabilities.

Proportion of businesses that have a social media presence



Proportion of businesses with a social media presence that paid to advertise

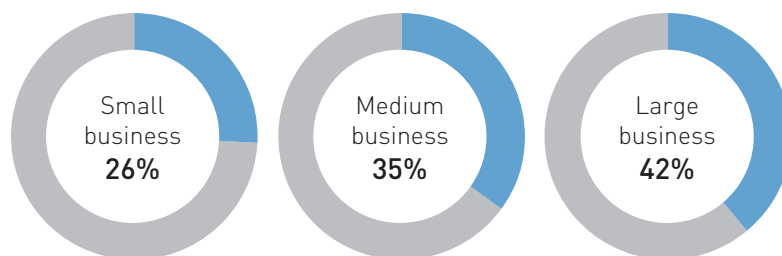


Figure 9.29 The proportion of businesses using social media for presence and advertising is slowly increasing. In 2017, 26 per cent of small businesses with a social media presence paid to advertise in this digital medium.

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Publicity and public relations

Publicity is a form of mass marketing; however, it differs from advertising as it is not directly paid for by the business. While this avenue is free, its timing and content cannot be directly controlled by the business. Publicity is achieved by generating news stories in the mass media that create positive attitudes and behaviours towards a business and help stimulate sales and therefore profit.

SMEs with limited promotion budgets may find publicity a more cost-effective avenue than extensive advertising. Publicity can have the advantage of being perceived as an unbiased endorsement of a product or service, which can make it appear more credible. This avenue can build brand awareness and supplement other aspects of the promotion mix.

Publicity can take many forms, including:

- public relations, which includes promotional activities focused on building positive relations with the community. A key strategy is editorial mentions, which involve being the subject of reviews or news items
- sponsorship of events and people, with the aim of enhancing the profile of a product or business and giving it a favourable image or association. It is focused on building brand awareness
- use of brand influencers to create interest in a product or brand (see page 349).

GAINING INSIGHT



Lobbying against alcohol sponsorship and sport: an ethical issue

Cricket Australia urged to stop alcohol sponsorships as Carlton and United Breweries deal ends

Australia's premier medical authority and the NSW Government have urged Cricket Australia (CA) to stop promoting alcohol for good now that its sponsorship with Carlton and United Breweries (CUB) has ended. After 20 years, Victoria Bitter, produced by CUB, will no longer be the official beer and sponsor of cricket, but the ABC understands CA is in talks with another beverage company.

The Royal Australasian College of Physicians (RACP), which has lobbied against alcohol promotion in sports, said CA should take the opportunity to find a non-alcoholic sponsor. President of the RACP's paediatric division Sarah Dalton said children should not be developing an association between sport and alcohol consumption. 'We're delighted to hear that CUB have ended their VB sponsorship with cricket. So this is a great opportunity to look at alternatives and there are lots of alternatives,' she said. 'Ultimately we really need to give the message to our children that sport is about being healthy.'

Earlier this week the RACP said new research has revealed only one in four Australians are aware of a loophole that allows alcohol advertisements to air during weekend sports before 8:30pm.

'On every other day of the week, during every other program on television, ACMA recognises that alcohol advertisements are harmful to children and does not allow for them to be



Getty Images/Hamish Blair

Figure 9.30 Sponsorship of Cricket Australia meant the VB logo was highly visible on players' uniforms.

shown before 8.30 pm. Why are sports programs an exception?' RACP president Dr Catherine Yelland said. She said studies have proved alcohol advertising encourages children to start drinking earlier and binge drink more.

New South Wales Health Minister Brad Hazzard has also called on CA to stop promoting alcohol as part of sponsorship deals. 'I would really like to see that alcohol is not on the t-shirts of our players,' he said. 'I think it's an issue that someone who is a hero in all our eyes, Michael Clarke, wears an alcohol brand on his t-shirt.'

Mr Hazzard said good health outcomes require CA to be responsible and young people should not be led to see alcohol as a necessary

part of life. He said he hoped the Government did not need to go as far as legislating against alcohol promotion in sports, as was done for tobacco.

A spokesperson for CA told the ABC the partnership with CUB was concluded in 'good

faith and mutually agreed by both parties'. 'We will be announcing an exciting new partnership in the coming days.'

Source: Lily Mayers ABC News © ABC 2017

Questions

- 1 **Identify** all the key stakeholders in the article and determine their objectives in this business situation.
- 2 **Identify** the legal and ethical issues arising in the article and **explain** how they impact on Cricket Australia as a business.
- 3 **Explain** the role of sponsorship in this article, including why Carlton and United Breweries sponsored Cricket Australia for 20 years. **Draw a conclusion** as to why they may have discontinued this sponsorship.
- 4 **Create** a short survey about ethics and sponsorship in sport to **investigate** consumer attitudes about the practice.
- 5 **Summarise** your findings by **creating** graphs and tables, and share the findings with the class.

Sales promotion

Sales promotion aims to stimulate consumer purchasing through incentives and activities such as:

- free samples, which may be distributed instore or by direct mail. They are a good way to introduce a new product to consumers
- games and competitions
- pricing deals, for example 'buy one, get one half price' and temporary price reductions
- point-of-sale displays, which include special signs and displays, for example in supermarkets at the end of aisles
- money-off coupons that are redeemable by the customer for a fixed period of time
- loyalty-reward programs.

Sales promotion focuses on the marketing objectives of sales and market share. For a business seeking to progress from start-up to the growth stage of the business life cycle, sales promotion can be a valuable avenue. Strategies are directed at the consumer and aim to attract new customers to try the product, increase sales to existing customers and stimulate repeat purchase behaviours. This can also help establish market presence and entice consumers away from competitors.

QUESTIONS 9.6



- 1 **Match** each of the examples of sales promotions with the business using it in Figure 9.31.
- 2 **Explain** the key aim of each sales promotion and how the promotions are communicated to potential customers.



Alamy Stock Photo/Rosa Irene Betancourt



Alamy Stock Photo/Myrleen Pearson



Alamy Stock Photo/PJF Military Collection

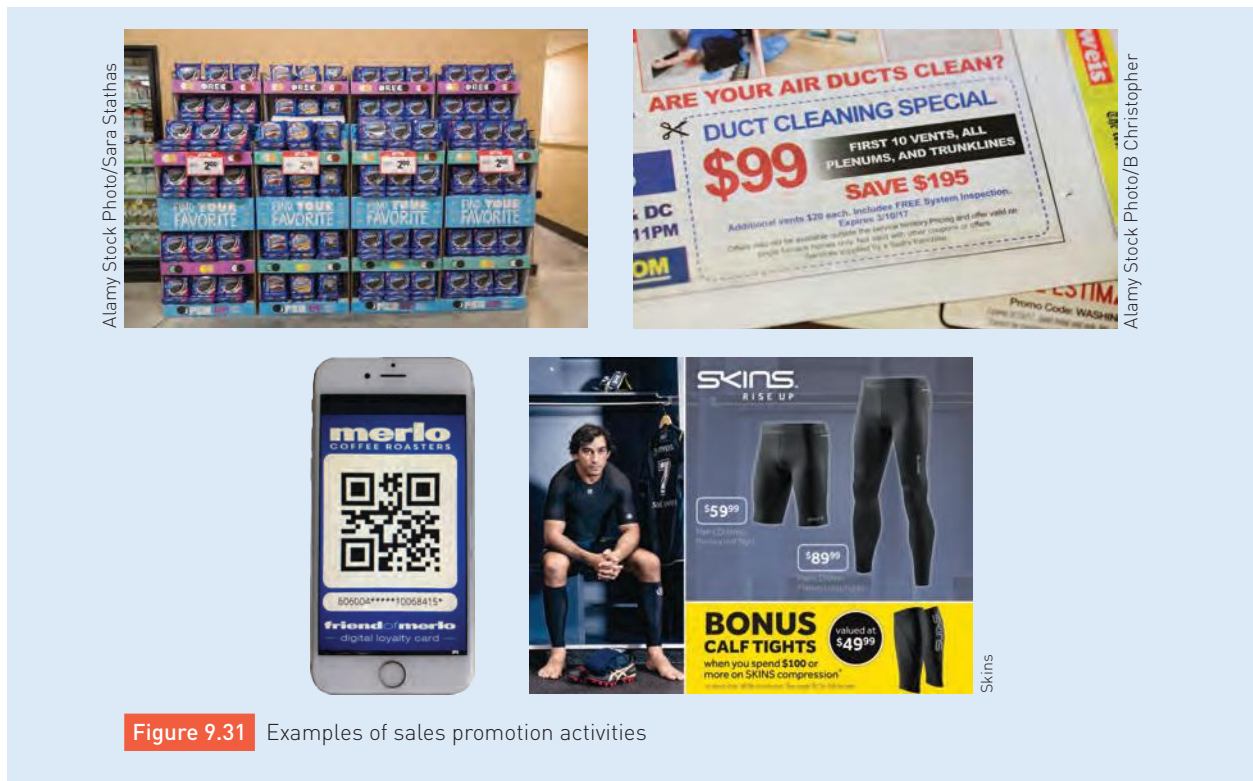


Figure 9.31 Examples of sales promotion activities

Personal selling

Personal selling is a two-way communication process where, unlike with advertising, the message can be tailored to the individual customer. This is the interpersonal aspect of promotion and its greatest strengths are the ability to immediately give feedback to consumers and the opportunity to build lasting relationships that can lead to repeat sales. As a result, this is a more precise and targeted form of promotion and can have a greater persuasive impact.

SMEs can harness this avenue to promote and sell their goods and services through personalised interactions, with a key objective being to make sales. Larger businesses can undertake personal selling by hiring sales representatives who visit customers or by contacting customers by telephone. A key consideration is the human resources aspect of the business: a well-trained sales team – one that can help a small business build long-term customer relationships without using ‘hard-sell tactics’ – is essential.

Personal selling in the retail sector

As retailing is direct to the final consumer, most retail employees are involved in personal selling. While other promotional avenues, such as advertising, may attract consumers to the business, personal selling aims to prevent shoppers from leaving without making a purchase. Lack of properly trained staff is an obstacle for many SMEs; larger businesses, such as department store David Jones, are more likely to train staff in customer service and selling skills.

The nature of the product or service and the positioning strategy of the business should be used to determine the type and level of sales staff. Factors include:

- store characteristics, including location and size
- type of product or service offered, as the more technical a product is, the greater the need for knowledgeable sales staff



Figure 9.32 David Jones has a recruitment process that enables it to find the best candidate for the position, with a focus on personal selling.

- price image of the store, as customers expect greater attention from a business positioned as high-quality and prestige (for example, David Jones) than from a discount retailer (for example, Kmart)
- the sales and customer service offered by competing businesses
- the cost of providing the service.

These factors help to determine the level of personal selling that will retain existing customers, entice new customers and reflect the positioning of the business. A full-service department store, such as David Jones (Figure 9.32), prides itself on customer service, with sales people carefully recruited and trained for product knowledge and suggestion selling, designed to persuade customers to purchase related and additional items. Personal selling is a point of difference for premium retailers as compared to discount stores, where the level of customer service may be limited.

Word-of-mouth

Word-of-mouth occurs when satisfied customers communicate to potential customers the merits of a product or service. As this is unpaid and independent communication, it is usually seen as unbiased, highly reliable and influential. While word-of-mouth is not directly controllable by a business, ensuring that a customer receives a quality product or service experience is key. Where a quality experience is not received, being able to remedy the situation in a timely and positive manner is critical. In a service environment, this is called service recovery, and it aims to return the dissatisfied customer to a position of satisfaction.

Businesses are increasingly using digital platforms to communicate word-of-mouth. Such platforms include the business website and social media platforms. Some businesses are also monitoring review websites, such as TripAdvisor, for negative feedback and engaging service recovery strategies to rectify negative word-of-mouth.



Figure 9.33 Word-of-mouth remains a strong influence on consumer buying behaviour. The digital world amplifies the capacity of consumers to communicate positive or negative feedback.

Shutterstock.com/iQconcept

Digital avenues

People are engaging with digital devices at increasing rates, with nearly all Australians aged 18–40 years using a smartphone and the majority of people in all age groups owning a laptop. The uptake of technology varies based on demographic factors such as age and income, and presents opportunities and challenges when designing the promotion mix. There has been a shift from traditional to digital promotion, including the digitalisation of traditional avenues.

Digital marketing is any kind of marketing delivered electronically, with promotion including digital advertising (see page 342) and other avenues that occur in the digital space. Those currently used include:

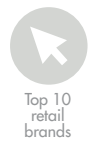
- Internet banner advertisements and pay-per-click (PPC) advertising
- websites and search engine optimisation (SEO) content
- blogs
- online video content (for example, YouTube)
- email marketing
- social media marketing (for example, Facebook, Twitter)
- mobile marketing (for example SMS, MMS).

For a business in the growth stage of the business life cycle, digital promotion can be more cost-effective than traditional avenues, so long as the target market is receptive. Having a web presence and engaging with customers via social media and email marketing are lower-cost alternatives to traditional broadcast and print options. Digital avenues are accessible by businesses of any size, meaning a smaller business at start-up, and while in growth, can access similar digital avenues to mature companies with large budgets. That said, the challenge remains to establish awareness, create appeal and build traffic to digital avenues. Simply having an online presence will not be enough to stimulate buying behaviour.

Social media

Trends in digital promotion include substantial use of social media such as Twitter, Instagram, Snapchat, Facebook – which has 17 million active users – and YouTube with 15.7 million users. For retailers, Instagram has proven lucrative as it allows businesses to highlight products, use celebrity endorsement and grow brand awareness. While consumers were initially unhappy with advertising on these platforms, attitudes toward advertising using social media has improved in line with its prevalence.

While some businesses aim to use social media for purposes of increasing sales and supplying information, research indicates that brand awareness and relationship marketing are better suited to this medium. Lorna Jane is one of the top retail brands in Australia for social media performance, with the company aiming to engage with consumers, rather than taking a sales focus. This is evident in their posts



that ask consumers to ‘hit like if

you agree’, post feedback and tag friends. Tagging friends and leaving feedback are great examples of online word-of-mouth that cost a business nothing. Lorna Jane uses four hashtags per post to ensure brand messages are communicated widely. Follow the weblink to view a list of the top 10 retail brands that lead on social media performance.

Social networking sites used this year

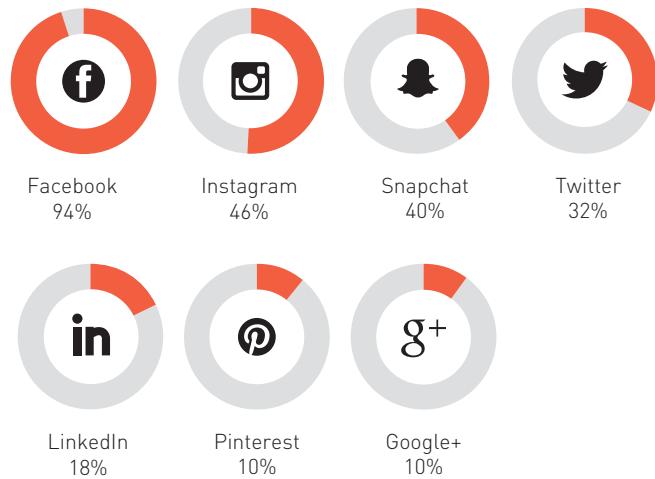


Figure 9.34 Social media sites used in 2017 show an overwhelming preference for Facebook, while LinkedIn is typically used for professional networking.

Source: Sensis Social Media Report 2017

Reproduced with the permission of Sensis Pty Ltd



Image courtesy Lorna Jane

Figure 9.35 Lorna Jane uses Instagram as an engagement tool, interacting with consumers by encouraging them to post and tag friends. Each post contains four hashtags to reach as many customers as possible.

Websites and search engine optimisation (SEO)

A challenge for businesses is to stand out from the millions of other websites. An effective way of doing this is through search engine optimisation (SEO), which uses keywords within online content. The correct use of keywords will rank a website higher on the page than others, increasing the chance that the site is selected. The aim is to maximise the number of visitors to a website.

Pay-per-click (PPC) advertising can be a cost-effective option for SMEs as the outlay is based on the number of visitors. PPC advertising is based on ads being run and shown in search engines, with advertisers able to pay for visitors on a cost-per-click basis. As digital ads go live immediately, this can also be a timely option. Linked to PPC is banner advertising, which provides a business with a graphical ad, and can include pop-ups and buttons.

These options create traffic to a website and rely on online content, including web-page design, to engage the consumer. A web page must reflect the branding and positioning strategies of the business and be maintained with current information.

Benefits and challenges of digital promotion

Table 9.1 Benefits and challenges of using digital promotion avenues

Benefits	Challenges
Uptake of technology and use of social networking sites means reaching a target audience has never been quicker.	Generating traffic to digital avenues so that consumers are aware of and engage with the site. There is a lot of competition in the online space – how do you get noticed?
Can be more cost-effective than traditional promotional avenues. Enables businesses to segment the market and target a particular audience with a tailored message.	Lack of skill or expertise in establishing and maintaining a digital presence. While large companies may employ a team of experts to create and monitor social media, SMEs may not have the skills, time or budget.
Enables real-time communication with consumers. Communication can be interactive, overcoming the limitation of advertising being one-way communication.	Managing digital avenues, such as websites, which should be dynamic. This is a time investment many SMEs don't have as consumers expect up-to-date and changing content. Not responding to consumer questions in a timely manner can represent lost opportunity.
Use content to connect with and engage consumers. Social media engagement can build brand loyalty and spread positive word-of-mouth. Social media engagement can be measured through visits, 'likes', 'shares' and comments.	Identifying the right technology for purpose. It is not necessary or feasible for most businesses to employ all digital avenues.
Enables personalisation and use of customer relationship marketing practices. Offers can be made to customers based on their purchasing history and preferences. Sales promotion tools can be used in the digital space to stimulate sales. Emailing regularly with special, personalised offers may help to maintain the relationship.	Online reputation and brand management in an era where online reviews and forums are the norm. This is especially true for service-based businesses with online review sites (for example, Yelp and TripAdvisor). Negative feedback in a social medium makes the feedback public. The 2017 Sensis social media report showed 44% of respondents read online reviews or blogs before making a purchase decision.
Convenience – caters to more mobile consumers who can browse digital promotion anytime, anywhere, and place orders when it is convenient for them.	Some consumers do not use social media and there are concerns with security and privacy of information. Social media should not be the only promotion platform used to reach a target market.

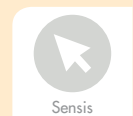
Promotion using the latest digital avenues can offer benefits to businesses looking to grow; however, as with the traditional avenues, there are challenges, as shown in Table 9.1.

INQUIRY



Social media uptake and its impact on promotion

According to the Sensis Social Media Report, in 2017 there was a decline in the percentage of users following businesses or brands via social media. In the previous four Sensis surveys, around one in three were doing this, but now it is just under one in four.



Research the current trends in social media usage and its impact on promotion to complete the following activities.

- **Describe** the business environment for digital promotion, social media usage and business communication.
- **Explain** the relationship between target marketing, promotion avenues and marketing objectives.
- **Select** and **analyse** business data and information to **identify** patterns and trends. **Interpret** how this impacts on businesses and consumers.
- **Draw a conclusion** about the impact of digital promotion, including social media usage, on consumer buying behaviour and business objectives. Make a **recommendation** about how to use social media from a business perspective. Support this with data.
- **Create** a short survey to determine what consumers want from businesses or brands that they follow on social media (for example, product information, sales promotion tools like giveaways, contests and free samples, tips and advice, invitations to free events). **Organise** this data visually, so it's suitable for a business presentation.

Emerging platforms

Digital disruption to traditional promotional avenues is no longer emerging; rather, it is an entrenched change. Digital delivery options and emerging platforms can change monthly as technology and socio-cultural trends change so quickly. What was emerging last month may be entrenched, or obsolete, the next. Many emerging platforms are simply traditional avenues with a digital upgrade, while some are yet to be imagined.

Social 'influencers'

Traditional word-of-mouth has been amplified with digital platforms, the use of smartphones and the rise of social media. Social influencing is an emerging trend that generates its own platform, with savvy Snapchatters and YouTubers creating digital content around products and brands. An 'influencer' is someone who has a substantial number of followers (typically 3000+) on at least one platform, including Facebook, Instagram or Twitter, who has the capacity to promote and sell products or services and have an effect on the character of a brand. Influencers may be:

- celebrities
- industry experts and thought leaders (for example, journalists)
- bloggers and content creators
- micro influencers.



Getty Images/Isa Foltin

Figure 9.36 Celebrity influencers, such as Gigi Hadid, can generate more than a million likes and comments for posts and can directly influence consumer buying behaviour. An Instagram post by Hadid featuring Reebok products generated nearly 1.9 million likes.

Bloggers often build up followers in specific industries or sectors, which enables businesses to reach a definable target audience. As bloggers typically have the respect of their readers, they can influence consumer buying behaviour by favourably mentioning a product in a post.

Celebrity influencers, such as fashion model Gigi Hadid, have capitalised on the public interest in their personal lives through their influence on social media. Hadid has emerged as an Instagram personality and influencer with more than 32 million followers. Her posts frequently generate more than 1 million likes and comments, and generate consumer demand for products.

Video and live streaming

Faster Internet access and the pervasiveness of mobile devices mean live video has become a trend, with more apps and platforms creating live-streaming functionality. As an emerging promotion platform, it will be increasingly used by brands and individuals, including 'influencers'. This will include video on YouTube and social media and video testimonials from customers (video word-of-mouth).

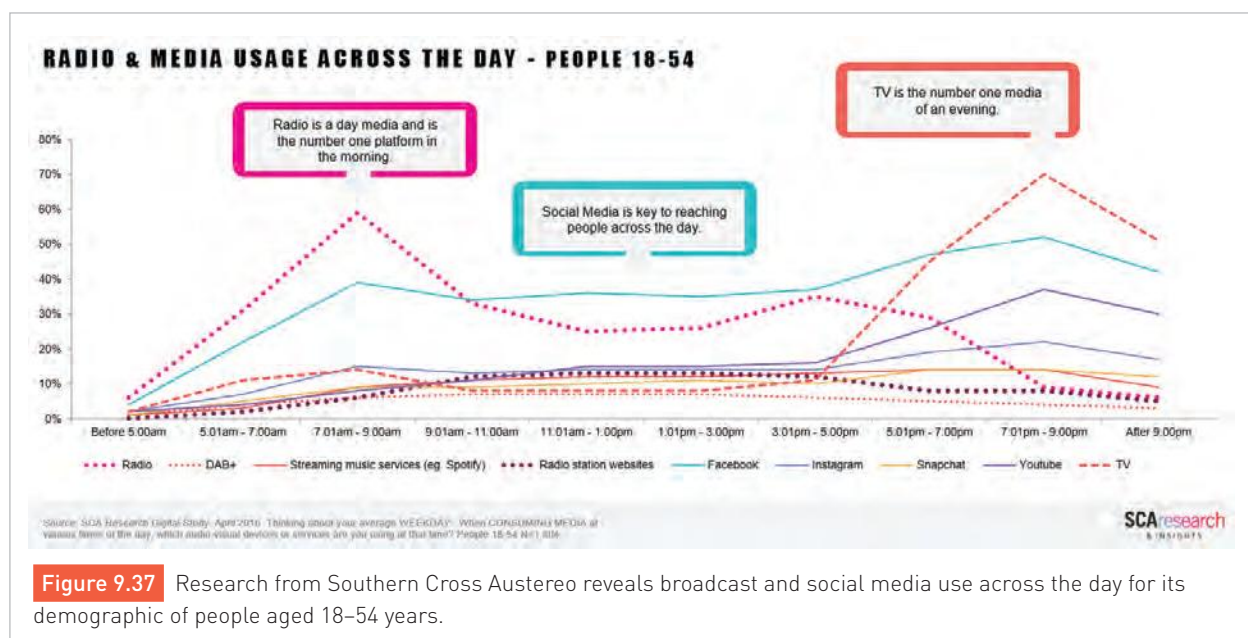
Augmented reality

The key aspects of the augmented reality platform are the capacity to engage consumers by entertaining them and to generate impact not possible in many other platforms. While this technology is now being employed by large corporations in their marketing campaigns, such as the Pizza Hut promotion (see weblink), augmented reality is becoming more accessible for all businesses.



Creating a promotion mix

Businesses entering the growth stage of the business life cycle may have a limited budget compared to mature companies. This can necessitate cost-effective promotion avenues, noting that more expensive media are not always more fruitful. Creating the optimum mix requires a marketer to consider the target market and positioning strategy, along with the objectives of the promotion. It also requires an understanding of how people engage with different media to maximise each platform effectively. Figure 9.37 reveals the broadcast and social media usage of people aged 18–54 years, advocating the placement of advertising in different media platforms to reach consumers at different times of the day. Other factors to consider include cost, the type of message being communicated, links to the other elements of the marketing mix and legal requirements, such as the timing of alcohol advertising and restrictions placed on tobacco and gambling.



INQUIRY



How effective are emerging promotion platforms?

Context

The promotion landscape has changed dramatically in the past 20 years. Facebook was launched in February 2004 and Instagram in late 2010. The nature of broadcast media, notably television, has also evolved with the arrival of catch-up TV and live streaming. While traditional avenues alone are no longer enough, businesses are seeing varying results from emerging platforms. A challenge is to determine the optimal promotion mix of traditional, digital and emerging platforms that reaches the target market and achieves marketing objectives.



Task

Investigate the emerging and digital advertising media available today, compared with traditional media employed 20 years ago, to:

- **Describe** the promotion environment now, compared to 20 years ago, including facts and characteristics.
- **Explain** the emerging platforms available to SMEs in the growth stage of the business life cycle to achieve marketing objectives and competitive advantage.
- **Select** and **analyse** business data and information about emerging platforms to **identify** similarities, differences and patterns in promotion avenues employed.
- **Evaluate** the emerging platforms to form a judgment about the application of these platforms in the promotion mix of an SME. Use criteria of competitiveness and stakeholder satisfaction to **make a recommendation** as to the uptake of emerging platforms. Ensure you relate the use of such strategies to the branding and positioning strategies of the business.
- **Create** an infographic to **communicate** findings.

Key learnings

You will learn about place strategy through examining:

- distribution channels
- place and technology.

Place

Place is the means of getting a product into the hands of the customer. This involves distribution from where the product is made to the customers' preferred place of purchase. In a global business environment, this movement could be through a combination of intermediaries such as distributors, wholesalers and retailers. The increased use of technology also means electronic channels are widely used.

Suitable placement is vital to ensure a business reaches its target audience and maximises its positioning strategy. This includes where the business is located, where the target market is situated and how best to connect

the two. Deciding on the channel of distribution, or path, that a product passes through to reach the final consumer should include consideration of:

- whether the product should be sold directly to consumers or through retailers
- where consumers are likely to seek to purchase the product
- if it is a physical store, should it be a generalist or specialist store?
- whether consumers prefer traditional or non-store (online) retailing for the product
- how long the channel should be (how many intermediaries)
- what key competitors are doing and whether it is best practice
- how the distribution channel will uphold other aspects of the marketing mix.

The channel must reflect the marketing mix. For example, if the product is for a niche market and promotes a high-quality prestige image, distributing through a generalist store such as a supermarket or budget department store such as Kmart will undermine the strategy. If the aim is to achieve mass market appeal and high sales volume, then a supermarket or department store may be ideal. The distribution channel must support the marketing objectives and other elements of the marketing mix.

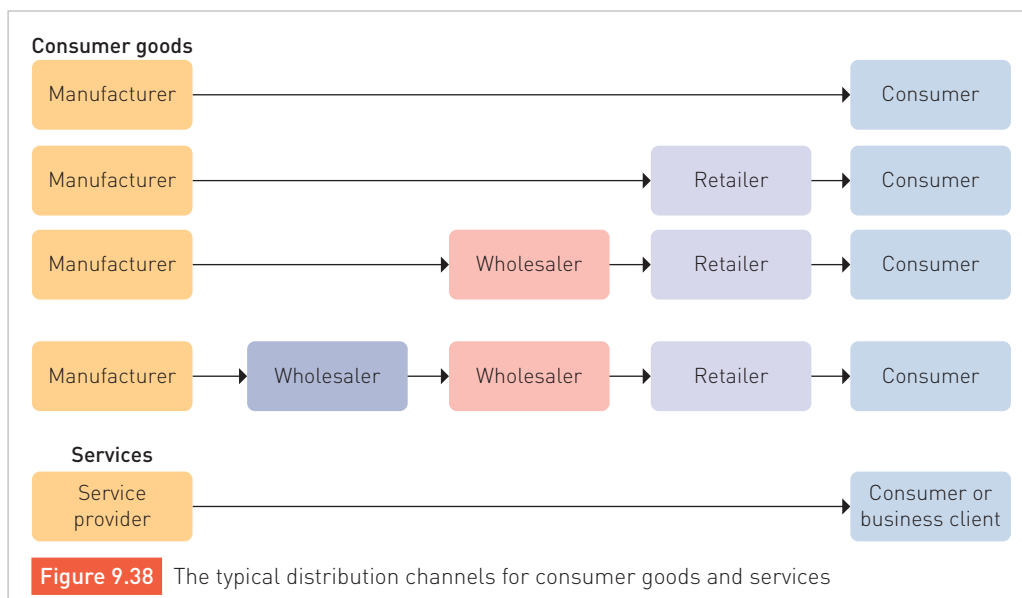
Distribution channels

Distribution channels can be either direct to the consumer (producer–consumer) or indirect, as a product passes through intermediaries, as seen in Figure 9.38. Direct distribution involves the manufacturer selling the product to the consumer. This has increased in popularity with the rise of online shopping, and some businesses operate purely through this model. During the establishment phase of the business life cycle, manufacturers may choose to operate using this model as it keeps costs contained and the business maintains control over the product.

Indirect distribution sees a business using at least one intermediary to sell a product to the consumer. The business may sell through a number of retailers or to a wholesaler, who further distributes to retail outlets. This will raise product costs since each intermediary will add their mark-up percentage to the product. The indirect channel is often necessary for large producers and mature businesses operating nationally and internationally.

The most effective distribution strategy depends on the type of business and its objectives. Supermarkets Coles and Woolworths function as their own wholesalers, with a central warehouse system to supply their network of stores and achieve high sales turnover. In a geographically large country like Australia, many businesses need to operate using two intermediaries to deliver goods to the final consumer. This is especially true if the products were manufactured overseas, as many electrical goods are, for example.

Businesses are increasingly using a variety of distribution channels to enhance customer reach and achieve a market presence. Peter Alexander, ‘The Pyjama King’, started his business as a pure catalogue-based business direct to the consumer. The business now boasts more than 100 retail stores, a substantial online business and distribution through department store Myer.



Place and technology

Non-store retailing, or retailing conducted away from the traditional store, is gaining popularity. While methods such as door-to-door selling, party plans and mail-order catalogues have been used for many years, the rapid uptake of technology means online retailing is growing. Shopping on the Internet offers benefits to consumers such as '24/7' accessibility, speed and ease of transactions, a wider variety of products not accessible nearby instore and the potential to research for the most favourable price.

To combat this, some traditional retailers are taking a multi-channel approach by combining online and instore shopping, including the trend toward 'click and collect'. Customers today are choosing to shop using both methods and they also browse offerings on multiple platforms.

GAINING INSIGHT



Trend to 'click and collect'



Retailers are increasingly recognising the benefits of a multi-channel retail model as they combine online and instore shopping. In 2017, 42 per cent of Australian retailers are offering click and collect, almost double the 24 per cent that did so in 2015. To overcome concerns with online purchasing, 38 per cent of retailers now allow customers to return their online purchases instore.

Australian consumers are embracing this trend, with 47 per cent of shoppers using click and collect at least once during 2017. This reflects consumer desire for convenience and cost-efficient online buying. Key drivers for click and collect use are convenience and avoiding delivery charges. However, the trend towards

click and collect has experienced challenges, as seen in Figure 9.39. Follow the weblink to read more about click and collect.

Questions

Research the trend toward a multi-channel retail model, including the rise in click and collect, to do the following.

- 1 **Describe** the business environment for the marketing mix element 'place'. Use facts and characteristics in your description.
- 2 List the key reasons consumers are moving to non-store retailing and click and collect purchasing models, and **identify** the key challenges for businesses.

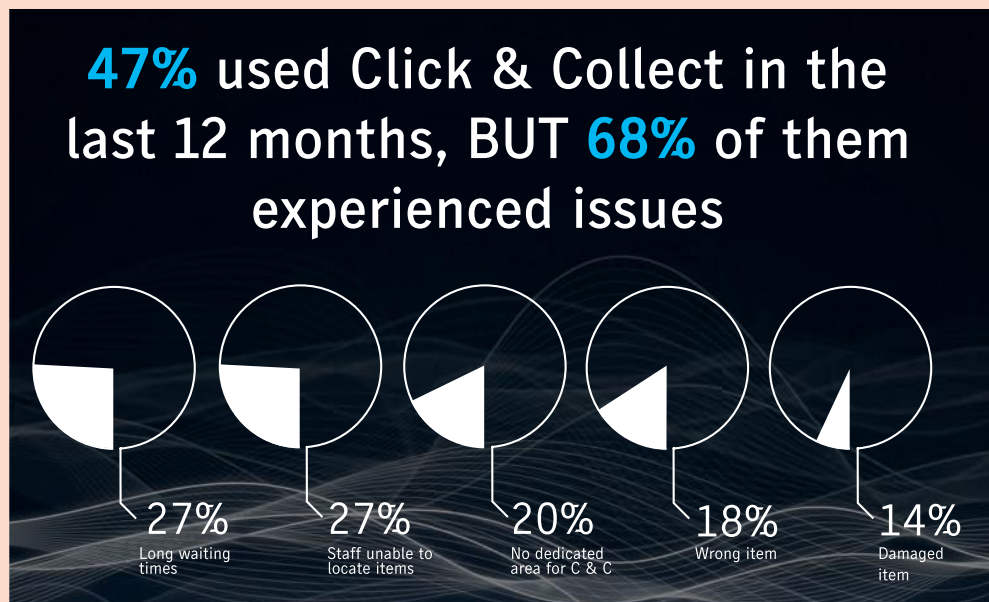


Figure 9.39 Australian retailers are facing challenges when it comes to online customer experiences.

Source: JDA Customer Pulse Report Australia 2017

- 3 **Identify** a business that has embraced this model. Give reasons why the business has adopted the distribution strategies it has.
- 4 Based on your knowledge of place theory and using your research, **compare** traditional and non-store retailing from a business perspective. **Create** a double-bubble map to visually present your comparison.
- 5 **Evaluate** the practice of click and collect as a place strategy from the perspective of an SME you are familiar with, using the criterion of competitiveness.
- 6 **Create** a short report for the owner of an SME to **recommend** the most appropriate distribution model. **Justify** your findings using your research.

ANALYTICAL TOOL



Unique selling proposition

A unique selling proposition (USP) is the reason that one product or service is better than that of the competition – it is the competitive edge. In a world of homogenous competitors, a business must be able to identify what makes it unique and communicate this to consumers. The USP is then used as a foundation for creating marketing strategies.

Conducting a USP analysis requires examination of the business itself, from the perspective of the consumer.

Consider:

- What does your customer really want – why should they do business with you instead of anyone else?
- What can ensure repeat business and make customers ignore competitors?
- What motivates your customers' behaviour and buying decisions (refer to page 325)?

Examples of effective USPs include:

- Lorna Jane – encourages women to live the philosophy of move, nourish, believe
- 2XU Compression – the world's most advanced compression technology
- Haigh's Chocolates – premium chocolate from the raw cocoa bean
- Woolworths – the fresh food people
- Commonwealth Bank of Australia – Australia's leading provider of integrated financial services and the most recognised brand in the Australian financial services industry.

Industry research is necessary for a full picture of the competitive situation. Research and analysis of other businesses' marketing strategies and discernment of their USP will help distinguish one business from competitors.

Steps may include:

- 1 Brainstorm what customers really value about the product or service and that of the competition. Use research to inform this process and **identify** the criteria customers prioritise when making a purchasing decision.
- 2 **Identify** the key competition and rank your business and your competitors using a scale of 1–10 (1 being the lowest and 10 the highest).
- 3 **Identify** the strengths and weaknesses of your business and those of competitors. You can plot this data on a graph to visually identify and communicate your USP.
- 4 **Draw a conclusion** about your USP and position your business accordingly.
- 5 **Communicate** your USP to actual and potential consumers across the marketing mix.



GAINING INSIGHT



Unique selling proposition: Youfoodz



Here at Youfoodz, our mission is simple. We believe in freedom and think people deserve more of it!

We want people to experience a little more life and do more of what they love. By taking over the grocery shopping, cooking, and cleaning, we save the average person up to 15 hours a week!

That's 760 hours we save someone just like you each year. What would you do with all that freedom?

It's not just about saving time; our menu of fresh, chef-made meals, snacks and juices are designed to taste amazing and make you feel amazing!

From super-clean options to healthy food swaps of your guilty pleasures, we'll help you keep your sanity when conventional diets do not.

Questions

As a marketing manager for Youfoodz, your task is to analyse the unique selling proposition for the business, compared to two leading competitors, and identify the USP for Youfoodz by completing the following.

- 1 **Select** data and information from Youfoodz and two competing businesses relating to the marketing mix and customer service to analyse the USP of Youfoodz and its key competitors. A sample table, with criteria, has been started for you (right), but you must complete this based on research.
- 2 **Interpret** the relationships and patterns present to **draw conclusions** about the USP and marketing strategies for Youfoodz.
- 3 **Create** a graph to plot the data from the USP analysis and a paragraph response to **communicate** the findings.

Youfoodz isn't a diet: it's a lifestyle! Whether you're trying to tone up for summer, maintain during winter, or just want your food prep sorted for the convenience, we've got you covered with an exciting, ever-changing menu that ticks all the boxes from taste to nourishment.

We believe in love, in freedom, and quality of life. We believe everyone deserves better. That's why we do what we do.

Source: Youfoodz website, <https://youfoodz.com/pages/our-story>

Criterion	Youfoodz	Competitor 1 name	Competitor 2 name
Quality			
Price per meal			
Cost of delivery			
Ease of ordering			
[Add]			
[Add]			
[Add]			

Chapter 9 review

This chapter introduced marketing objectives and strategies used by businesses in the growth stage of the business life cycle. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

9.1 Short items

- 1 **Explain** the role of market research when entering markets.
- 2 List the three key marketing objectives for a business in the growth stage of the business life cycle and **explain** how they interrelate.
- 3 **Explain** the concept of a product portfolio and its relationship to business growth.
- 4 **Define** branding and **explain** the relevance of trade marks for a business.
- 5 **Distinguish** between price skimming and penetration pricing.
- 6 **Define** cost-based pricing and **explain** how this pricing approach can be used in conjunction with other pricing strategies.
- 7 Use an attribute table to **explain** the traditional, digital and emerging promotion avenues available to a business.
- 8 **Explain** the role of intermediaries in place strategy.

9.2 Interpretive items

Using the case study below, answer the following questions.

- 1 Using the segmentation dimensions, **identify** and **define** the primary target market for The Source Bulk Foods.
- 2 **Create** a positioning map for The Source Bulk Foods, including a minimum of three competing businesses on the map.
- 3 **Interpret** the findings from the positioning map to **draw conclusions** about the positioning strategy of the business.

GAINING INSIGHT



The Source Bulk Foods

Paul and Emma Medeiros operated a vibrant fruit, veggie and health food store in Byron Bay for eight years and were known for high-quality local and organic produce and friendly service. During this time, they realised that the health foods in stock were heavily packaged and that there was a better way. In May 2011 they started selling bulk foods in gravity bins and realised what a huge difference could be made if unpackaged foods were more readily available.

They opened the first 'Source' store in May 2012 in Mullumbimby, in northern New South Wales. After its



The Source Bulk Foods, <https://thesourcebulkfoods.com.au/>

Figure 9.40 Paul and Emma Medeiros

success, they decided to take a risk by opening another store in Balmain, Sydney, followed by a third in Sydney's North Shore. They now have more than 30 stores around the country, from Cairns and Townsville and down to Hobart. The online store launched in May 2014, meaning they can ship any of the wide selection of products to customers all around Australia. The Source Bulk Foods is now the biggest specialised bulk food retailer in Australia.

The Source Bulk Foods loves to support boutique suppliers and goes out of its way to support Australian producers and growers wherever possible. The Source

Bulk Foods offers over 400 bulk whole foods, including nuts, seeds, grains, herbs, spices, cereals, flour, rice, paleo products, superfoods, honey, oils, confectionery, snacks, cleaning products and personal care products. Customers are welcome to buy as little or as much as they like from the selection of organic, conventional, gluten-free and paleo products.

The Source Bulk Foods is proudly plastic bag free, meaning customers bring their own bottles, containers and bags for refill. There is a great selection of paper bags to use and bottles and jars to purchase. This is waste-free shopping at its best.



Figure 9.41 When shopping at The Source Bulk Foods, customers bring their own bottles and containers to refill. This reduces packaging and waste and reflects the philosophy of the business.

9.3 Extended-response items

Using the inquiry process, complete the following tasks by referring to the case study The Source Bulk Foods.

- 1 With reference to the 4Ps of marketing, **define** the total product concept for The Source.
- 2 **Examine** the place strategy and its **relationship** to business objectives.
- 3 Using the stimulus provided, **analyse** the unique selling proposition (USP) of the business compared to two key competitors (note: you identified the key competitors in your positioning map).
- 4 **Interpret** the relationships and patterns present in the USP analysis to **draw conclusions** about the marketing strategies of The Source.
- 5 **Evaluate** the product and place strategies of the business using the criteria of competitiveness and stakeholder satisfaction, to **make a recommendation** for the business as it progresses through the growth stage of the business life cycle.
- 6 **Create** a business report to the owners, Paul and Emma Medeiros, that **communicates** your analysis, evaluation and recommendations.

USP Analysis of The Source Bulk Foods – a sample table has been started for you.

Criterion	The Source	Competitor 1 name	Competitor 2 name
Range of products			
Customer service			
[Add]			
[Add]			
[Add]			
[Add]			

10

OPERATIONAL PROCESSES AND SYSTEMS

What you will learn

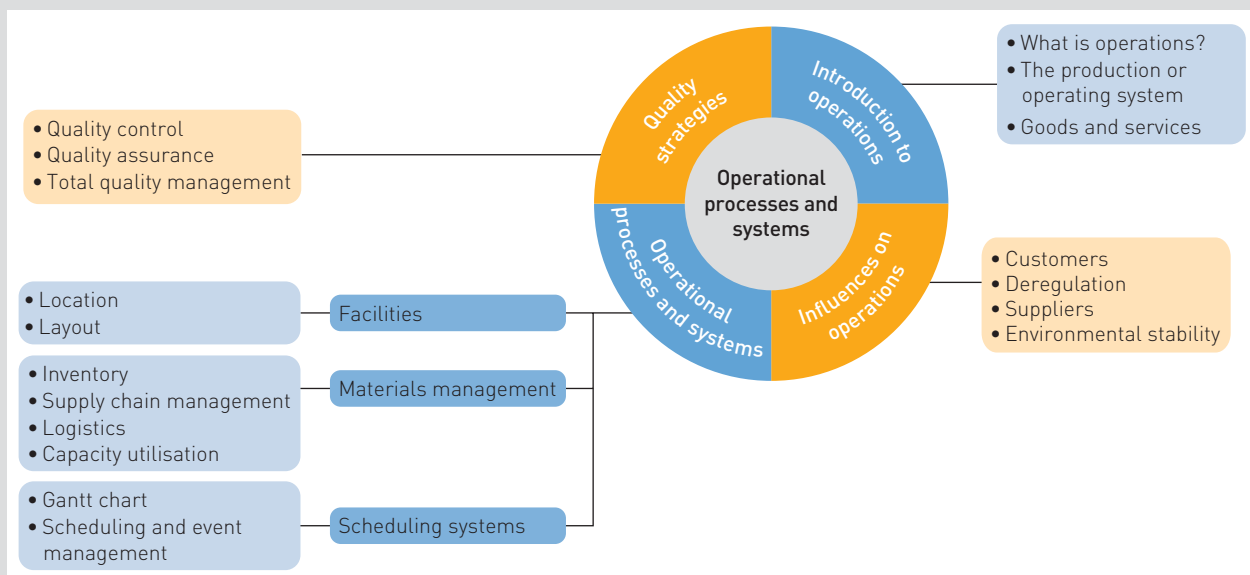
Operations is concerned with the function of transforming inputs into outputs, or producing the goods or services that consumers want. This is related to the marketing function as it is the job of marketing to identify a target market and determine, through market research, what consumer needs and wants are. The marketing team relies on the operations team to produce a quality product in a timely and cost-effective manner – without operations, there would be no product to sell. This demonstrates the interdependence between these functions. In a large company, the operations function may be departmentalised around inventory management, manufacturing, quality and maintenance, while a service-based business may focus on customer service and capacity management. In an SME, these roles may be undertaken by a core team and the actual manufacturing process may be outsourced.

This chapter will provide you with the opportunity to:

- **describe** operating environmental factors influencing market entry and growth, including stakeholders such as customers, the community and suppliers; deregulation; and environmental sustainability
- **explain** operational processes and systems relating to facilities, inventory, supply chain management, logistics, capacity utilisation, customer service and quality
- **explain** production scheduling, including the role of Gantt charts in project and event management
- **select** data and information relating to the external environment for market entry into a particular industry to **analyse** political, economic, socio-cultural, technological, legal and environmental forces using PESTLE
- **interpret** relationships, patterns and trends to **draw conclusions** about the operational implications of market entry and growth
- **evaluate** operational strategies used by businesses in the growth stage to **make decisions** and **recommendations** using criteria
- **create** responses to **communicate** market entry strategies to a range of audiences, including diagrams, infographics, online posts and a short business report.

The analytical tools used in this chapter are:

- SWOT analysis
- PESTLE analysis
- USP analysis
- Gantt chart tool.



Key skills

In this chapter you will have the opportunity to develop the following 21st-century skills:

- critical thinking
 - analytical thinking
 - problem-solving
 - decision-making
 - reasoning
 - reflecting and evaluating
- creative thinking
 - generating and applying new ideas
 - identifying alternatives
- communication
 - effective oral and written communication
- collaboration and teamwork
 - participating and contributing
- personal and social skills
 - adaptability/flexibility
 - management (self, career, time, planning and organising)
- cultural awareness
- ethical understanding
- information & communication technologies (ICT) skills
 - accessing and analysing information
 - being productive users of technology.

(Source: Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

GAINING INSIGHT



Remedy Kombucha – brewing success

FOCUS QUESTION: How does a small to medium-sized business achieve operational efficiency and positive financial outcomes, along with sustainable and socially conscious practices, in a rapidly developing market?

What is kombucha?

Kombucha is a rapidly developing market in the food and beverage industry. Australia experienced the second highest number of kombucha launches globally during 2016, with sales predicted to rise by 25 per cent annually. Kombucha (or 'booch' as it is lovingly referred to by fans) is a fermented drink made from black and/or green tea and sugar, and a natural live culture known as a SCOBY – a 'symbiotic culture of bacteria and yeast', and flavoured for different tastes. Kombucha is targeted at health-conscious consumers and reflects the wellness trend.



Husband and wife team Emmet and Sarah Condon founded Remedy Kombucha six years ago because of their passion for the product and having foreseen the growth potential. The couple wanted to offer a real, wholesome drink to the market – a healthy, organic, guilt-free alternative to sugary soft drinks and fruit juices. Remedy is the only kombucha to have the official tick of approval from the team at *I Quit Sugar*.

Remedy is the leading kombucha brewer in Australia. It produces more than 10 million litres of kombucha a year to deliver to cafes, health stores and supermarkets across Australia and New Zealand. Remedy has also recently entered the UK market as part of its growth strategy. Emmet Condon said the rapid growth of Remedy in



Image courtesy of Remedy Kombucha

Figure 10.1 Kombucha reflects the wellness trend in food and beverages.

Australia and New Zealand motivated the team to expand their horizons.

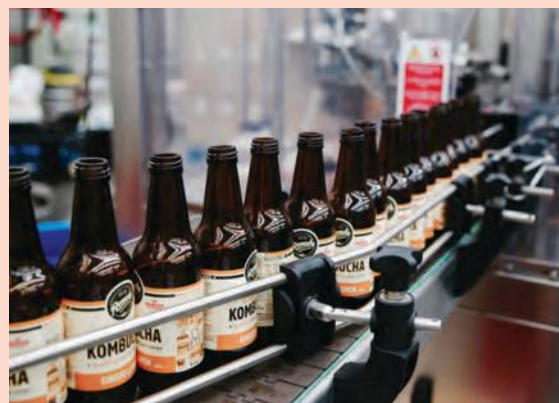
'We are keen to continue building on our momentum but we are also conscious of doing it sustainably. We did a lot of research and the UK was the ideal next market for us to move into, not only because the kombucha category there was still relatively small and so there was good opportunity, but also because as our first expansion beyond ANZ, it was into a market that felt relatively familiar.'

Emmet Condon says that, 'at a retail level, the Australian market is probably pushing \$200 million a year'. Repeat customers and a consistent, quality product, are key factors behind the company's growth, according to Emmet.



Figure 10.2 The 'Remedy Radicals': founders Sarah and Emmet Condon

Simon Schluter



Jacqueline Alwill, The Brown Paper Bag

Figure 10.3 Remedy is the leading kombucha producer in Australia.

Producing Remedy Kombucha

The first batch of Remedy Kombucha was made in Sarah and Emmet's kitchen and involved testing and sampling to create their renowned, much-loved kombucha flavours. Initially, they were hand-filling bottles and putting the labels on them. Very quickly they realised the market potential and opportunity to scale their product to reach the masses, which required updating processes. The Condons spent about \$50 000 during the start-up phase, with their initial growth being self-funded, along with assistance from family.

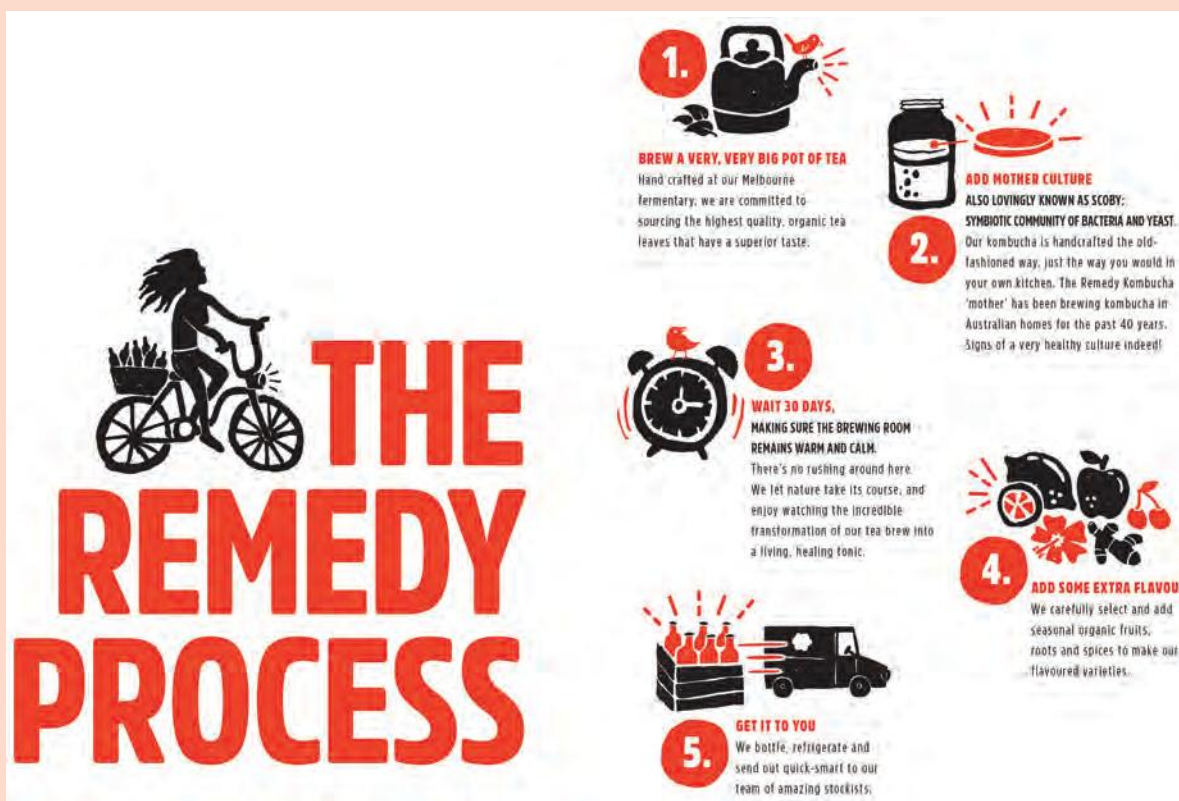


Image courtesy of Remedy Kombucha

Figure 10.4 The Remedy process in action

Remedy has developed to be the leading kombucha producer in the country, producing in small batches in its Melbourne fermentary, using the same original mother culture and impeccably maintaining the quality and integrity of the kombucha. This quality is managed closely by a growing team, with Remedy co-founder, Emmet, still heavily involved.

In addition to the *I Quit Sugar* tick of approval, another competitive edge is that the product carries the official mark of Australian Certified Organic (ACO) standard. This means Remedy has met rigorous independent checks. Remedy is committed to making a healthy kombucha from 100 per cent certified organic ingredients. The best-before shelf life of Remedy is currently six months from when it is made, meaning the business has precise operational systems in place for inventory management and scheduling.

Remedy Kombucha is a growing business with a strong focus on wellness. Its traditional, small-batch operations processes and organic ingredients, along with endorsements, set it aside from the competition.

Questions

Visit the Remedy Kombucha website and read the segment 'Why is Remedy Kombucha good for you?'

- 1 **Identify** the key ingredients or raw material inputs for Remedy, including what is not included and who the product is endorsed by. **Explain** the role of endorsement in the growth of the business.
- 2 **Explain** how expansion of the product line by Remedy is both an operational and a marketing strategy.
- 3 **Examine** the role of organic certification for this business.
- 4 **Analyse** the likely impact of beverage giants Coca-Cola and Pepsi entering the kombucha market using a SWOT analysis.
- 5 **Interpret** the relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of increased competition on operations and business outcomes.
- 6 **Interpret** the role of operational processes, such as being hand crafted, to **draw conclusions** about future growth and success of Remedy Kombucha.



What is operations?

Operations is the business function responsible for overseeing the process of creating goods or services. In the past it has been known as 'production management' and centred on manufacturing industries. However, manufacturing has decreased in importance to the Australian economy, as illustrated by the closure of car manufacturing in late 2017. The Australian economy has shifted its focus to service-based industries. Production management has evolved to reflect the new economy and has become known as **operations management**. Operations now encompasses the primary, secondary (manufacturing) and tertiary (services) industries. Strong operations management is key to achieving objectives across all business functions.

Operations management involves planning, organising, leading and controlling all the activities necessary to combine inputs (or resources) into outputs (goods and services). It involves managing people, equipment, technology, information, and all the other resources needed in the production of goods or services. This makes operations a core activity of all businesses. Operational decision-making should focus on optimising operational efficiency and effectiveness to produce goods or services at the lowest price possible. This aligns with business objectives of competitiveness in the market and the core objective of profitability.

Key learnings

You will learn the following about operations systems through examining:

- production systems
- production of goods and services.

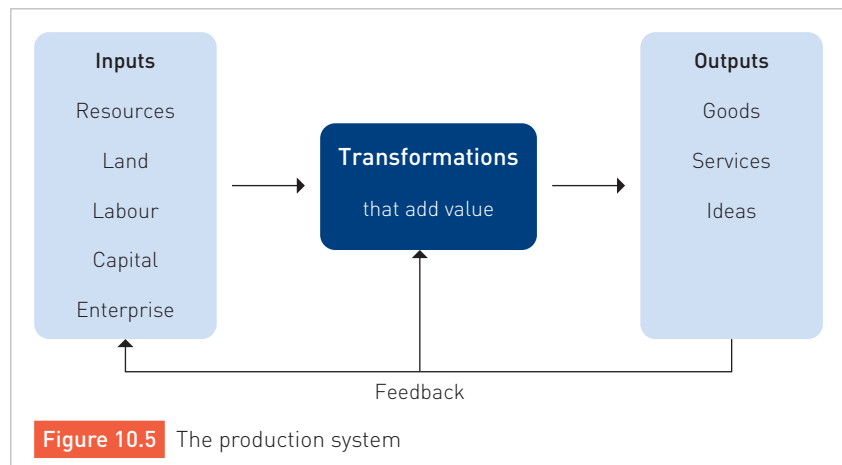
Operations management: involves planning, organising, leading and controlling all the resources needed to produce a business's goods and services



The production or operating system

All businesses operate using a **production system** – a set of activities that convert or transform the inputs of the business into outputs. The key elements are:

- inputs – including tangible things such as resources and raw materials (e.g. water, timber, minerals, electricity), land, human resources in the form of labour or effort, capital in the form of facilities, machinery and technology, as well as the intangible aspect of enterprise, or ideas and risk taking
- transformations (also known as processing) – the processes, including transportation, that transform or convert the inputs into value-added outputs. While transforming, they are known as ‘work-in-progress’. The transformation stage is where value is added to inputs and where productivity gains may be made through efficiencies in processes
- outputs – the goods (either for final use or as inputs for another business in the supply chain), services or business ideas. To ensure competitiveness, an output must reflect market needs and consumer preferences. The secondary outputs or by-products of one production system can be sold as the inputs of another system, as seen in the sugarcane example on page 368. This can reduce waste and improve the profitability, efficiency and sustainability of business practices in the production system.



Left to right: Alamy Stock Photo/
Radius Images; Alamy Stock Photo/
Bill Bachman; Phoebe Everill: Trio
of blackwood, huon pine, and New
Zealand beech stools

Figure 10.6 Land, labour and final product

QUESTIONS 10.1

View the YouTube clip of the fully automated BMW car factory, then answer the questions below.

- 1 Complete the production system table (below) for the BMW car factory and for a service you have recently experienced.



Inputs	Transformation processes	Output

- 2 Reflect on the nature of the inputs of labour and capital (in the form of technology) for manufacturing a BMW as compared to your service experience.
- 3 Write two objectives for BMW and two objectives for your service-based business that relate to operations.
- 4 Use Remedy Kombucha (pages 359–61) to **identify** the inputs, transformations and outputs the business employs.

Production system: the set of activities that convert or transform the inputs of a business into outputs

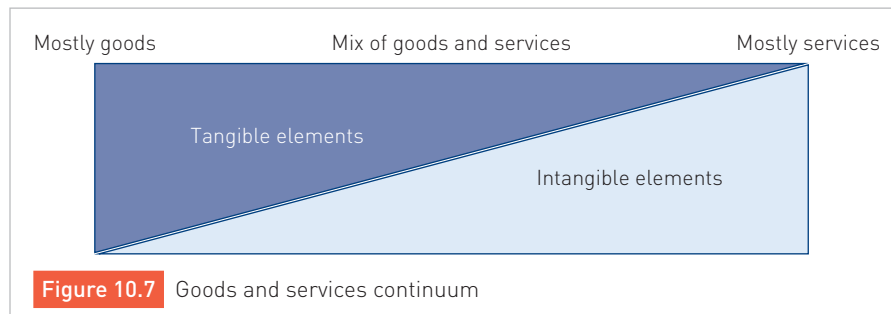
Goods and services

Manufacturers of goods and service-based businesses have very different operational requirements. Manufacturing outputs are physical, or tangible, in nature – they can be touched and felt. Examples include motor vehicles, food and televisions. Services, in contrast, are intangible and cannot be touched. Examples include legal advice, health care and education.

Table 10.1 identifies the key differences in operational processes between producing a pure good, such as a motor vehicle, and a pure service, such as education. In reality, most production systems provide an output which has a combination of ‘good’ and ‘service’ elements. For example, when you purchase a motor vehicle, you not only receive the vehicle, but also after-sales service, a warranty and, possibly, financial services. When employing the services of an accountant, you will receive his or her expertise and financial documentation. This combination of goods and services can be represented on a continuum, ranging from pure goods to pure services, as seen in Figure 10.7.

Table 10.1 The differences between the production of goods and provision of services

Goods	Services
Tangible or physical	Intangible or non-physical
Customer is rarely, if ever, an input	Customer is often a key input
Capital-intensive production processes	Labour-intensive production processes
Production and consumption occur separately, in terms of location and time	Production and consumption often occur simultaneously, for example air travel
Can be stored for varying lengths of time	Cannot be stored or placed in inventory like most goods
Products are often standardised, meaning they can be mass-produced	Many services are unique to the individual customer – the service is customised
Little to no customer contact is warranted	Customer contact is often high



It is important for an operations manager to be aware of both the goods and services aspects that make up the total product concept and to understand what influences consumer buying behaviour. Employees involved in the services side of operations will have higher customer contact than those working in production, meaning training in customer service will be vital.

Customer service

In the growth stage of the business life cycle, a business should be constantly gaining new customers and trying to convert them into loyal customers. A challenge during this stage is managing the competing demands of trying to grow sales and revenue, while providing a quality customer-service experience. The production system of inputs, transformations and outputs must be aimed at meeting or exceeding customer expectations – this is the essence of **customer service**. Customer service is an essential output of a service-based business.

The main objective of customer service is a satisfied customer. The degree to which this objective can be achieved will depend on the effectiveness with which the business communicates information, provides service and responds

Customer service: the intangible output of how well a business meets and exceeds the expectations of customers in all aspects of its operations

to customer inquiries. In a digital environment, this will also include the timeliness of communication. Exceeding customer expectations is key to developing a long-term relationship, which translates to a competitive edge.

A quality customer-service system is a feature of relationship marketing that can remove price as a key purchase consideration – customers are often willing to pay more for good customer service. If a business can supply a quality product and strong customer service, this is a point of difference. While competing with larger companies based on price is not always viable, SMEs can harness the power of quality customer service to grow their business and build lasting relationships.

Customer service can be measured based on the number of customer complaints or the average time it takes to respond to a customer enquiry. Quality customer service is central to business growth, as is service recovery when the experience is not satisfactory.

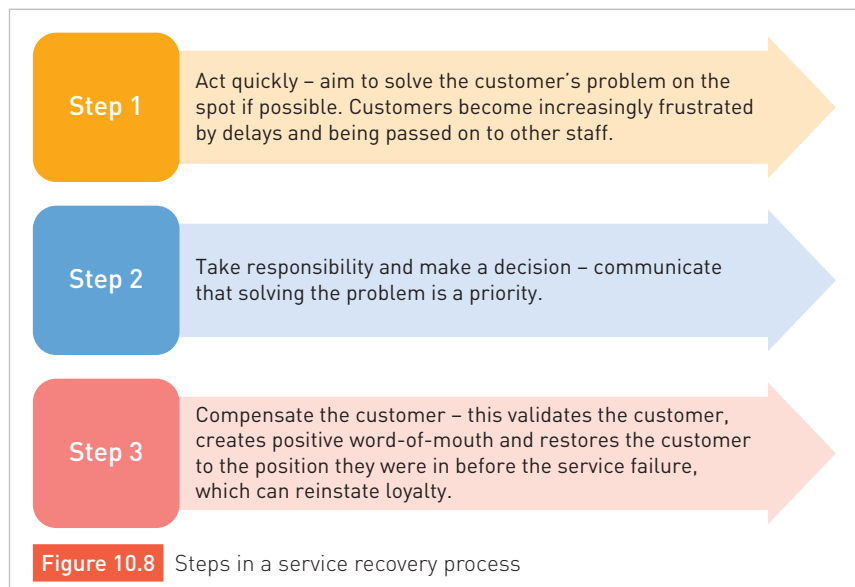
See the Australian Government Business website for advice on good customer service.



Service recovery

The primary factor that causes service failure is the nature of services themselves – their intangibility, variability and customisation. Each of these increases the possibilities of errors or service failures and the need for recovery. Add to this the increasing reliance on technology by businesses operating an online platform, and the potential for service failure is high.

It is reported that a dissatisfied customer will tell between nine and 15 people about their negative experience, with the possibility that the customer has posted to social media to share dissatisfaction before they exit the business. Service recovery is critical for turning a negative situation into a positive one. Steps in a service recovery process are shown in Figure 10.8.



GAINING INSIGHT



Woolworths online order system failure



Alamy Stock Photo/Martin Berry

Woolworths online ordering system, used for customers to complete 'click and collect', went down on Sunday

9 July 2017 and stayed down for part of the following day. This meant customers who had placed orders and paid for groceries did not receive them as orders had to be cancelled.

Woolworths chief executive Brad Banducci publicly apologised, saying Sunday and Monday are 'critical shopping days' for online customers. Banducci apologised unreservedly and said Woolworths was extremely disappointed to have let these customers down.

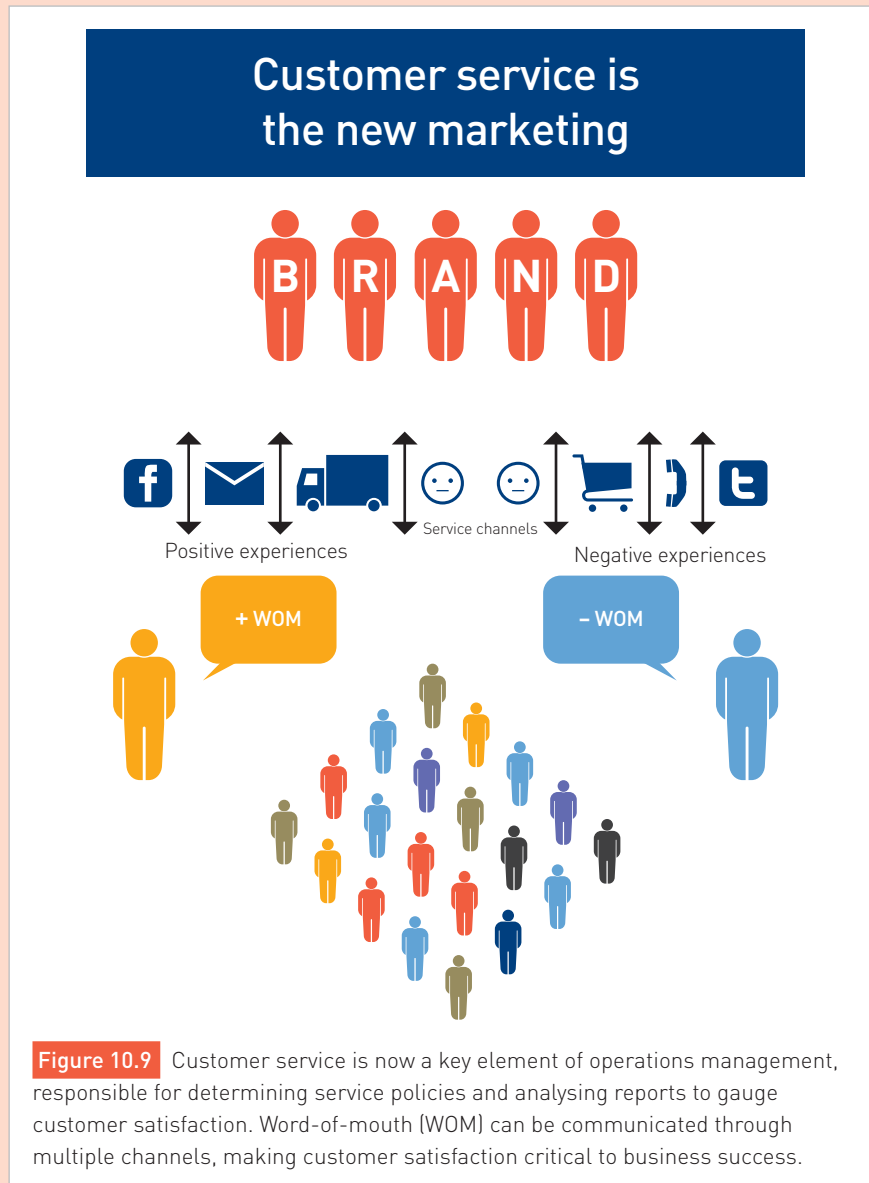
Banducci added that affected customers would be fully refunded and given \$100 eGift vouchers for use with Woolworths. The \$100 eGift vouchers were received the same day, along with discount vouchers for those customers who had to go into a store to complete their shopping.

Questions

- 1 **Explain** which aspect(s) of the production system failed for Woolworths in this situation.
- 2 **Evaluate** the service recovery strategy employed by Woolworths, using the criteria of effectiveness

and efficiency. **Make a decision** about the suitability of Woolworths' response and **propose** an alternate strategy.

- 3 **Create** a short response that could form the basis of an online post or email, addressed to the CEO, **communicating** your findings.

**QUESTIONS 10.2**

- 1 **Create** a diagram to illustrate the production system for each of the following businesses:
 - a a fine-dining restaurant
 - b a tinned-fruit factory
 - c a hotel
 - d a blueberry farm
 - e your school.

- 2 List all the goods and services you have purchased in the last month. **Classify** each of these good or services, using the goods and services continuum in Figure 10.7.
- 3 For each tangible product you identified in Question 2, **explain** how important the service element was in your purchase decision.
- 4 Using your knowledge of marketing and operations, **explain** why many modern businesses combine the good and service elements.
- 5 **Brainstorm** a list of customer service skills necessary for the following jobs:
 - a flight attendant
 - b accountant
 - c tour guide
 - d hairdresser
 - e schoolteacher
 - f electrician
 - g pilot
 - h doctor.
- 6 **Select** three of the jobs from Question 5 and rate them (from high to low) based on the degree of customer contact they involve, in terms of quality of contact and quantity of contact with customers. **Interpret** the effects of quality and quantity of contact with customers to **draw a conclusion** about the importance of customer service skills.

Key learnings

You will learn the following about the influences on operations through examining:

- productivity
- stakeholders such as customers, the community and suppliers
- environmental sustainability
- the impact of deregulation on market entry.

Influences on operations

For any business looking to compete, a key operational consideration is the design and management of production systems that increase **productivity**. Making improvements in productivity is key to competitiveness. Productivity is a measure of efficiency and is expressed as the ratio of output per unit value of input. For example:

- tonnes of wheat yielded per hectare
- number of cars manufactured per worker per day
- dollar sales generated per retail employee.

Productivity must not be confused with ‘production’, which is an absolute measure of the quantity of output of a business over a given period of time. Productivity is a relative measure and refers to how efficiently inputs are converted into outputs. Greater efficiency can be achieved via strategies such as:

- improving employee skill levels through training and development (note the link to human resources strategies)
- improving the motivation of employees
- updating equipment with the latest technology
- effective management of all inputs in the production system.

A recent trend has been toward improving efficiency by employing fewer but better-skilled employees and by replacing labour with capital equipment. Improvements in productivity can reduce the cost per unit of production, which can provide a competitive advantage and ensure a sustainable business.

Productivity: a measure of how efficiently goods and services are produced. It is expressed as the value of output per unit value of input.

GAINING INSIGHT



Commonwealth Bank cuts staff as a productivity initiative

In June 2017, the Commonwealth Bank of Australia (CBA) cut 150 staff from its Brisbane operations, moving its back-end employees involved in processing home loan applications to Sydney and Perth, where the work of Brisbane employees will be absorbed. Staff were informed this move was a productivity initiative based on a 'follow-the-sun' model that employs staff in different time zones and minimises the need for overtime.



Figure 10.10 Productivity gains sought by Commonwealth Bank with cut to 150 jobs in Brisbane

A shortcoming of using only an efficiency objective such as productivity is that it takes no account of the value of the output produced – for example whether the final product is what consumers demand. Nor does it account for the value of inputs, such as impact on the environment or labour, as seen above with the trend to job cuts highlighted. The criterion of effectiveness must also be considered – this is the degree to which a business achieves its stated objectives. Effectiveness is viewed as 'doing the right thing' and includes meeting the expectations of key stakeholders, including the wider community, who expect businesses to operate in an ethical and sustainable manner. Efficient and effective operations should lead to satisfied customers, higher sales and achievement of business objectives such as market share and profitability.

As a business enters the growth stage of the life cycle, it should be attracting customers and seeing an increase in sales. This places increased focus on ensuring the operational aspects of the business can keep up. It also means managing operating expenses and surveying the business environment. The operating and macro environment is a significant influence on a business during market entry, when looking to grow and when trying to maintain sales in a competitive landscape. The influence of customer preferences, other businesses in the supply chain and community expectations must be monitored, along with external factors.

Customers

As seen in Table 8.1 on page 288, management philosophy has evolved from a focus on production to a customer-centred focus. Given the synergy between the marketing and operations functions, a customer focus is imperative to successful operations. Customers are increasingly looking for more than just low-cost products, they are also supportive of businesses that:

- embrace sustainable practices and minimise their impact on the environment
- use resources in an efficient way to reduce waste and operate a lean production system
- reflect fair value for any labour used in processes
- innovate to meet the changing needs of consumers
- support the local community
- operate in an ethical and socially responsible manner.

Suppliers

The term 'supply chain' refers to the range of suppliers a business has as a product passes through the production system to the consumer. Supply chain management is an increasingly complex process in a globalised market

where the trends are to outsource and manufacture offshore. Large companies, such as Coles and Woolworths, have optimised their supply chains to achieve efficiency objectives, while being scrutinised in the media for their treatment of suppliers – notably, suppliers of fresh produce and dairy.

For a business seeking market entry, securing a reliable supplier is a critical step and can pose a barrier to entry in some industries. For established businesses, maintaining a quality working relationship with suppliers, including visits to production facilities, can be beneficial.

Considerations when choosing and working with a supplier include:

- ensuring the quality and reliability of supply
- managing the cost of inputs from the supplier
- fair and ethical dealing with suppliers, including prompt payment
- sourcing inputs from ethical suppliers, noting this can be considerably challenging with the trend to manufacturing offshore
- using environmentally sustainable inputs.

As seen in Figure 10.5, in the production system the outputs of one business can represent the inputs for another business. What is waste or **by-product** for one business can be a valuable input for another. Working closely with suppliers can improve efficiencies and create a competitive advantage for both businesses.



Clockwise from top left (all Shutterstock.com): Johan Larson; electric; May Preechaya; Sean Heatley; Novikov Alex; MOAImage

Figure 10.11 In the production system the outputs of one business can provide valuable inputs for another business. In this example, sugarcane by-products created during the milling process are used to produce electricity and ethanol fuel. Sustainability and efficiency objectives can be met using a by-products program.

Environmental sustainability

There has been an increasing push for businesses and governments to adopt more environmentally sustainable practices. Environmental (or ecological) sustainability refers to the development of production practices that allow resources to be used today without depleting them for future generations. This is a significant issue for operations managers with the increased awareness of climate change and long-term sustainable use of resources.

While large companies, such as Ikea, have corporate policies devoted to sustainability, SMEs entering a market can establish their environmental credentials by choosing suppliers on factors beyond the best price, to include ethical and sustainability practices, and using green energy options. They can also purchase recycled inputs, such as packaging materials, and use energy-efficient equipment.

By-product: a secondary or resultant product created as part of a production system. This incidental output by one business can be a key input for another.

SUSTAINABILITY



IKEA: people and planet



Shutterstock.com/FotografFF

IKEA: We're going all-in for a more sustainable future

At IKEA, we want to have a positive impact on people and the planet. That's why we're going all-in on things that really matter, from switching our entire lighting range to energy-efficient LED to sourcing all of the cotton we use in our products from more sustainable sources.

We're also working towards 100% renewable energy – producing as much as we consume in our operations – and sourcing all of our wood from more sustainable sources by 2020. And the IKEA Group and IKEA Foundation have made new commitments that add up to EUR 1 billion for climate action. But we're not done yet. We're just getting started ...



Source: IKEA website, www.ikea.com/ms/en_AU/this-is-ikea/people-and-planet

Follow the weblink to view IKEA's 'People and planet positive' IKEA Group sustainability strategy for 2020.



Shutterstock.com/Oxan Rzayev



Alamy Stock Photo/René van den Berg

Deregulation

Deregulation is the process of removing or reducing restrictions and controls on an industry. Restrictions may be about prices, outputs, product standards or market entry conditions. An aim of deregulation is to improve the ease of entering a market to achieve greater competition and improve productivity. Australia has experienced

Deregulation: the process of removing or reducing restrictions and controls on an industry in order to improve the ease of entering a market and achieve greater competition



decades of deregulation, for example the deregulation of domestic aviation, telecommunication and electricity. You can read the ACCC speech titled ‘Australia’s experience driving economic growth through competition policy reforms’ for more examples and a detailed account of productivity gains from deregulating markets.



GAINING INSIGHT



Maleny Dairies and the operating environment

About Maleny Dairies

Maleny Dairies is a premium milk company, we are local and family-owned in Maleny on the Sunshine Coast hinterland, Queensland, Australia. Great grandfather Hopper purchased the land in 1948 and we began as a cream only farm. In 2000 the milk industry was deregulated forcing thousands of farmers around Australia to close their farms. We too faced an uncertain future but decided to fight back by building our own processing and bottling plant. As we expanded, we

began purchasing milk from other local farmers on the Sunshine Coast. The flexibility and control afforded us by managing our own plant has facilitated the opportunity for us to pay our farmers at a much higher rate per litre of milk, enabling each farmer to keep their herds healthy and their farms viable ... Today we have another eight farms in the region; we are proud to process their milk into Maleny Dairies products.



Source: malenydairies.com/about



Maleny Dairies

Supermarket milk boycott means more for Maleny Dairies

A MALENY Dairies truck had just left Coles at Maroochydore on Friday after making a delivery when owner Ross Hopper’s phone rang. The shop was already running out and needed more.

The consumer boycott of cheap supermarket milk in support of dairy farmers has boosted sales of local milk. Branded milks like Maleny Dairies are selling out while consumers shun plain brand ‘\$1 a litre’ milks in protest at a supermarket milk price war and poor prices paid by dairy giants Murray Goulburn and Fonterra to farmers.

Mr Hopper said demand for Maleny Dairies milk was up by about 10% and the pressure was on to bottle more milk for the business’s retail customers. ‘Some of the shops have doubled their orders and we’re going flat out but we’re keeping up with the orders,’ he said. Unable to ask the



NewsPix/Lachie Millard Photography

Figure 10.12 Maleny Dairies milk sales are up 10 per cent.

hinterland’s cows to work harder, Mr Hopper said he was working with Maleny Cheese to ensure the business has enough raw milk to keep up with

the increasing demand. 'We work in with Maleny Cheese. We've got extra milk,' he said.

Mr Hopper said the consumer action, even if it weakened, was likely to convert to a permanent increase in business for Maleny Dairies and its suppliers. 'In the past, the spikes we've had have added an increase in our sales. There's always a bit of a spike and then it will level out but we definitely see a future in it.'

Even local farmers who do not supply Maleny Dairies are happy for the consumer action to continue ... Elke Watson, of Conondale, whose farm supplies Norco, said consumer action

was exactly what was needed to break the \$1 a litre prices introduced by Coles. 'I'm very much of the view that \$1 a litre milk has to stop. It takes money out of the whole supply chain,' Mrs Watson said. She said milk sales overall would not decrease while consumers boycotted the cheaper brands.

'People will continue to drink the same amount of milk. If they don't buy the Coles milk, they'll be buying the more expensive milk and the money will be going back to farmers.'

Source: *Sunshine Coast Daily*, 30 May 2016,
www.sunshinecoastdaily.com.au


Maleny Dairies



Like Page


October 29 at 3:59pm · 

BUSINESS UPDATE

Dear Facebook Family,

How quickly 2017 has flown by! Our family business has had a very busy year. Like all small businesses we have had big struggles with rising costs. Being a branded label dairy producer we are also experiencing significant declining sales. It is not the most pleasant combination to deal with but as one W. Churchill is famous for saying, 'we shall never give up'. Our farmers have had it rough as well with at least two terrible years in a row. The 300 mm to 400 mm of rain we received up here in Maleny in October is fantastic and has set the farmers up for a positive outlook. La Nina is in positive territory so hopefully we get lots of good rain right through to next autumn.

We are very proud of all our customers. Because of you we are still currently supporting nine other farming families with our business (outside of our own farm) ... With our sales decreasing we are not in any position to take

on new farms, but we are ever optimistic that Queenslanders will buy more of our products.

We are not sitting back with this less than ideal economic environment! Between now and March 2018 (our 'down' period) we will spend time working with some new equipment that is designed to bring our operating costs down. We will also spend this time looking to refresh some of our product lines, particularly yoghurt and flavoured milks. We are also planning a marketing campaign to begin in April 2018. Our shops are very supportive and we are working with all of them around stock numbers so that customers don't find our items sold out ...

Maleny Dairies will always want to increase sales; we can take on more farms, we can employ more quality people and we can provide more people with quality, healthful food ... Thank you very much for being loyal customers ... The first thing you can do to help is to share this with your friends and family to encourage them to think of their local farmers when they are next in the dairy aisle.

2.9K Reactions 351 Comments 1K Shares


Like

Comment

Share

Maleny Dairies

Questions

Visit the Maleny Dairy YouTube channel to view the dairy in full operation, and then answer the following questions.

- 1 **Describe** the business situation that led to the Hopper family establishing Maleny Dairies.
- 2 **Describe** the operating environmental factors that have impacted operations for Maleny



Dairies. Ensure you include business facts and characteristics present.

- 3 Draw the production system for Maleny Dairies, with examples of inputs, transformation processes and the outputs.
- 4 **Explain** how the supply chain situation for branded label dairy products is different to that of home-brand supermarket milk. Can you **explain** why the retail price is different for these products?



Maleny Dairies

Figure 10.13 Onsite at Maleny Dairies processing plant

- 5 **Identify** the stakeholders in Maleny Dairies and present this using a mind map.
- 6 **Analyse** the external macro environment present for Maleny Dairies by **creating** a PESTLE analysis tool.
- 7 **Conduct** a USP analysis to identify Maleny Dairies' operational edge.
- 8 **Interpret** patterns and trends in the business situation to determine the effects on the business. **Draw a conclusion** about the implications of market entry in this industry.
- 9 **Evaluate** the business practices of Maleny Dairies as it remains viable in a highly competitive market.
- 10 **Create** a graph of the USP analysis and write a short report to the owners of Maleny Dairies to **communicate** the business's operational edge.

Operational processes and systems

At start-up, a key challenge for many businesses is securing reliable suppliers or locating contract manufacturers who are willing to take them on. Quite often the production run (quantity being ordered) during the establishment phase of the business life cycle is quite low, as sales are slow and need to be developed through marketing. If sales grow rapidly, the business faces another challenge – being able to supply the market with stock and grow the operations of the business in a sustainable manner. Developing a business model at establishment that is scalable in terms of operating processes is important to business survival.

Entrepreneur David Prior of five:am Organic recognised the importance of having scalable and flexible operating processes when he founded the business. Today the business operates from state-of-the-art facilities in outer Melbourne, while Prior has sold the business to UK-based consumer products company PZ Cussons for \$80 million.



GAINING INSIGHT



five:am Organic: operations processes ready for growth

From yoghurt concept to running a fully operational plant in just eight months

Process Partners teamed up with Schneider Electric to set up a manufacturing plant for yoghurt company five:am in just eight months.

Entrepreneur David Prior has a unique take on the adage 'make the most out of your day'. Having started his day at five o'clock in the morning for over a decade, Prior treasures this moment each morning where he feels he can pause and create his day. It was this philosophy that fuelled Prior to capture this 'five:am-ness' and bottle it. Prior's vision was to produce a high-end organic yoghurt under the business name five:am. He also wanted to ensure every aspect of five:am's production and operation processes was environmentally sustainable. In June 2010, five:am's organic yoghurt dream came one step

closer after the company secured an opportunity to provide a leading Australian supermarket with product from March 2011.

Tight time frame

The significant challenge for five:am was the tight time frame to set up the manufacturing plant, commence production and get product on the supermarket shelves. 'When the contract was signed to produce and distribute our yoghurt within an eight-month time frame, all we had was a [3250 square metre] site located just south of Melbourne, Victoria,' explained Prior. 'Our site had no manufacturing system in place, inadequate airflow and water supply, and none of the technology needed to produce organic yoghurt.'

Despite the time frame, five:am wanted to set up a sophisticated and automated manufacturing facility that would not only allow them to produce

its organic yoghurt safely and efficiently, but at the same time offer the flexibility needed for future business endeavours. They also needed to ensure the plant would allow them to make the highest possible quality product.

'To do this, we needed a plant far more sophisticated than other start-ups. Flexibility in our plant is incredibly important because it means we can launch new products and expand our offering,' explained Prior.

Partnering for success

In May 2010, five:am engaged Process Partners, a specialist dairy engineering and process improvement group, to help manage and execute the project. Process Partners' extensive experience in the dairy process, and particularly yoghurt, provided Prior with the level of skill needed to pull off the challenging project.

Process Partners conducted a detailed audit of five:am's requirements, taking into account its need to produce more variations of the

product than what was initially required to meet its March 2011 distribution deadline. From this, Process Partners developed a manufacturing strategy for the plant and worked with five:am to amend and evolve the strategy based on its budget and business objectives. A crucial element of the plant design and strategy proposed by Process Partners was its project partnership approach with Schneider Electric to provide a full suite of automation and control technology.

Product concept to reality

Through working with Process Partners and using Schneider Electric's solutions, five:am was able to go from product concept to running a fully operational plant in just eight months. In March 2011, five:am's first products were distributed and sold throughout one of Australia's leading supermarkets.

Source: *Food Processing*, www.foodprocessing.com.au/content/processing/article/from-yoghurt-concept-to-running-a-fully-operational-plant-in-just-eight-months-415929595



Figure 10.14 five:am's automated manufacturing facility

Questions

- 1 **Describe** the business situation five:am Organic founder David Prior was in as he sought to establish the business and its operations facility.
- 2 **Identify** the key elements in the operational plan as the facilities were developed and how this affected market entry.
- 3 Visit the five:am organic webpage to **select information** about the current product range. **Interpret** this information to **determine** whether the manufacturing plant was an efficient and effective decision.



Key learnings

You will learn the following about operational processes and systems:

- facilities
 - location
 - layout
- materials management
 - inventory management
 - supply chain management
 - logistics
 - capacity utilisation.

Facilities

Facilities involves the location and layout of the plant (factories and office buildings) and equipment needed to conduct operations. All businesses need some plant and equipment to operate, regardless of size or type of business. As seen in the five:am example, having facilities established for the launch of a business is vital, as is having facilities that can grow with the business. Facilities decisions include location, plant design and layout.

Location

For a business entering the market, where to situate the facility geographically may be a key consideration, while for other businesses, such as Maleny Dairies, the location is predetermined. Location considerations include:

- where facilities should be geographically – in which country, state or city
- the zoning of land use and other local laws and restrictions impacting the placement of facility and its size
- proximity to inputs and markets
- proximity of competitors
- sensitivity to the natural environment and its impact on operations.

Each of these considerations will be influenced by the type of business and the preferences of the owner. For example, a small retail business might consider proximity to its target market a key consideration, while a restaurant may perceive benefits in being proximate to competitors in a restaurant strip that attracts customer traffic.

Layout

Layout involves the arrangement of facilities in a way that optimises efficiency. Typically, layout is determined by the type of product or service being produced. In manufacturing, this is based around three core layout types –

product, process and fixed-position – from which others have been modified. Service-based layouts include office and retail layouts. When a business is new and establishing its facilities, it should focus on optimising use of space to reduce unnecessary materials handling, help to keep costs low and maintain product flow through the facility. For any business, the following layout considerations apply:

- material handling equipment
- capacity and space requirements
- environment and aesthetics
- flows of materials and information
- cost of moving between various work spaces.



NewsPix/Lachie Millard

Figure 10.15 Bundaberg Brewing Company, product assembly line

Product layout

A product layout arranges equipment for a single, specific purpose and is set out along a product flow line. The aim is to achieve high volumes of product or a smooth, yet rapid flow of customers through a system. A product layout is most suited to a standardised offering. An example is an assembly-line process, which suits large businesses such as car manufacturing and bottling of beverages. In the service industry, a standardised cafeteria where the food is on display and customers are pushed through the process uses aspects of the product layout. This arrangement has a high establishment cost due to the capital required, but relies less on labour and produces high volumes of output.

Process layout

Also known as a functional layout, this is process-oriented and groups together machines and workstations that perform the same function (i.e. the task they carry out). A process layout suits businesses with a variety of products or variations on a product. As each job is different, it can be more efficient to group similar pieces of equipment together. For



Alamy.com/Jason Freeman

Figure 10.16 Hospitals such as Nepean Hospital in New South Wales use a process layout to group similar functions and services.

example, hospitals usually employ a process layout where maternity is in one area, cardiac care in another and so on. An SME that makes customised furniture to order would use this layout, as would a service-based business such as a day spa.

Fixed-position layouts

This layout suits heavy or bulky projects such as aircraft manufacture or building construction. As the product stays fixed, all inputs are brought to it. This layout is only used when it is not feasible to move the product. An example of this is ship building, as seen in Figure 10.17.



Image supplied by Austral

Figure 10.17 Ship builder Austal uses a fixed-position layout in the manufacture of its ships. Here, a Cape Class patrol boat is under construction for the Australian Border Force.

GAINING INSIGHT



Mutating Creatures



Mutating Creatures was founded by two Brisbane designers who teamed up to create a specialty lighting design studio. The studio produces Australian-made sustainable pendant and table lights, bespoke wooden stools, eco-friendly coffee holders and a range of colourful 3D-printed, handcrafted jewellery. Co-founders Michel Cornielje and Caroline Kaup say that, while the business started with a focus on lighting for residential and commercial clients, it evolved into jewellery when the small-scale samples of pendant lighting were found to be beautiful shapes for earrings. The design of custom lighting and jewellery is actually closely connected.

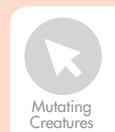
As a small-sized business, Mutating Creatures works directly with property owners, interior designers and architects to offer unique, customised and personal

lighting solutions. Michel states that their production processes all occur in-house, with the business able to create one-off customised products or complete a large run. They can control the entire production system from conception to the customer. Due to customisation, there is no fixed procedure as this is determined by the project; however, an example of the steps in the process is shown in Figure 10.18.

Questions

Using the stimulus from the case study and information from the business website, answer the following questions.

- 1 **Identify** the type of layout used by Mutating Creatures and **explain** why this is the most suitable strategy in this business situation.
- 2 **Identify** the elements which make this an environmentally sustainable business. **Interpret** how this impacts on the efficiency and effectiveness of Mutating Creatures.



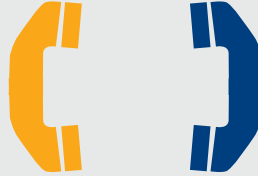
1

Client brief



2

Consultation or
phone discussion



3

Sketches and
designs on pads



4

Computer imaging of
designs using
computer-aided design



5

Creation of dimensions
of the product



6

Automated cut-out
process (CNC) uses pre-
programmed sequences
of commands



7

Email client. Keep client
informed of progress.
Important!



8

Hand sand and hand paint



9

Package neatly and
send to customers



All images courtesy Mutating Creatures

Figure 10.18 Steps in the Mutating Creatures production process

Office environments

In an office environment, layout refers to the organisation of workstations, or the positioning of people. A trend inspired by generation Y and millennials, and facilitated by technological advancements, is flexibility in terms of desk ‘ownership’ and how work spaces are configured. As more people use flexible work practices and work from home, the office is becoming a place where employees come to collaborate and connect. The cubicles and corner offices of the past are giving way to flexible spaces that enable collaboration and reflect the culture of the business.



Getty Images/Westend61

Figure 10.19 An example of a flexible, collaborative office layout

Retail layout

A well-designed retail layout aims to maximise sales for each square metre of the selling space, while creating an inviting instore customer experience that reflects the positioning strategy of the business. The specific layout will depend on the types of goods or services being sold and the budget available to ‘fit out’ the store. Creating an appealing customer experience can be achieved by factors such as:

- ambient conditions – the background features, such as sound, lighting, aroma and temperature
- spatial layout and functionality – aisle characteristics (height and style), product groupings, use of a path through the store or products grouped in pods
- signs, symbols and objects that reflect the branding strategy.

Retailers needing to direct high volumes of customers, such as supermarkets and pharmacies, often adopt a grid layout. This makes efficient use of floor and wall space, while the grid makes it easier for customers to navigate. The objective of such retailers is to maximise profitability per square metre of floor space, and time spent instore – to encourage impulse buying behaviour.

Deciding the optimal layout and production method

The importance of layout varies for different businesses according to their size and the product or service offered. Key aspects to be considered include:

- type of good or service
- size of the market
- the amount of capital available
- human resources needs – skill and number required
- health and safety requirements
- flexibility of use
- ease of future expansion or change.

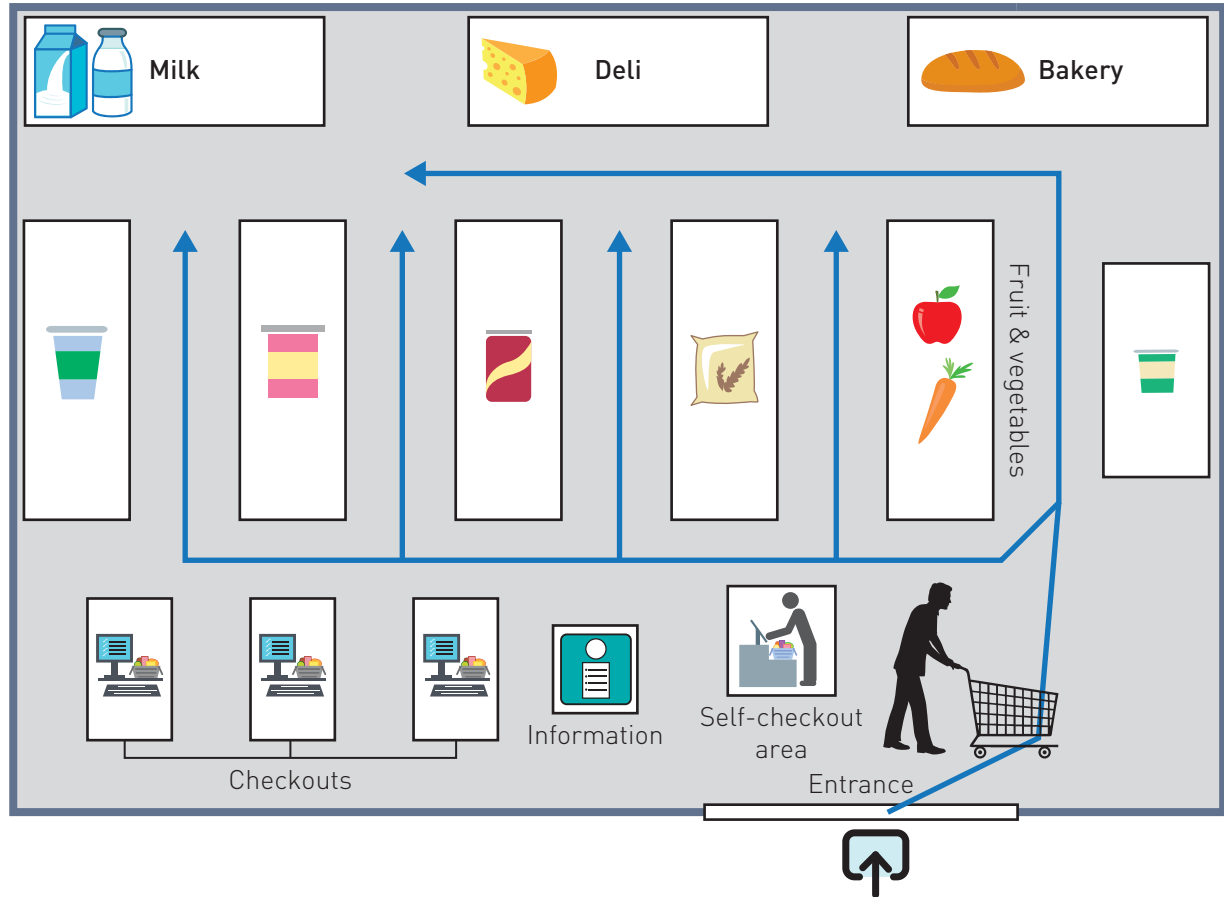


Figure 10.20 Supermarkets typically adopt a grid layout to direct flow of traffic and optimise space.

GAINING INSIGHT



The secret behind Aldi's store layout



Fairfax Syndication/Rohan Thomson

Figure 10.21 Inside an Aldi store

Research the secret behind the success of Aldi's store layout to **identify** similarities and differences between the store layout of Aldi and those of more traditional supermarkets such as Woolworths and Coles. **Create** a short visual presentation of your findings.



Materials management

SMEs should confirm that their facility layout and flow facilitates efficient handling of materials (products, equipment etc.). **Materials management** is an approach for planning, organising and controlling all activities involved with the flow of materials into an organisation to ensure the right amounts of inputs are available when required in the production system. Materials management should consider:

- material inputs (raw materials, supplies, parts)
- work in progress (semi-finished goods)
- outputs (finished goods that are yet to be delivered)
- spare parts for equipment.

Materials management is a system for planning, purchasing, moving and storing material in an optimum way that helps to minimise costs. The key objectives of materials management, referred to as the ‘famous 5Rs of materials management’, are acquisition of materials and services:

- of the right quality
- in the right quantity
- at the right time
- from the right source
- at the right price.

For a business in the growth stage of the life cycle, having the right materials management system in place is important before sales volume increases and there is expansion into broader markets. The operations manager must be able to source inputs and achieve an appropriate turnover of inventory to develop and maintain a quality product and consistent supply. They should also ensure the operations system is used in a way that optimises capacity.

Inventory management

An effective way of managing materials is through inventory control. **Inventory** (also known as stock) is the materials and goods required to allow for the production of products and their supply to customers. Inventory is an important asset to manage: inventory turnover is a key source of sales revenue for a business and, when idle, represents a cost. Striking the right

balance is an objective of operations managers as there are consequences of having too much or too little stock for manufacturers, wholesalers and retailers, as seen in Table 10.2.

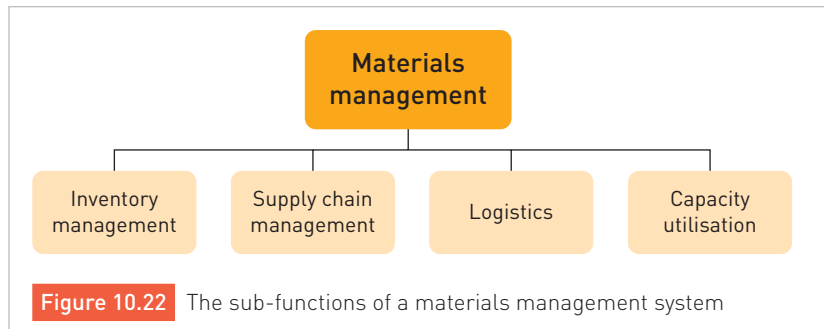


Table 10.2 Consequences of incorrect levels of inventory

Too much stock	Too little stock
Storage costs – overcrowding and inefficiency. Costs to hold stock, for example refrigeration of perishable items and insurance.	Lost sales – if customer demand cannot be met, sales may be lost to other businesses that can supply. In business-to-business contracts, this may also incur a financial penalty.
Risk of waste and obsolescence – goods may deteriorate or become outdated if slow moving and held too long	Idle production resources – delays in production could result, leaving an under-employed workforce
Opportunity cost – funds tied up in stock rather than being employed for finance strategy, such as loan repayment or investment	Small order quantities – a problem for businesses during establishment. Small orders or keeping stock low means missing out on savings from bulk buying (economies of scale).

Materials management: a system for planning, purchasing, moving and storing material in an optimum way that helps to minimise costs

Inventory: the materials and goods required to allow for the production and supply of products to customers

Determining the optimum level of inventory depends on the type of business and its products. For example, a fruit and vegetable retailer has highly perishable inventory that must be carefully managed to avoid spoilage, while an electrical retailer must manage against ageing stock becoming obsolete or superseded by new models, which would require old models to be heavily discounted.

Designing an inventory management process and setting inventory holding levels is important. Existing businesses can use internal data from past sales and seasonal trends to forecast demand. For businesses in establishment, or experiencing rapid growth, this process is not as reliable – the data may not be available if a business is new, and changing sales volume for a growing business can skew figures. Sales forecasting will be an important tool for accurately determining inventory needs so that stock-outs or excess holding costs are avoided.

Just-in-case and just-in-time inventory strategies

Just-in-case (JIC) relies on having plenty of safety or ‘buffer’ inventory, while **just-in-time (JIT)** is the opposite and strives to keep inventory to an absolute minimum. Each method has its merits, but businesses rarely stick strictly to one. When demand is uncertain, businesses often use a JIC approach to stock control. This involves ordering extra stock as a ‘buffer’ to insure against running out of stock; however, it does tie up funds in inventory and storage costs.

A more efficient method of stock control, which reduces carrying costs, is the JIT method. This method aims to keep inventories to a minimum, meaning no buffer stock is held and components arrive just in time to be used in the production system. Finished goods are delivered to customers as soon as they are completed. Accurate demand forecasts are critical when using this system, and relationships with suppliers must be strong and well coordinated. JIT was pioneered by Toyota and is widely used in the car manufacturing industry, including by rival manufacturer Honda.

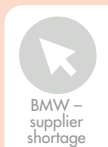
GAINING INSIGHT



BMW and the challenges of inventory efficiencies



Shutterstock.com/Alexandru Nika



BMW –
supplier
shortage

Follow the weblink to read the article about the production problems BMW faced when one of its key suppliers, Bosch, had a shortage of steering systems and was unable to supply in a timely manner.

Questions

- 1 **Describe** the business situation experienced by BMW.
- 2 **Explain** the challenges experienced by BMW and Bosch with the inventory systems employed and interpret the effects on both businesses.
- 3 **Create** a double bubble map to contrast just-in-time and just-in-case inventory control systems.
- 4 **Draw a conclusion** about the merits of BMW's inventory system. **Evaluate** this practice using the criteria of efficiency and effectiveness to propose a **recommendation** to BMW.
- 5 Research the history of just-in-time and **create** a timeline of its implementation, including examples of businesses who were early adopters of this method.

Just-in-case (JIC): an approach to inventory control that involves ordering extra inventory as a ‘buffer’ just in case it is needed, to insure against running out

Just-in-time (JIT): aims to keep inventories to a minimum, meaning no buffer or safety stock is held and components arrive just in time to be used in the production system. Finished goods are delivered to customers as soon as completed.

Supply chain management process

The Council of Supply Chain Management Professionals (CSCMP) states that **supply chain management**:

... encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. It also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies.

The supply chain is part of the materials management system a business uses to get its product to the end consumer, from obtaining raw materials through to delivering the final product. It includes all businesses directly linked to the supply of goods and services to the consumer. Some SMEs are able to manage much of the supply chain, for example, Maleny Dairies uses its own raw material inputs from its Guernsey cows and has its processing facility onsite, as seen in Figure 10.13. Businesses with large-scale operations might contract with other businesses, such as logistics specialists, to achieve quick delivery of products to consumers that are geographically dispersed.

The complete supply chain for a product typically involves a number of businesses. The outputs of one business represent the inputs of another. The products typically move from one supplier to another for value-adding. From the perspective of any business in the supply chain, production can be viewed as downstream or upstream. The closer to the end user an activity or business is, the further downstream it is said to be. Raw material inputs or production are elements of the supply chain deemed to be upstream – upstream businesses supply the inputs into the production system.

An optimal supply chain can be judged based on speed and efficiency. Speed is significant as customers demand fast service and short lead times. However, increasing speed can see costs rise rapidly, which erodes efficiency. The key is to balance timely delivery in a cost-effective way. An efficient supply chain can be a competitive advantage for an SME looking to establish sales and growth. Customers will choose a business that meets their needs in the timeliest way, at a reasonable cost. Key considerations in supply chain management include:

- quality and reliability of inputs supplied
- the best price in terms of value for money



Supply chain management: a part of the materials management system used to get product to the end consumer, from obtaining raw materials through to delivering the final product. It includes all businesses directly linked to the supply of goods and services to the consumer.

- lead times between when an order is placed and received
- quantities required to be ordered (minimum and maximum)
- transport facilities available and expected delivery times
- legal and ethical conduct of suppliers.

Logistics

Logistics encompasses all aspects of transport and delivery. Resources managed can include tangible goods, such as food, materials, animals, equipment and liquids, as well as more intangible elements such as time, information and energy. Logistics often uses integrated computer technology to control tasks such as material handling, packaging, inventory control, warehousing, transportation and security. The aim of logistics processes is to achieve an efficient flow of materials through the supply chain.

The Council of Supply Chain Management Professionals (CSCMP) defines logistics management as:

... that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverses flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements.

For a small business, logistics may be relatively simple and involve receiving stock from local supplies. However, even for SMEs, the trend to a globalised market means logistics can be complex and require the use of an outsourced specialist, such as Linfox (see Gaining insight below).

Green logistics is a growing trend as businesses look to embrace more sustainable practices. The objective is to reduce resource consumption and minimise pollution. This involves logistics plans that use green transport, green storage, green packaging and other activities using logistics technology. The aim is to meet the needs of the economy with 'least cost' to the environment. In green logistics, cost goes beyond dollar terms to include external costs related to climate change, pollution, dumping of waste, noise and accidents. For example, packaging is a considerable challenge to environmentally friendly logistics, while also being vital to secure shipping and storage of goods. Poor packaging can represent a waste of materials and storage space. Activities aimed at improving the sustainability of logistics include:

- suppliers and the buyers recovering and recycling, or effectively disposing of, packaging, including targets for reducing waste packaging
- avoiding wasting water through recycling
- utilisation of vehicle load space (expressed as a percentage) at or near capacity
- driver training to reduce accidents and improve fuel efficiency and consumption
- following preventative maintenance programs as poorly serviced vehicles use more fuel
- energy-efficient lighting and renewable power sources, such as solar and cleaner diesel engines.

GAINING INSIGHT



Linfox, logistics and sustainability



Follow the weblink to view the video production by Linfox titled 'Linfox leads the way', about the company's logistics management. Then:

- 1 **Explain** the role of technology in managing logistics.
- 2 **Describe** the operating environment of a logistics business such as Linfox. Provide business facts and characteristics in your description.
- 3 **Explain** the relationship between Linfox and Arnott's and **identify** the benefits to Arnott's of this relationship in terms of business outcomes.

- 4 How does Linfox invest in its people and plant? **Interpret** the effects on business outcomes.
- 5 Visit the Linfox website to review the GreenFox sustainability program and identify strategies for sustainability of operations. **Evaluate** Linfox's practices based on the criteria of efficiency and effectiveness.
- 6 **Create** a visual representation (for example, an infographic) to **communicate** the strategies for sustainability at Linfox.



Capacity utilisation

Capacity utilisation is an important aspect of an efficient materials management system. It expresses current output as a percentage of total potential output. For example, if a water bottler could produce 100 000 bottles a week and output was 75 000 bottles, then capacity utilisation would be 75 per cent, leaving 25 per cent idle or available. Capacity utilisation is a key performance indicator (KPI) for manufacturers and service-based businesses, such as airlines and hotels. It indicates the amount of available capacity being used to supply current demand.

Capacity utilisation can be calculated by using the formula:

$$\frac{\text{Current output level}}{\text{Maximum output level}} \times 100 = \text{rate of capacity utilisation}$$

Maximum capacity is the total output a business can achieve in a certain period. For a manufacturer, this would represent the total number of units existing resources can produce, while a hotel measures total capacity by the number of 'room nights' available during the period. A business at full capacity is achieving 100 per cent capacity utilisation. Businesses rarely seek to operate at full capacity as this allows no scope for fluctuations in demand or flexibility in operations. A preferred target may be 85–90 per cent utilisation, depending on the industry. Operating at full capacity for sustained periods has drawbacks:

- Machinery and equipment require downtime for preventative maintenance. Without this, breakdowns may occur that necessitate corrective maintenance. This is costly in terms of time and financial resources.
- Consistently operating at full capacity may impact human resources, with stressed workers and managers. This can result in mistakes, accidents, absenteeism, lower productivity and staff turnover.
- Operating at capacity and staffing this with overtime workers will increase labour costs.
- Some available capacity gives flexibility to meet spikes in demand. This results in satisfied and loyal customers.
- For service businesses, such as restaurants and hairdressers, high capacity utilisation may decrease quality and increase queuing and wait times, impacting the customer service experience. Overcrowding at tourist destinations will reduce customer satisfaction levels.

When capacity utilisation is high, the average fixed costs are spread out over a large number of units, meaning the cost per unit is relatively low. When utilisation is low, cost per unit will rise and impact the profitability of the operation (see Table 10.3).

Table 10.3 How fixed costs for an airline vary with capacity utilisation and impact profit contribution margins

200-seat aircraft	All seats occupied (100% capacity)	100 seats occupied (50% capacity)
Fixed costs per flight (e.g. fuel, food, salaries)	\$5000	\$5000
Average cost per seat	\$25	\$50
Average selling price per seat	\$200	\$200
Profit contribution margin per seat	\$175	\$150

In the above example, assuming that all seats are priced at \$200 per seat, the profit contribution margin at full capacity is \$175 per seat (\$200 selling price less average cost per seat) and \$150 per seat when utilisation is at 50 per cent capacity. This impacts on earning potential for a business.

Capacity utilisation is a useful KPI for a newly established business as it demonstrates the ability to grow the business using the current resources and processes. If a business during the establishment phase of the life cycle is already operating at 70–80 per cent capacity utilisation, this may indicate a strain on the ability to support growth using the existing framework of facilities and materials management. A business operating at less than 50 per cent utilisation may need to review its operational and marketing strategies to stimulate demand.

Capacity utilisation: expresses current output as a percentage of total potential output. It indicates the amount of available capacity being used to supply current demand.

Capacity utilisation and management in service operations

In contrast to manufacturing, service-based businesses cannot store output as inventory – they often have queues of customers who represent customer inventory. Managing capacity is a substitute for managing inventory in a service operation, with the challenge being that demand can be highly variable and difficult to forecast. Service-based challenges for capacity utilisation include:

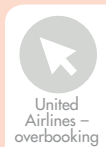
- *physical facilities* – the number of customers that can be managed is constrained by the number and size of physical facilities available, for example hotels, medical clinics and transport
- *service-provision equipment* – limited equipment may cause a bottleneck in flow of a service provision, setting an upper limit on the volume and quality of service delivered at a given time, for example use of telephones, hairdryers and cash registers
- *people-processing services* – capacity to serve customers is constrained by the number, experience and expertise of staff employed (a human resources challenge).

A service operation must use available time and the productive capacity of staff, labour, equipment and facilities as efficiently and profitably as possible.

GAINING INSIGHT



Capacity utilisation: efficient, but is it effective?



Follow the weblink to read the article about United Airlines and overbooking in the airline industry, including the practices of Australian airlines looking to maximise capacity utilisation.

Shutterstock.com/Ryan Fletcher



Questions

- 1 **Research** the Australian airline industry to **describe** the business situation present as it relates to operational processes and capacity utilisation.
- 2 **Examine** the practice of overbooking flights and **discuss** the implications on business outcomes.
- 3 **Compare** the European Union standards on overbooked flights relative to practices in Australia.
- 4 **Evaluate** the strategies related to capacity utilisation to **form judgements** using the criteria of efficiency and effectiveness. **Propose recommendations** for changes to the practices around capacity utilisation and justify these using your research.
- 5 **Create** a report addressed to the chief executive officer of either Qantas or Virgin to **communicate** your findings.

QUESTIONS 10.3



- 1 **Examine** the challenges of managing inventory for a supermarket, for example Coles or Woolworths, given the variety and volume of inventories they hold. **Evaluate** the strategies available to **propose a recommendation**.
- 2 **Evaluate** the consequence of incorrect inventory levels for a manufacturer and a retailer.
- 3 Visit the DestinationQ website and **research** the trends in hotel capacity for a particular region (for example Southern Queensland Country or Tropical North Queensland) to determine whether capacity utilisation is rising or falling. **Explain** two key factors that account for the trend.
- 4 As a growing hair salon, you are at full capacity in your current facility. The opportunity has come up to lease the adjoining space and remove the internal wall – this will add 40 per cent to your physical facilities. Alternatively, you could relocate to the neighbouring suburb to a space twice the size of your current salon. After analysing the options, you are presented with the following:



DestinationQ

Alternatives	Profit if:	
	Moderately successful	Highly successful
Expand the existing salon	\$250 000	\$500 000
Relocate to the neighbouring suburb	\$200 000	\$700 000

You have been told that the chance of being moderately successful is 0.6, while the chance of being highly successful is 0.4. **Create** a decision tree to **determine** which is the more viable option (see Chapter 2, pages 59–60, on decision trees). **Create** a short paragraph to justify the optimum option.

Key learnings

You will learn the following about operational systems:

- scheduling and sequencing
- use of Gantt charts
- scheduling and event management.

Scheduling systems

Scheduling involves planning the timing of the use of resources in the production process. Production scheduling is the process of determining a timetable for transformation of resources in the production system based on the length of time each operational activity will take. The aim is to increase productivity and reduce operating costs.

Whereas scheduling focuses on the length of time activities take, **sequencing** refers to the order in which activities occur. Together, scheduling and sequencing are necessary to coordinate and control the production process, and are also integral to service businesses and project management. Examples of diverse businesses where scheduling decisions, and resource coordination, require control include:

- *education* – subjects, staff, students, rooms, equipment, lesson times
- *factory* – inventories (raw, partly processed and parts), staff, equipment, timing in facility
- *airline* – inventories, bookings, staff, equipment, aircraft, terminal space
- *event* – attendees, sponsors, staff, venue and equipment, timing of activities, catering.

Modern manufacturing in large-scale businesses, such as the car industry, involves complex production systems. Inputs are often sourced from across the globe and transformation processes have been optimised through use of technology and efficient systems. Final products are produced just in time for delivery. This requires advanced scheduling systems. However, scheduling is also critical to the success of SMEs to ensure the coordination of resources and activities in a timely manner and avoid bottlenecks in production or conflict of bookings in a service business.

Several analytical techniques can be used to assist with planning, scheduling and controlling operations. These are particularly useful in project and event management. The purpose is to help managers see how various operational activities fit together and enable them to monitor progress as production occurs.

Gantt chart

The Gantt chart is named after Henry Gantt, an engineer and industry advisor, who created the technique around 1917 as a visual tool to show scheduled and actual progress of projects. Gantt charts were first used on large construction projects like the Hoover Dam in America, which started in 1931. The Gantt chart has been refined and used ever since as a powerful graphic tool to illustrate the project schedule and progress in a way everyone can understand.

Follow the weblink to a history of the Gantt chart for an understanding of its foundation and an insight into early management theory around efficiency.



History of
the Gantt
chart

Scheduling: planning the timing and use of resources in the production system

Sequencing: the order in which activities in the production system occur



Figure 10.24 Working on a Gantt chart to organise and control a project

A Gantt chart supports managers to see quickly:

- what the main activities are
- when each activity is scheduled to begin and end
- how long (time) each activity is scheduled to take
- the sequence of activities necessary, including any overlaps that can occur concurrently, where activities can be done together.

A simple Gantt chart may be created for completing an assignment using Excel. In project management, there are dedicated programs including Microsoft Project and Primavera Project Planner. Figure 10.25 shows a Gantt chart for completing an assignment on project management.

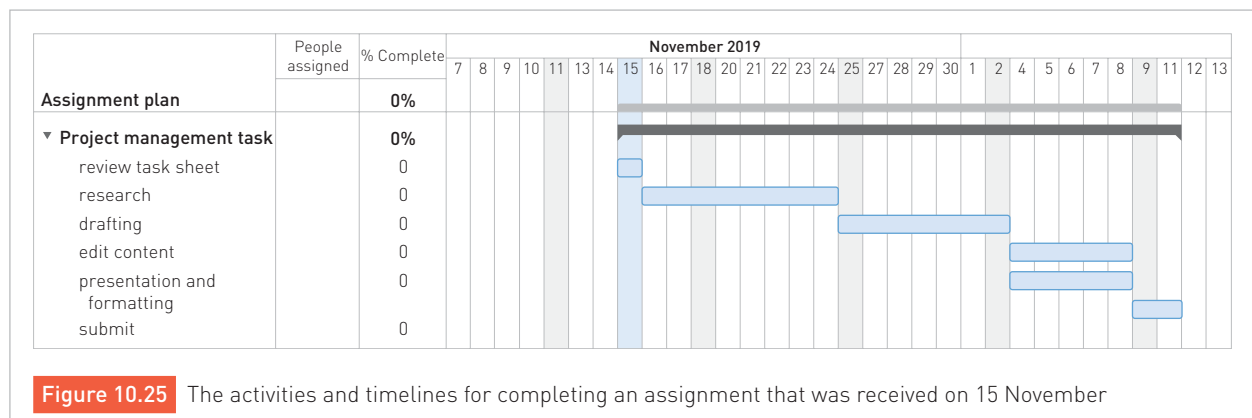


Figure 10.25 The activities and timelines for completing an assignment that was received on 15 November

ANALYTICAL TOOL



How to create a Gantt chart

- Step 1:** Identify the tasks or activities for the project – this may involve a brainstorming session to ensure all essential activities are listed. Determine if any activities are predecessors (have to be completed before another activity can start).
- Step 2:** Estimate the expected time for each activity, including the earliest start date and expected duration.
- Step 3:** Input activities into a template or software, or draw the chart. Activities are listed on the vertical axis and time (in days, weeks or months) across the horizontal axis. In the chart, bars show each activity and its length.
- Step 4:** Determine whether the starting time or finishing time is more critical. This will determine whether you engage in backward or forward planning.
- Step 5:** Once the project has commenced, use the Gantt chart to monitor and control the project. The chart must be updated to reflect changes as soon as they occur.

Create a Gantt chart

You work for Sunland Pools, a business that specialises in customised swimming pool design and construction. You have been given the following project details:

	Activity	Immediate predecessor	Days
A	Pool design and contract agreement	--	56
B	Obtain finance	--	28
C	Obtain development approval	A	28
D	Site work to dig the hole	C	21
E	Plumbing and electrical	D	7
F	Pour concrete	E	7
G	Tile pool	F	7
H	Build gazebo	D	14
I	Landscaping	F	14
J	Council inspection for final approval	G and H	1

- Create** a Gantt chart, assuming the project starts on 1 June (current year). Identify how long the project is expected to take.
- Today's date is 7 September and it has been unseasonably wet. Work on the project was delayed for four days as a result. **Explain** how this impacts the chart and project completion.
- If work on Activity I, Landscaping, is five days ahead of schedule, **explain** how this impacts on Activity J, Council approval.

Scheduling and event management

An event is something that happens at a given place and time, for a specific purpose. Events can be:

- festivals, such as music and cultural events (Woodford Folk Festival, Melbourne International Comedy Festival)
- one-off special events (Gold Coast 2018 Commonwealth Games)
- recurring events (Gold Coast 600 Supercars, Telstra Business Awards)
- conferences
- concerts
- trade shows.

Event management involves the planning, organising, leading and controlling of all types of events, for a target audience and to achieve specified objectives. The organisation of an event requires key decision-making, organising and scheduling activities that include timing of the event and timelines leading up to it.

Timing of an event can be a key determinant of success. The Gold Coast 2018 Commonwealth Games were intentionally planned to coincide with the school holidays to increase the number of visitors and reduce the

impact on normal business operations. Seasonal weather factors can also be a key consideration. Large public events typically have a recurring date so that people anticipate the time of the event. Timing considerations to be included in a production schedule include:

- timing that best suits attendees and participants
- lead time required to produce the event (the time it takes to plan and prepare the entire event)
- conflicting activities that may create a clash
- availability of venue and other resources.

The management of an event will require well-sequenced timelines, which can be presented visually using a Gantt chart. As the finishing time, or date of event staging, is the most critical aspect, event management typically uses **backward incremental planning (BIP)** to develop the schedule. BIP looks at the date of the event and schedules planning activities backwards from this point. It applies to situations where a deadline is a required completion date and completing the process sooner produces no benefit.

GAINING INSIGHT



Twilight Running Festival



All images courtesy University of Queensland

The Twilight Running Festival was established in 2009 with the aim of creating a unique event that welcomes participants of all abilities. The event is set under the moon and stars in April and finishes within the University of Queensland (UQ) athletics stadium under floodlighting. The festival has earned the status of the 'largest twilight run in Australia' and also features a 5-kilometre run/walk and the exciting 1-kilometre Active Kids Run, where over 500 children under the age of 12 celebrate being active and healthy.

The growth of the Twilight Running Festival from 2000 participants in 2009 through to over 6000 participants is testament to the event's popularity within the community. The latest addition to the family is the Twilight Bay Run, held in September, which forms the second part of the Twilight Series.

The organisers of the Twilight Running Festival use backward incremental planning from the date of the event to schedule activities. Planning starts as the previous event finishes, but the critical project management is the 100–150 days leading up to the

event. A key performance indicator for an event like the Twilight Running Festival is the number of entries, so this is carefully tracked.

Timing of an event is key to its success. The Twilight Running Festival features the first major half marathon and 10-kilometre run in Queensland each year, attracting participants across Australia and abroad. The event has been held in March, but the Queensland weather is still volatile at this time and the event has been hampered by storms. The 10th anniversary event will move to April and will still feature as the first major running event of the season.

Capacity management is also a key performance indicator as it impacts the financial viability of the event and the quality of the experience. The Twilight Festival reached 6300 participants, but the UQ event is now capped at 6000. This ensures sufficient medals, merchandise and a quality festival. The break-even point is around 4200 participants, with the optimal figure over 5000 participants. The newer Twilight Bay Run has a capacity of 3000 participants owing to its location.

Backward incremental planning (BIP): looks at the requirements from the due date backwards and schedules the process accordingly

The UNIVERSITY OF QUEENSLAND TWILIGHT RUNNING FESTIVAL 2017 - RACE SITE RUN SHEET			
START	END	PARTY	EVENT
FRIDAY 17/3			
0900	1100	Course Director	Course inspection - identify and address hazards
1200	1300	Intraining	Table delivery to UQ athletics centre
1700		UQ Security	Fence off Car park bays in Athletics Centre car park for Portaloos
1700		UQ Security	Fence off 8x car park bays for City Cat personnel
1700		UQ Security	Ensure Coaster bus has been removed from parking bay outside Athletics Track
SUNDAY 19/3			
0900		Safety supervisor	Start / Finish area site inspection - identify risks prior to bump in
0915		Intraining	Bump in commences - set up tents, unload finish area equipment
0930	1230	Intraining	Set up volunteers - shift 1 commences
1030	1230	Running Clubs	Team tent bump in
1030	1330	Vendors	Vendor bump in - set up by 1330
1100		TFH	Portaloos bump in - top level car park
1100		TFH	Fencing bump in - Athletics track area
1130		Altus Traffic Management	Traffic management arrive
1230		Altus Traffic Management	Road closure - St Lucia campus area
1230		TFH	Fencing bump in - roadway
1300		Intraining	Set up start line on road
1300		Jim's Test and Tag	Electrical inspection commences
1300	1600		Set up volunteers - shift 2 commences
1330		OHS Supervisor	Check finish area site is safe to open to public
1400	2000	EVENT	Registration / Expo open to public
1500		UQ Area managers	Meet course marshals and Aid station personnel - safety briefing and set up
1600	1645	EVENT START	5km Race commences
1645	1700	EVENT START	1km Race commences
1700	2000	EVENT START	Half marathon and 10km race commences
1930	2200	Intraining	Clean up / pack up crew arrives. Begin dismantling registration first.
2000			Course closure
2000		Intraining bike team	Check Sir William Macgregor Drive is clear, advise Altus to open roads
2000		Intraining area managers	Ensure course has been packed up and free of rubbish
2000		Altus Traffic Management	Roads open when safe
2015		TFH	Portaloos bump out
2015		Vendors	Bump out
2030		Running Clubs	Bump out
2200		Intraining	Bump out complete - check race site / course for cleanliness
Monday 20/3			
0600		TFH	Fencing collection

Figure 10.26 The run sheet for bump in-out on event day 2017

A significant fixed cost for a running event is traffic management as there are road closures required. Merchandise is also a fixed cost as it is ordered in advance. Variable cost items for the day are relatively small, and include fresh fruit for the end of the event. Merchandise, including running singlets and medals, has a three-month lead time. This means organisers need to project the number of entries for medals and singlets. Forecasting, based on previous event data and anticipated entries, is necessary.

Timelines are carefully planned for the weeks leading up to the festival and a work breakdown is completed for event day. Event organiser and Intraining running store

owner Steve Manning says, 'There is a lot of work in the lead-up, but festival day is intense. We start at 9 am, with seven hours until the event starts, and organise the day in one-hour increments – you are constantly managing how much time you have on the day'. This creates a workflow of resources, responsibilities and timelines for the day and ensures the event runs efficiently. A safety and risk management strategy on the day involves operating a control centre – staffed by Steve (as the Event Manager), police, UQ security and a medical officer. This team reviews conditions on the day.

The Twilight Running Festival organisers manage the operational processes around the event in an



efficient and effective manner. The event has a unique position in the running calendar that has seen it grow in terms of participant numbers and festival experience, and become an event for the whole family.

Questions

- 1 **Construct** a flowchart to illustrate the sequencing of activities that would be required on the day of an event such as the Twilight Running Festival.
- 2 **Explain** why planning and scheduling are important for project management, including for the staging of events like the Twilight Running Festival.
- 3 Using the information in the case study, **create** a Gantt chart for event day.

- 4 Visit the Twilight Running Festival website.

Examine the impact on the operations of the festival if the 5-kilometre run/walk were to commence 30 minutes late.

- 5 **Evaluate** the decision to cap the running festival at 6000 participants, using the criteria of efficiency and effectiveness.



Extension activity: Gantt chart and event management

Select an activity that your school is organising (for example, the school open day or athletics carnival). Using the steps to create a Gantt chart, complete the process for your activity. **Create** a Gantt chart (either by hand or using Excel) to visually present your scheduling of activities.

Key learnings

You will learn the following about quality strategies:

- quality control
- quality assurance
- total quality management.

Quality strategies

To be successful and move beyond establishment in the life cycle, a business must view quality as an essential part of operations strategy. Quality is a term that carries important meaning to both producer and customer, with the producer seeking quality processes and consumers assessing quality based on their degree of satisfaction with the product. From a customer viewpoint, a quality product does not necessarily have to be the best on the market, but it must conform with expectations. For example, consumers have different expectations about quality based on the different prices of products: quality expectations of an inexpensive product will differ from one priced at a premium. Therefore, a quality objective for any business is to provide customers with a product that meets their expectations.

There are many factors against which quality can be assessed, including:

- conforming to standards and specifications
- performance and ease of use
- durability
- reliability
- features
- consistency
- aesthetics in design
- speed of service
- after-sales service.

Quality management relates to the processes that a business carries out to meet quality objectives, including that products are safe, reliable and fit for purpose. A strong focus on quality management can be a competitive advantage for a business. It is also a requirement of the Australian Consumer Law that products be of 'acceptable quality' – this means products:

- are safe, lasting, with no faults
- look acceptable
- do all the things someone would normally expect them to do.

For more information on 'acceptable quality' and consumer guarantees, refer to the ACCC website.

To achieve quality objectives, a business must have a quality system in place. This means having structures, responsibilities, processes and resources focused on quality outcomes. The management of this system can take one of three forms:

- a quality control approach
- a quality assurance approach
- a total quality management approach.



ACCC

Quality control

In its simplest form, quality control (QC) is about inspecting, testing or checking the product to ensure it conforms with ‘acceptable quality’ and is free from faults. The intent is to identify problems, and either fix or eliminate them, to ensure products conform to predetermined criteria or control standards. QC checks will be performed at the end of the production process and often at critical intermediate stages by a trained quality inspector. If a fault is detected, the product may be either scrapped or reworked to achieve conformity. For poor service, this means repeating the service at no charge until the customer is satisfied.

QC is a reactive approach that has some drawbacks:

- It is not always feasible to inspect every item on a production line.
- There is a chance that inspectors will miss defects.
- Rejected product is expensive as it has incurred costs of production but cannot be sold. This represents waste in production. Some rejected products can be reworked, but this still incurs a cost.
- If defect levels are high, profitability can suffer unless steps are taken to rectify the causes of the defects.

The QC process must be ongoing to ensure that the source of defects is rectified. With the use of batch numbers and codes on products, businesses can investigate where problems exist and identify where improvements to the process must be made.



Figure 10.27 Management of quality can take three forms.

INQUIRY



Quality control and ethical conduct

Over the past year there has been a spike in quality control issues that have resulted in product recalls, damage to corporate reputations, bankruptcy and loss of human life. Kobe Steel has admitted its employees falsified quality checks on tens of thousands of tonnes of metal products, including steel powder and steel rods, as well as the aluminium used by Boeing. Both Subaru Corporation and Nissan Motor Company have been implicated in the quality control scandal with lapses in inspection process, including improper checks on cars. Takata Corporation's



exploding airbags have been the subject of the industry's biggest ever recall, with questionable product development practices and a lack of unified testing specifications among the issues identified.



Thomson Reuters/Hyungwon Kang

Figure 10.28 A recalled Takata airbag inflator removed from a Honda passenger vehicle. A review panel noted several flawed practices at Takata, including allowing products under development to continue downstream even though design milestones were not met.

Inquiry task

You are to conduct an inquiry into the issue of quality control in the car industry, including an appraisal of the organisational culture and ethics of implicated companies, by answering the questions below.

- 1 **Research** the issue of poor quality control processes in the car industry to identify the companies involved. **Create** a timeline of improper operations practices over the past decade.
- 2 Provide a **description** of the current business situation evident, including facts and characteristics. Consider all business in the supply chain that may be directly or indirectly involved in the situation.
- 3 **Explain**, using examples, how quality management has not been upheld by the businesses identified in your timeline.
- 4 **Interpret** the organisational culture and ethical climate of the businesses in question to **draw a conclusion** about the key objectives of these businesses. Consider whether businesses have an ethical responsibility to recall products if they think there may be a problem despite no fault having yet been reported.
- 5 **Evaluate** the business practices and strategies of one of these companies, using the criteria of efficiency and effectiveness. **Propose recommendations** to the company.
- 6 **Create** a short (one A4 page) business report, addressed to the chief executive officer of your chosen company, to highlight key findings and recommendations.

Quality assurance

While QC is a reactive process, quality assurance (QA) is a proactive approach that aims to prevent quality problems before they occur. QA involves having a system established to ensure that predetermined quality standards are achieved; this prevents product defects or errors in service delivery. Quality is ‘assured’ or guaranteed because QA endeavours to have systems that continually improve processes, including regular audits.

Businesses obtain certification from a quality assurance authority, which audits against published national or international standards. Achieving certification entitles the business to display certification marks. Standards Australia provides support to businesses pursuing QA, with advice on processes and awarding of certificates for meeting certain standards.

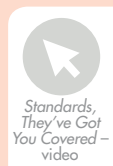
See the International Organization for Standardization website for the benefits to business of achieving ISO 9001 as a quality assurance program for businesses, both large and small.



GAINING INSIGHT



Standards Australia: they've got you covered



View the Standards Australia production titled *Standards, They've Got You Covered* to learn what a standard is and how it is developed. This shows that, while some standards are voluntary, others – such as sunscreen standards – are written into law.

View the Standards Australia production titled *Sky News: Standards, Business and Energy Efficiency* to determine the benefits of standards to the business sector and how these standards are of particular support to SMEs.



Total quality management

Total quality management (TQM) is a management philosophy that seeks to unite all business functions (marketing, finance, operations and human resources) to focus on continuous improvement and meeting customer needs, both internal and external. It makes quality a responsibility of all areas of the business, not just an operations concern, meaning TQM includes employees from across the functional areas and all levels of management. The focus is on ‘getting it right the first time’ to achieve zero defects.

TQM focuses on continuous improvement, rather than checking for defects, which requires a realignment of organisational culture. Quality cannot be viewed as someone else’s responsibility – the quest for quality must affect the attitudes and behaviours of all employees. To be effective, the strategy must be fully explained, and supported by all levels of the business, and extensive training given to all employees. The aim is make all workers accept that the quality of their work is important to the whole system. Employees are empowered with the responsibility for their work, which can lead to increased levels of employee motivation, as recognised by Herzberg’s motivation factors (see Chapter 4, page 135).

QUESTIONS 10.4



- 1 Visit the Product Safety Australia website to **gather data** and **information** about the types of products typically recalled.
- 2 Select one example and **identify** the defect and hazard. **Interpret** the effects of the recall on the business and consumers.
- 3 **Explain** a suitable quality strategy for minimising the risk of future product recalls.



Total quality management (TQM): a management philosophy that seeks to unite all business functions and employees to focus on continuous improvement and meeting customer needs

Chapter 10 review

This chapter introduced the operational processes and strategies used by businesses in the growth stage of the business life cycle. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

10.1 Short items

- 1 Using an example, **describe** the operating environmental factors influencing market entry of a small to medium-sized business.
- 2 **Differentiate** between the production of goods and the provision of services.
- 3 **Explain** the relationship between customer service and the production system.
- 4 Using examples, **explain** the importance of facilities location for a manufacturer, and a service-based business. **Identify** the key considerations for optimal location in each example.
- 5 **Determine** the key objectives in retail layout design and outline the factors available for achieving the objectives.
- 6 **Discuss** the key objectives of materials management and **explain** how this can present a challenge for a business in the growth stage of the business life cycle.
- 7 Using examples, **examine** the challenges of inventory management.
- 8 Using a T-chart, contrast just-in-time and just-in-case inventory.
- 9 **Define** the concept of supply chain management, including a **description** of upstream and downstream production.
- 10 **Explain** the relationship between supply chain management and logistics.
- 11 **Define** capacity utilisation and **explain** its importance for a business during start-up and growth.
- 12 **Distinguish** between scheduling and sequencing.
- 13 Use a double-bubble map to **compare** the similarities and differences of quality control and quality assurance.

10.2 Interpretive items

- 1 **Explain** why the location of a new fine-dining restaurant is of strategic importance to the business. How does this differ from the case of a manufacturing business?
- 2 Using the Remedy Kombucha case study (pages 359–61), answer the following questions.
 - a Write a one-paragraph response to describe the business situation that led the Condons to establish their business.
 - b Write two paragraphs to describe the operating environmental factors that have impacted operations at Remedy Kombucha. Ensure you include business facts and characteristics present.
 - c Conduct a USP analysis, relative to two competing businesses, to **draw conclusions** about the implications of operations strategies at Remedy Kombucha.
 - d **Create** a graph of the USP analysis and write a short report to the owners of Remedy Kombucha to communicate their operational edge.

10.3 Extended-response items

- 1 **Research** and **create** a written script for a debate on the topic: 'Businesses have no social (or environmental) responsibility other than to earn a profit for their owners and to supply work for employees.'
- 2 With reference to the five:am Organic case study (pages 372–3), and using the inquiry process, answer the following questions:
 - a Conduct research to **select** data and information about the business to **analyse** the strengths, weaknesses, opportunities and threats, taking into account their operational processes or strategies and competitive situation.
 - b **Interpret** the relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of operational processes or strategies.
 - c **Evaluate** two operational processes or strategies the business could consider, using the criteria of effectiveness and efficiency.
 - d **Create** a business report, addressed to the Operations Manager, to **communicate** your findings.

10.4 Activities

- 1 **Create** a diagram to illustrate and **explain** the production system for:
 - a a soft drink manufacturer, for example Coca-Cola
 - b a hotel, for example the Sofitel
 - c a fast food outlet, for example McDonald's.

- 2 Assuming a business currently has a maximum annual production capacity of 100 000 units, **calculate** capacity utilisation at the following output levels:

- a 20 000 units
- b 40 000 units
- c 75 000 units
- d 99 000 units

From your results, **identify** the optimum level of capacity utilisation for the business from the alternatives given, and **identify** the challenges present with the other output levels.

- 3 As a boat builder, you are at full capacity in your current location. You are able to relocate to a new facility further down the river nearby, or you can expand your existing facility. After analysing the options, you are presented with the following:

Alternatives	Profit if:	
	Moderately successful	Highly successful
Relocate down stream	\$180 000	\$800 000
Expand existing facility	\$260 000	\$600 000

You have been told that the chance of being moderately successful is 0.7, while the chance of being highly successful is 0.3. **Create** a decision tree to **determine** which is the more viable option. **Describe** any other considerations necessary in making the decision to relocate. **Create** a short paragraph to justify the preferred option.

- 4 Refer to the table below, for the project management of a new festival, to answer the questions that follow.

	Activity	Immediate predecessor	Weeks
A	Book venue for festival	–	1
B	Pay deposit for venue and confirm spaces	A	1
C	Prepare budget and planning schedule	A	2
D	Book performers	A	4
E	Commence promotion of festival	D	1
F	Ticket sales commence	E	6
G	Organise food and beverage sellers	B	4
H	Obtain permits and complete risk assessment	B	8
I	Organise equipment	D	4
J	Publish program for festival	E	1
K	Train staff and volunteers	H	1
L	Set-up and final preparations	H	2
M	Festival	L	1 day

- a Assuming that the festival will be held on 1 October, **create** a Gantt chart to visually organise the project.
- b **Explain** the planning strategy that the event manager would need to use.
- c Activity H is scheduled to take eight weeks. If this activity took nine weeks, **explain** what this would mean for the project and how this could be managed.



Case study 4: Entering markets

SQD Athletica

About SQD Athletica

SQD Athletica is a proud Australian brand, founded on a passionate desire to inspire men to be fit for life. It is uniquely positioned as a health and wellbeing brand, delivering a customer experience that connects with men. SQD Athletica is a new lifestyle brand that is redefining activewear for men.



SQD Athletica is a small-to-medium enterprise (SME) that commenced operations in 2016 and currently employs approximately 20 people. It has recently emerged from the establishment phase of the business life cycle and is now facing the opportunities and challenges of the growth phase as it seeks to establish a strong market presence. SQD Athletica opened its first retail store in Brisbane in October 2016. A strategic goal is to open more stores in Sydney and Melbourne in coming years.

The business was conceived by identifying that there was nothing on the men's side of the health and fitness industry that was catering directly to the needs of men. A gap was detected at the premium end of the market delivering high performance sports gear. This niche for men was driven not as 'activewear'; rather, as 'active lifestyle'.

SQD Athletica has entered a competitive environment by identifying a niche. This competitive environment can be examined from three perspectives:

- brand competitors – Nike, Adidas, Under Armour, 2XU, Lululemon
- retail competitors – Rebel Sport
- online competitors – the Iconic and Amazon.

Challenges in the growth stage of the business life cycle

Brand awareness is everything for a new business. Building community is a key focus – we need to have a core community or support group – being authentic within that community and reaching out and growing from there to get a sustainable and lasting brand.

SQD Athletica General Manager, Ben Falvey

Brand awareness is a focus for a new business like SQD Athletica as it transitions from establishment into the growth phase. Having consumers aware of the brand is step one – the key marketing objective – and then awareness must be converted into sales. The business needs to motivate guys to change from their current brand. This can be tough when using an online platform as customers cannot feel the quality of garments and interact with the product. The challenge is getting guys to try the product, but once converted, they tend to be very good customers. This will fuel growth.

Another challenge relates to consumer buying behaviour. You can do a lot of research, but things can be totally different once operating. For example, research indicated that many women either purchase for their husband/partner or are strong influencers on the purchase decision, but this is not always the case – guys do know what they want in a product, they just don't always communicate it. Guys know what they like in a product – moisture wicking, flex fabric – they have been educated by other brands in terms of what to expect in a quality product. SQD Athletica must meet this expectation. This poses a challenge for a new business establishing practices and processes that allow you to compete with much larger, more established competitors.

Marketing at SQD Athletica

Target market

Demographically, SQD Athletica has segmented the market broadly as males aged from 25 to 54 years, with the sweet spot being 25–40 years. Geographically, their core concentration is the east coast of Australia. The business has further defined its target market using psychographic and behavioural factors.

The core target is primarily represented by generation Y, who are highly engaged with health and wellness and believe being fit and healthy is critical to a fulfilled life. They are fashion forward and willing to spend more. They are influencers, innovators or early adopters who will pick up the brand and advocate first. Lifestyle and individuality are priorities.

A secondary target market is made up of generation Xs and Ys who are as physically active as time allows. They perceive themselves as time poor due to long work hours and social functions, which don't leave a huge amount of time for working out. This segment generally understands the importance of fitness and lifestyle, when time allows, and are financially stable.

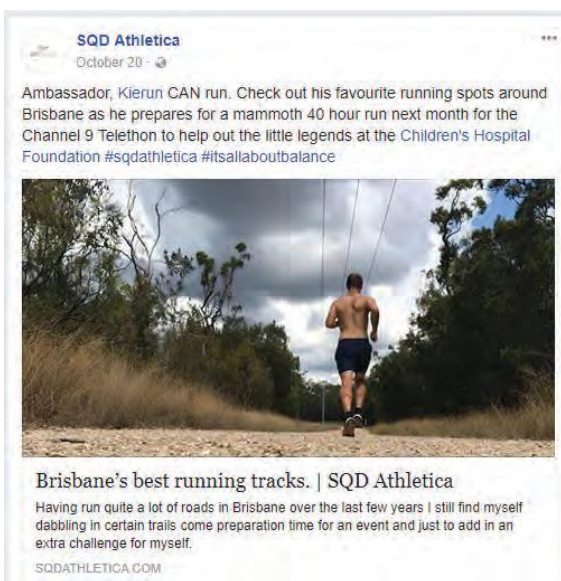
Marketing

During establishment and growth, the key marketing objectives are to build brand awareness, engage with the target market and stimulate traffic to stores, website and social channels to generate sales. The overarching communication strategy is content. SQD Athletica delivers digital content that defines and excites the target group, seeking sustainability and not short-lived campaigns. Content focuses on appearance, movement, nutrition and lifestyle. Content engages, entertains and shares real ambassadors, not celebrities, keeping it authentic.

Brand strategy

The brand name 'SQD Athletica' has intellectual property protection in the form of a trade mark. SQD is short for 'squad' but this word could not be trademarked. The business still uses 'squad' as part of its branding – it is a trending word with a positive association. The brand mark, the SQD symbol, is also used as a unique identifier of the business. Having strong intellectual property protection has removed the legal and financial risks of having to rebrand or face 'copycats' as the business grows.

SQD Athletica has identified a market opportunity for men in the Australian retail landscape for 'athleisure'. The positioning strategy goes beyond the core product to reflect the total product concept as a health and wellbeing brand. SQD Athletica has positioned itself using consumer perceptions based on key attributes related to the technical product, in an athleisure market, and the level of retailer engagement.



All images courtesy SQD Athletica

Figure C4.1 An example of an authentic ambassador creating content to promote the SQD Athletica brand



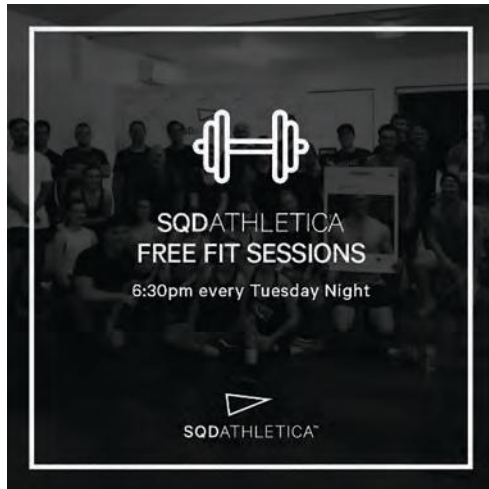
Figure C4.2 SQD Athletica is about brotherhood. The brand strategy centres on creating a squad – inspiring men to be fit for life.

Marketing mix

Product

The SQD Athletica range is not just apparel; it's lifestyle, image and community – it's being part of the 'squad'. Having good product is the minimum, or the expectation; the key is how the brand aligns to the community and fulfils a need. The apparel range uses technical fabrics for their antibacterial and anti-odour benefits, along with distinctive design and safety features. Complementing the apparel range are relevant accessories, including bags, towels, water bottles, socks and headwear.

SQD Athletica is so serious about helping get some balance in life that it provides free fitness sessions at its Gold Coast and Brisbane stores. For customers who don't live locally, or can't make it to a fitness session, there are online sessions to help consumers get into reasonable shape, no matter where they are.



Broga with Sam Wallace



Figure C4.3 SQD Athletica offers Fit for Life sessions as a service to its target audience, both instore and online.

Promotion

As a business at start-up, traditional mass-media advertising was not affordable or reflective of the brand image. A cost-effective promotion mix, focused on engagement, was created to meet the objectives of awareness and conversion to sales. SQD Athletica focuses on digital avenues, including search engine optimisation (SEO), social media, content marketing and electronic direct mail (EDM). SEO is required to ensure the website can be found and that SQD Athletica holds a positive Google ranking score. A blog is used for content, including video, written articles, images, infographics and reports – these build connections, conversations, purchase intention and, ideally, loyalty.

Research and experience has shown that SQD Athletica's target market is more traditional in media habits than women, who are more online in terms of social media marketing. While social media is used to create brand awareness, this does not necessarily engage men at the same level. The target market is not actively on social media to engage with brands in the same way as women are.

SQD Athletica uses brand ambassadors to delivery credibility and engagement. As a business entering the growth phase of its life cycle, referral or word-of-mouth is a priceless promotion avenue. According to Ben Falvey, 'The strongest engagement is product on bodies and referrals – community – getting product out there.'

Price and place

SQD Athletica's pricing reflects the premium, highly technical products it sells. Distribution supports the pricing strategy, with a focus on customer connection and relationships. The business uses a multichannel distribution strategy, selling direct to customers through its retail stores (currently in Fortitude Valley in Brisbane and Pacific Fair at the Gold Coast) and using non-store retailing through the website. SQD Athletica also uses wholesale distribution via the Iconic. The focus is on creating authentic spaces for people to connect, instore and online.

Operations at SQD Athletica

Production of goods

SQD Athletica has worked with a unique group of suppliers to develop bespoke fabric compositions with



Figure C4.4 SQD Athletica's Pacific Fair store

technical properties – the apparel range delivers performance, fit and function. As a new player in the market, the expectation is still that quality is as good as that of established players. While all the products are designed in Australia, there are very few technical fabrics produced here, nor is there manufacturing left in Australia providing the specialised production techniques (heat-sealed seams, application of specialty trims), which means overseas production is necessary.

When starting out, and looking to secure a manufacturer, a significant challenge is production runs – manufacturers have minimum numbers of units for production runs before they will talk to you. This must be balanced against having too much start-up capital tied up in stock. There are operational challenges for a new entrant to the market, such as:

- long lead times – it can take six to nine months from the design phase through to having the product instore. It was critically important to plan for arrival of inventory ready for the October 2016 retail launch
- supply chain management and lead times – these are the biggest operational challenges at start-up and as the business is growing
- relationships with manufacturers – pitching to them to have them take you on and then to compromise on initial order minimums across production runs. The aim is for a long-term relationship that is mutually beneficial
- communication – can be a challenge due to language barriers and differences in technology usage. SQD Athletica currently sources its technical fabric from Taiwan, while manufacturing happens in China
- range – with product ranges for running, training, cycling and lifestyle, you need a production run for each range.

Inventory

Unlike for an online start-up, an inventory challenge was the need to have enough product to stock a retail store during the launch. Having product ranges for running, training, cycling and lifestyle necessitated a minimum production run for each range. As the lead time for inventory was six months, SQD Athletica had to balance having enough stock arrive in time for the launch against the challenges of having too much stock on hand.

Comparatively small production runs occurred at the start but, as the business grows and production runs increase in volume, it will achieve efficiencies as cost per unit comes down. SQD Athletica uses a sales forecasting system to calculate stock requirements – this is based on the balance of styles and the minimum purchase requirement from the manufacturer. The business uses a third-party logistics company to manage its supply chain, which allows it to focus on the core business.

Quality

At the outset of the manufacturing relationship, it is critical to establish expectations regarding quality. SQD Athletica's head designer had a previous relationship with the business's manufacturer. He conducts onsite visits to ensure that the product delivered is what was envisaged. The business also uses an external quality control company, based in China, to inspect the product in the factory before it is 'accepted' by SQD Athletica. Quality control and inspection, before the product is accepted, are a key risk reduction practice.

Looking forward

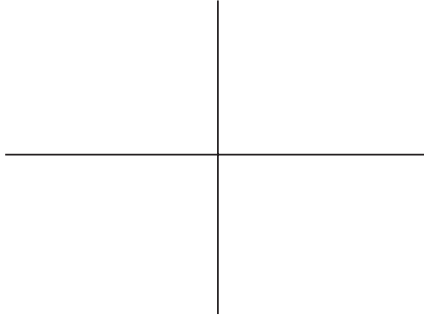
SQD Athletica is entering the growth phase of the business life cycle and has created brand awareness, meaning its aim is to accelerate growth. It has the infrastructure to grow quickly, with outsourced logistics and manufacturing – a lot of the processes and practices are now in place. The business has a strong understanding of its brand and target market, with the customer central to all decision-making. SQD Athletica has positioned itself strongly for men in the retail landscape for athleisure.

Join us at SQD Life and start to enjoy the #goodtimesahead



Questions

- 1 **Describe** the business situation of SQD Athletica, including the position in the business life cycle, operating environmental factors, target market and the total product concept.
- 2 **Research** and **select** data and information relevant to SQD Athletica and its business environment to complete a SWOT analysis.
- 3 **Research** and **select** information to **create** a positioning map for SQD Athletica. **Interpret** the positioning map to **draw a conclusion** about the key competitor(s) in the market.



- 4 Using your findings from the positioning map, **analyse** the unique selling proposition (USP) for SQD Athletica, compared to the leading competitor. To complete this, ensure you:
 - a **select** data and information from SQD Athletica and the leading competitor relating to the marketing mix and customer service to analyse the USP of SQD Athletica and its key competitors (remember: create a table and use criteria)
 - b **create** a graph to plot the data from the USP Analysis.
- 5 **Interpret** the relationships and patterns in the SWOT analysis and USP analysis to **draw conclusions** about the implications of market entry.
- 6 Use the criteria of competitiveness, effectiveness and stakeholder satisfaction to **evaluate** two marketing and operational strategies implemented by SQD Athletica.
- 7 **Make a decision** and **propose recommendations** about optimal market entry strategies.
- 8 **Create** an extended response for an internal stakeholder audience to **communicate** your findings. Your extended response must include visual representations and in-text referencing and may take the form of either:
 - written response in report genre, or
 - multimodal presentation.

GLOSSARY

Accountant: a person who records, monitors and reports upon a business's transactions and subsequent financial reports

Acquisition: the first stage of the employment cycle, which focuses on assessing a business's staffing needs and continues through to the recruitment and selection process to seek the best candidate for a job or role

Administration: a process, explained under the *Corporations Act 2001* (Cth), whereby an insolvent company is placed in the hands of an independent person who assesses the options available, and generates the best outcome for all stakeholders including the business owner and creditors. Administration can be initiated voluntarily by the business, or involuntarily, by the creditors who are owed money.

Advertising: any form of paid, non-personal communication, by an identified sponsor, through a mass medium

Applicant: a person who applies for a job or role

Architectural innovation: taking the components of a product and reassembling or redesigning them in a new way to introduce to a new market

Assets: items of value that a business owns

Backward incremental planning (BIP): looks at the requirements from the due date backwards and schedules the process accordingly

Benchmark: the process of comparing a business against other businesses in that industry

Brand: the name, term, symbol, design or a combination of these that uniquely identifies a product and distinguishes it from the competition

Break-even analysis: a tool to analyse the break-even point of a business where total revenue equals total expenses or costs; identifies key drivers relating to profit, including sales, volume, production costs and sale price

Budget: an analytical tool used, before transactions occur, to compare anticipated income with expenses

Business plan: a document that compiles the goals and objectives of a business and how it sets out to achieve them, including how the business will manage its operations and strategies

By-product: a secondary or resultant product created as part of a production system. This incidental output by one business can be a key input for another.

Candidate: a person who is shortlisted from a pool of applicants in the selection process

Capacity utilisation: expresses current output as a percentage of total potential output. It indicates the amount of available capacity being used to supply current demand.

Capital: the amount of finance invested by the owner/s in a business

Career planning: the process in which a business tries to support a staff member in achieving their career goals such as moving into management roles, training in new areas or seeking promotion

Cash flow: the monitoring of money that flows into and out of a business. A business must strive for positive cash flow, which means more money flows into the business than is paid out.

Cash interest rates: a charge, set by the Reserve Bank of Australia, that regulates a percentage fee associated with lending funds, or the expected return on funds that are invested

Certificate: an approval from a local council that identifies a business is meeting its legal obligation related to a specific operating task

Chain of command: the line of authority and responsibility of different management roles within a business

Cite: to reference a primary and secondary source in a body of text by acknowledging the author and year of publication

Cloud computing: pay-per-use or subscription services for storing and accessing data and programs over the Internet instead of on a computer hard drive

Codes of practice (Industries): a set of standards put in place to prevent unethical or dangerous practices occurring in an industry

Codes of practice (Workplace Health and Safety): the practical guide to achieving workplace health and safety, fine-tuned to industries

Competitiveness: the ability of the business to offer products or services that meet or exceed market standards in relation to other businesses

Competitor: a person or entity that offers competing products or services

Constitution: a document that outlines the rules that govern a company, its directors and shareholders

Consumer behaviour: the behaviour that consumers display in searching for, purchasing, using and evaluating goods or services that they expect will satisfy their needs and the impacts that these processes have on the consumer and society

Consumer guarantees: a set of rules regarding goods and services purchased by consumers under the ACL that automatically apply, regardless of any voluntary or extended warranty given by a seller or manufacturer of goods and services, or if such a warranty has expired

Consumer sentiment: the degree of confidence consumers feel about the overall economy and their personal financial situation. This influences the level of spending that consumers will engage in.

Controls: the policies and procedures a business puts in place to ensure that the security of the business's finances is maintained

Copyright: the automatic protection of the original expression of ideas, but not the ideas themselves – covers, for example, the work of visual artists, musicians, writers and video and film makers

Cost advantage: the ability of a business idea to deliver the cheapest product on the market that meets the standard expectations

Cost-benefit analysis: an approach to determining the financial viability of a project or strategy by comparing the predicted benefits (returns or income) with the anticipated costs associated with the project or strategy

Cover letter: a document that accompanies a person's resume, communicating to a business that the person would like to be considered for a job

Culture: beliefs, values, attitudes and customs shared by people in a society

Customer relationship management (CRM): focuses on customer retention and relationship marketing, enhanced by technology. CRM involves sophisticated software that assists with analysis of customer revenue and costs, identifies high-value customers, targets promotional efforts, captures customer data and tracks retention.

Customer service: the intangible output of how well a business meets and exceeds the expectations of customers in all aspects of its operations

Debt finance: funds that a business seeks from external sources, such as financial institutions. The business uses the money to purchase assets, but must pay back the debt finance over time, incurring interest charges. The most common form of debt finance is a loan.

Deficit: occurs when a business forecasts that its expenses exceed income when formulating a budget.

Demographic: a specific market, which can be based on age, gender, education level, income level, occupation or any other variables

Deregulation: the process of removing or reducing restrictions and controls on an industry in order to improve the ease of entering a market and achieve greater competition

Development: the second stage of the employment cycle, which focuses on the induction and training of staff to support the business in achieving its desired corporate and organisational culture

Differentiation advantage: the ability of a business idea to deliver benefits that exceed those of competitors

Disruptive innovation: innovation that happens when a smaller business with fewer resources is able to successfully challenge an established business in the market by focusing on the market segment that is overlooked and then moving into the mass market

Employment agency: an organisation that aims to upskill unemployed people and place them into work

Employment contract: an agreement of working conditions between employer and employee that may exceed minimum standards set out in modern awards or the national employment standards

Enterprise bargaining: when employers and employees negotiate pay and working conditions, which are recorded in an agreement. Both employers and employees can appoint representatives (employer associations and trade unions) to assist in the negotiation process.

Equity finance: the internal funds invested into a business and used to purchase assets; often referred to as capital

Established state: a state in which the business is consistently generating revenue and adding new customers and should be generating a consistent source of income

Ethics: principles that guide the way a business acts

Expansion state: a state in which the business adopts strategies to move into new markets and distribution channels, either geographically or demographically

Expense: a cost involved in operating a business

External recruitment: occurs when a business seeks applicants from outside of the business

Feasibility report: a document that assesses potential solutions to a business problem or opportunity and determines which of these are viable for further analysis

Feasibility study: an analysis of how successfully a project or idea can be completed to determine its viability and potential action plans for moving forward

Feasible: capable of being achieved, accomplished or put into effect; reasonable enough to be believed or accepted; probable, likely

Finance company or agent: an organisation that provides debt finance products to the market, but that is not legally established as a bank or financial institution

Financial advisor: a person who is qualified to provide investment advice to clients

Financial institution: an organisation that provides banking services

Financial intermediary: an organisation such as a bank, credit union or finance company that offers debt finance products to the market

Franchise: a business relationship in which the franchisor (the owner of the business providing the product or service) assigns to independent people (the franchisee) the right to market and distribute the franchisor's goods or service, and to use the business name for a fixed period

Franchisee: the person who is granted the license to run a franchise

Franchisor: the company that sets up the franchise arrangement and grants the licensing rights

Front-line management: staff who are tasked with responsibility for supervising or overseeing day-to-day business operations and are accountable to middle management in the chain of command

Goodwill: a monetary value that reflects the reputation of a business

Guided inquiry: an approach where the teacher provides students with an initial inquiry question and supports the student in developing further inquiry questions, researching and completing the investigation

Hierarchy: a system that places people according to their level of authority in a business

Hypothesis: a predicted answer that requires research to establish its truth or otherwise

Incremental innovation: innovation that occurs over time through a series of small improvements

Incumbent: in business, refers to a business that is already in position in a market

Induction: a process in which an employee is introduced to, and becomes familiar with, a business

Industrial relations: the relations that occur between employers and employees

Industry/professional association: an organisation established and run by industry representatives and/or professionals, providing support and advice to members, and advocating for their industry to other stakeholders

Inflation: the general increase in prices for goods and services as the value of money decreases over time

Innovation theories: ideas regarding the technological, organisational, financial, and commercial activities necessary to create, implement and market new or improved products or processes

Innovation: occurs when an original invention is improved upon, or a significant contribution is made to the existing product, process or service

Inquiry process: the steps to follow in order when engaging in inquiry-based learning

Inquiry-based learning: a framework that informs how an investigation can be completed through conducting research, analysis of information, evaluation of outcomes and a reflection on the process

Insolvent: describes a business that is unable to pay back its debt finance

Insurance broker: a person who provides professional insurance advice and negotiates policies on behalf of

Intellectual property: the property of the mind, intangible items or proprietary knowledge that a person or business creates and owns

Intermediaries: independent organisations within the distribution channel that make it possible for products to reach the end user

Internal recruitment: refers to a business inviting employees within the organisation to apply for a job or role

Invention: the creation of a product for the first time

Inventory: the materials and goods required to allow for the production and supply of products to customers

Investment: when a person contributes their own funds to a business or enterprising activity, with the goal of making a return on their money

Job advertisement: a business document created to attract potential candidates to a job by outlining what the role will entail, its pay structure, qualifications or experiences required and its location

Job analysis: the process by which a business identifies its staffing needs

Just-in-case (JIC): an approach to inventory control that involves ordering extra inventory as a 'buffer' just in case it is needed, to insure against running out

Just-in-time (JIT): aims to keep inventories to a minimum, meaning no buffer or safety stock is held and components arrive just in time to be used in the production system. Finished goods are delivered to customers as soon as completed.

Key performance indicators: objectives set by a business, which can be measured to allow business performance to be assessed

Large business: a classification for a business which has more than 200 employees and/or an annual turnover above \$250 million

Liabilities: money a business owes to another party, generally in exchange for the purchase of assets

Licence: a legal acknowledgement that a person or business is granted permission to operate

Liquidity: relates to a business's ability to convert assets quickly to cash, which may then be used to cover expenses

Litigation: when legal proceedings occur between two opposing parties to enforce or defend a potential breach of the law

Maintenance: the third stage of the employment cycle, focused on motivating and supporting staff in the workplace to help the business achieve its goals and objectives

Mandatory standards: the legal requirement for businesses to inform consumers about the safety of particular goods, often completed through labelling of the product

Market presence: the message a business communicates to prospective and actual customers. This message should be clear and reflect the key attributes from the total product concept and branding.

Market research: the collection, recording, organising, analysis and reporting of data to aid marketing decision-making

Market share: a business's share of the total industry sales for a particular product or service, often expressed as a percentage

Market skimming: charging the highest possible price in the short term to earn a high profit on each item sold and gradually decreasing it in the longer term

Materials management: a system for planning, purchasing, moving and storing material in an optimum way that helps to minimise costs

Medium business: a classification for a business which has 20–199 employees and/or an annual turnover above \$10 million

Mentor: a person who provides advice, support and guidance to another person who has less experience

Micro-business: a classification for a business which has 1–4 employees

Middle management: leaders within a business who are responsible for implementing the decisions of top-level management while also supporting front-line managers and employees in achieving business objectives

Modern awards: a type of law issued by the government that outlines the minimum working conditions for employees within an industry

Mortgage: the name given to a loan that is used to secure land and/or buildings

Motivational theories: theories about the concepts and processes that describe the activation of goal-orientated behaviours in humans

Niche market: a smaller section of a larger market segment, focusing on a select group of customers; also known as a concentrated or micro market

Ombudsman: an officially appointed organisation that investigates complaints made against a business, dependent on industry

Open inquiry: an approach where the student completes the inquiry process independently

Operations management: involves planning, organising, leading and controlling all the resources needed to produce a business's goods and services

Opportunities: elements that contribute to giving a business a competitive edge; for example, a new market for a product or a global expansion

Outsource: to contract another business to perform services in return for a fee

Over-capitalisation: the financial position in which a business has more assets than are required for its core operations

Patent: a patent is a right granted for an invention (standard patent) or innovation (innovation patent) that is new and has not been disclosed in the market before

Penetration pricing: charging a very low price in the short term to generate high sales volume and meet sales objectives of the business

Perception: the process by which an individual selects, organises and interprets information into a meaningful and coherent picture of the world

Performance management system: a process implemented by a business and used to review and assess a staff member's performance in their job or role

Permit: a legal acknowledgement that a person or business is allowed to operate an aspect of the business not covered by standard licensing

Pitch: a type of presentation in which a person attempts to persuade others of their worth or the value of their idea. In human resources, a candidate may pitch their suitability for a job.

Plant breeder's right: the exclusive commercial rights for a registered variety of plant

Point of difference: the ability of the business to offer products or services that meet or exceed market standards in relation to other businesses

Position description: a document that outlines the key responsibilities, tasks and specifications of a role

Primary producer: involved in the resource market, cultivation of natural resources and the production and sale of raw materials. Output may be marketed in its raw state or sold as an input to another business.

Primary research: information and data sources that provide direct evidence or firsthand account of an event or action from a person, group or organisation

Private investor: a person or business that provides equity finance to a private company structure. A private investor who chooses to specifically fund a start-up business is referred to as an 'angel investor'.

Probationary period: a set time during which it is agreed that an employer may terminate an employment contract if the new employee is not meeting the expectations of their job or role

Product line: a group of products that are closely related because they are intended for the same end use or same target market

Product portfolio: the total combination of products that a business sells

Product positioning: establishing, in the mind of consumers, the identifiable image and attributes of a product (or service) in relation to competing products

Production system: the set of activities that convert or transform the inputs of a business into outputs

Productivity: a measure of how efficiently goods and services are produced. It is expressed as the value of output per unit value of input.

Profit margin: the portion of a selling price that contributes to profit; generally represented as a percentage

Profit maximisation: the process by which a business strives to achieve an increased or greater potential profit

Promotion: use of advertising, sales promotion, publicity, personal selling, digital, social and emerging platforms to communicate with consumers and create sales

Proprietary: referring to the ownership of a business

Puffery: wildly exaggerated or vague claims about a product or service that no reasonable person could possibly treat seriously. For example, a cafe claiming they have the 'best coffee on earth'. These types of statements are not considered misleading.

Radical innovation: involves the harnessing of new technology and a new business model simultaneously. It does not seek to take the market share of another business or product but rather to create an entirely new and currently non-existent market segment.

Receivership: a process carried out by an independent and suitably qualified person, known as a receiver, who is appointed by a secured creditor, or sometimes by a court, to take control of some or all of a business's assets

Recruiter: a human resources professional, outsourced by a business to assist in the selection process

Recruitment: a strategy within the acquisition stage of the employment cycle which focuses on how and to who a job will be advertised

Referee: a person, generally a current or former manager or colleague, who vouches for a candidate's ability to complete a job. Referees' names and contact details are provided on a resume.

Reference: a letter, written by a candidate's referee, that recommends the candidate as suitable for a job

Registered design: protects the visual appearance or design of the product and grants the owners the exclusive rights to commercially use, license or sell the design

Registered trade mark: protects brand names, logos, original sounds and scents, and even aspects of packaging

Regulation: a rule or set of standards outlined by a government where compliance by stakeholders is required.

Relationship marketing: the process of establishing, maintaining and enhancing long-term relationships with customers so that the objectives of both parties are met

Reporting period: an accounting term that represents the span of time over which financial reports are related

Resume: a document that outlines a person's work history, qualifications and skills, and which they use to apply for a job

Retailers: sell goods or services directly to the final consumer

Revenue: the income that a business receives for goods sold or services provided

Role specification: a document that specifies the position title, hours of work and pay scale for a job or role. It does not provide the level of depth of a position description.

Scheduling: planning the timing and use of resources in the production system

Secondary producer: involved in the industrial market, processing raw materials and manufacturing goods. This involves converting raw materials into partly processed or finished goods.

Secondary research: information and data sources that describe, analyse, interpret, evaluate or judge an event or action, but are not direct evidence or a firsthand account

Selection criteria: a set of standards or expectations that a business requires of a candidate to be successful in obtaining a job or role

Selection: a strategy within the acquisition stage of the employment cycle that focuses on how a pool of candidates can be shortlisted to find the ideal candidate for a job

Sequencing: the order in which activities in the production system occur

Shareholder: an owner of a share in a business

Situation analysis: an investigation of the factors internal and external to a business that influence planning and strategy

Small business: a classification for a business which has 1–19 employees and/or an annual turnover of less than \$10 million

Small-to-medium enterprises: a term used to collectively classify micro-, small and medium businesses based on their 1–199 employees.

Solicitor: a person, qualified in the legal profession, who draws up contracts, provides advice and represents clients regarding legal matters

Solvency: relates to a business's ability to meet its debt obligations in the long term, while maintaining high value of its assets

Staff retention: the rate at which a business keeps its staff within a given period. Ensuring staff retention rates remain high can be an objective of the business.

Stakeholder: anyone with an interest in a business and how it operates. A stakeholder can be an individual, a group or an organisation that is affected by the activity of a business

Statement of financial position (balance sheet): a financial report that summarises a business's asset and how they are financed to inform the business's financial position

Statement of profit or loss (income statement): a financial report that summarises a business's revenue and expenses to calculate profit

Strategic competitiveness: an outcome achieved when a business implements an effective value-creating strategy that cannot be duplicated, or is too costly for the competition to imitate

Strategic planning: a long-term view of where the business is going and how it will get there, typically over two to five years

Strategy: the means by which a business sets out to achieve its desired goals and/or objectives

Strengths: what a business does well. This could include the type of product and service, loyal customer base or strong branding.

Structured inquiry: an approach where the teacher provides students with inquiry questions, sources and class activities to conduct the investigation

Supplier: a person or organisation that provides a product or service

Supply chain management: a part of the materials management system used to get product to the end consumer, from obtaining raw materials through to delivering the final product. It includes all businesses directly linked to the supply of goods and services to the consumer.

Surplus: occurs when a business has forecasted more income than expenses when formulating a budget

Sustainability: the capacity to endure

Target market: a group of actual and potential customers whose needs and wants a business wishes to satisfy

Tariff: a tax imposed on imported goods

Tax credits: the tax a business pays for the purchase of goods and services; offset against a business's tax liability to reduce the amount of tax that has to be paid

Tax liability: tax, collected by a business, which needs to be paid to the government

Taxation: the process in which government earns its income to provide public services. It is generally in the form of a levy that is added to the selling price of goods or services, or is calculated proportionally to a person's income and then paid to the government

Tertiary producers: involved in the provision of services, rather than production of goods. In the industrial market, these producers support the production and distribution process.

Third party: one or more people who are affected by an event, but who may not be directly involved or responsible their clients

Threats: elements that can negatively impact on the performance of a business; for example, increasing competition or a decline in an industry

Top-level management: senior-level executives who sit at the highest level of decision-making in a business, and who have the most authority

Total product concept: when customers purchase products, they are buying both the tangible attributes and intangible benefits that make up the total product. This could include the packaging, branding, warranty and after-sales service.

Total quality management (TQM): a management philosophy that seeks to unite all business functions and employees to focus on continuous improvement and meeting customer needs

Trade secret: any valuable business information that is not generally known and that efforts are made to keep confidential as a competitive advantage

Training: a process where a staff member is supported in acquiring new knowledge and skills

Trial: when a potential candidate is invited to work in a business, for the purpose of being observed, before they are offered a job

Turnover: an accounting term that represents the incomes or revenue earned by a business in a set period

Under-capitalisation: the financial position in which a business does not have enough equity or debt finance to source assets and operate the business

Unemployment rate: a measure of the relationship between the number of unemployed people looking for work and the size of the labour force in a given market. It is usually given as a percentage and is calculated by: $\text{number unemployed} \times 100 \text{ number in labour force}$

Unique selling proposition (USP): a key factor that differentiates one product from another. It is the reason that one product or service is better than that of the competition – it is the competitive edge.

Unlimited liability: means the owner/s is personally responsible for the debts of the business

Venture capitalist: a person or business that provides equity finance to a business with plans for growth and expansion.

Weaknesses: negative factors that hinder a business from performing at its optimum level. Weaknesses could include poor reputation, high levels of debt or lack of capital.

Wholesalers: businesses that purchase goods from producers with an intention to on-sell them to retailers

Word-of-mouth: a promotional avenue where one customer tells a potential customer about a product or business experience. Information conveyed in this medium is often highly influential as it is not directly controllable by the business and is thus viewed as more reliable.

Work Health and Safety Act 2011: legislation that provides a framework to ensure safe work practices are carried out in all workplaces

Work Health and Safety Regulation 2011: in a workplace health and safety context, this provides administrative and procedural detail relating to the Act

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Overview

- Comprehensively covers the QCAA Business General Senior Syllabus implemented at Units 1 & 2 in 2019 and Units 3 & 4 in 2020
- Explicitly addresses the syllabus and unit objectives using the inquiry approach valued in the syllabus, with integration of the underpinning factors throughout
- Provides a strong foundation in the fundamentals of business with extensive explanations of concepts and theories, and follows the progression of the business life cycle from seed to post-maturity stage
- Infographic overviews and concept maps introduce topics
- 'Gaining insight' sections provide a range of contemporary and authentic case studies and industry insights
- Inquiry activities require students to carry out research and present data
- Clear definitions of key concepts throughout
- Analytical tools are explained and applied in practical tasks, with links to templates
- Questions, activities and chapter reviews support the new assessment model
- Complete case studies at the conclusion of each topic
- Numerous illustrative examples and diagrams.