

BUSINESS FOR QCE



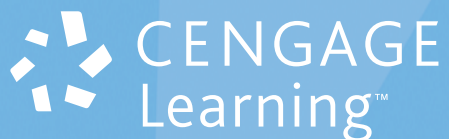
Written to the
new QCAA Business
General Senior Syllabus



UNITS 3 & 4 DIVERSIFICATION & EVOLUTION



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 3 & 4 DIVERSIFICATION & EVOLUTION

Sally Adams • Berenice Furlong • Melissa Larsson • Amy Thompson

Business for QCE Units 3 & 4: Diversification and Evolution

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.

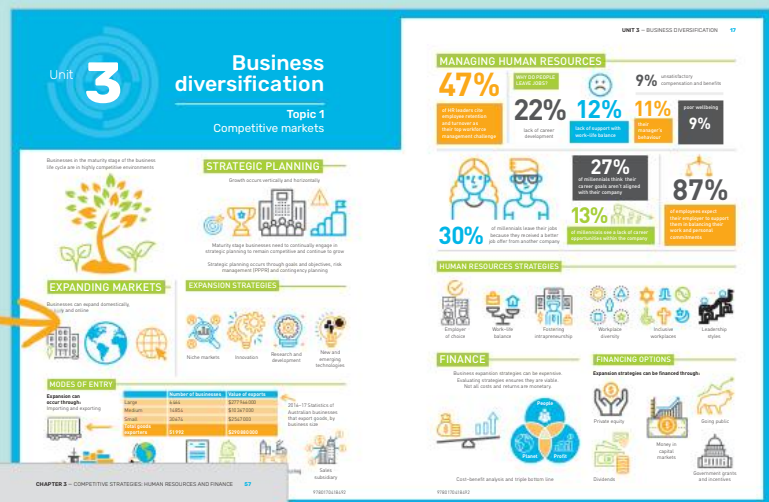
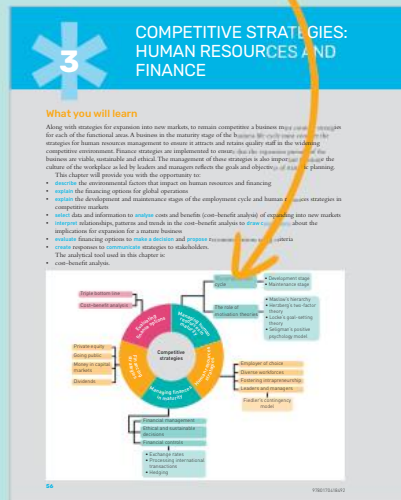
Student book

Infographic

Visually engaging infographics provide an overview of each topic

Concept map

Scaffolds the information contained within the chapter



Gaining insight

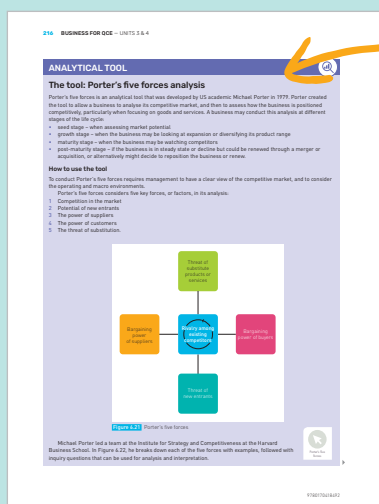
Provide a range of contemporary and authentic case studies and industry insights

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

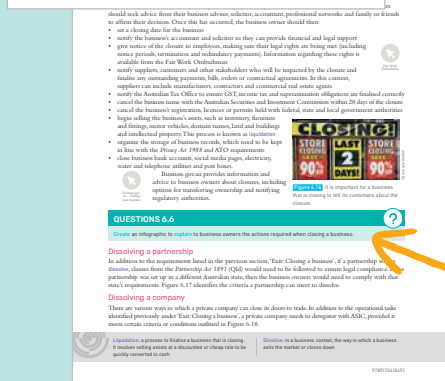


Analytical tools

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

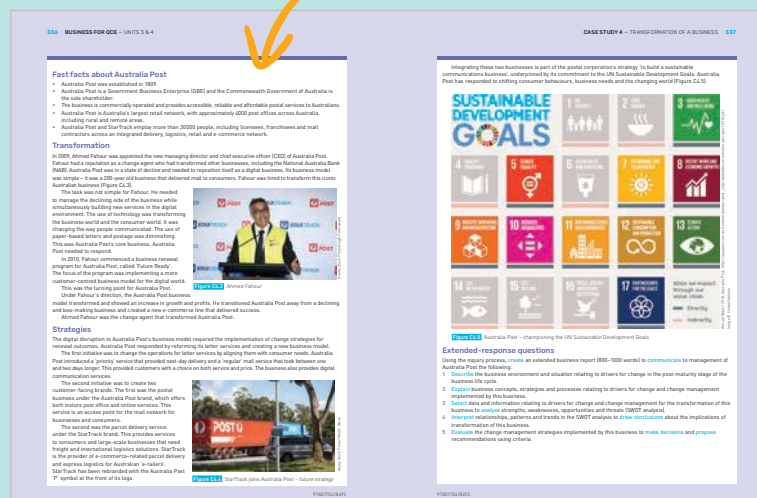
Case studies

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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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 is currently a Leader of Learning 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 11 years, with proficiency in teaching Business, Business Management, Accounting, Certificate III Business, and Economics and Business. 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.

Melissa is also Treasurer of the Business Educators' Association of Queensland and has been a State Panel Member for Business Management. Melissa has recently moved into a Project Manager/Consulting role in the private sector where she is assisting a wide range of Queensland schools with their governance, risk and compliance.

Amy Thompson

Amy is an experienced Business educator who has taught across Business, Legal Studies, Accounting and a range of junior business, commerce, innovation and entrepreneurship subjects. She is currently a head of department on the Sunshine Coast. She has a passion for development and implementation of engaging curriculum through innovative approaches. These include the planning and delivery of enrichment trips abroad, excursions, classroom practices and pedagogical approaches. She is a member of the Business Educators' Association of Queensland (BEAQ) and has been the Conference Convenor of the annual state conference for the past five years. Amy has been involved as an author in the development of a variety of educational resources, including educational videos, workbooks and textbooks. She has presented professional development sessions to support Queensland teachers, and has held roles 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 a Regional Panellist for Business Communication and Technologies for the past 10 years.

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Berenice Furlong

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Melissa Larsson

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Amy Thompson

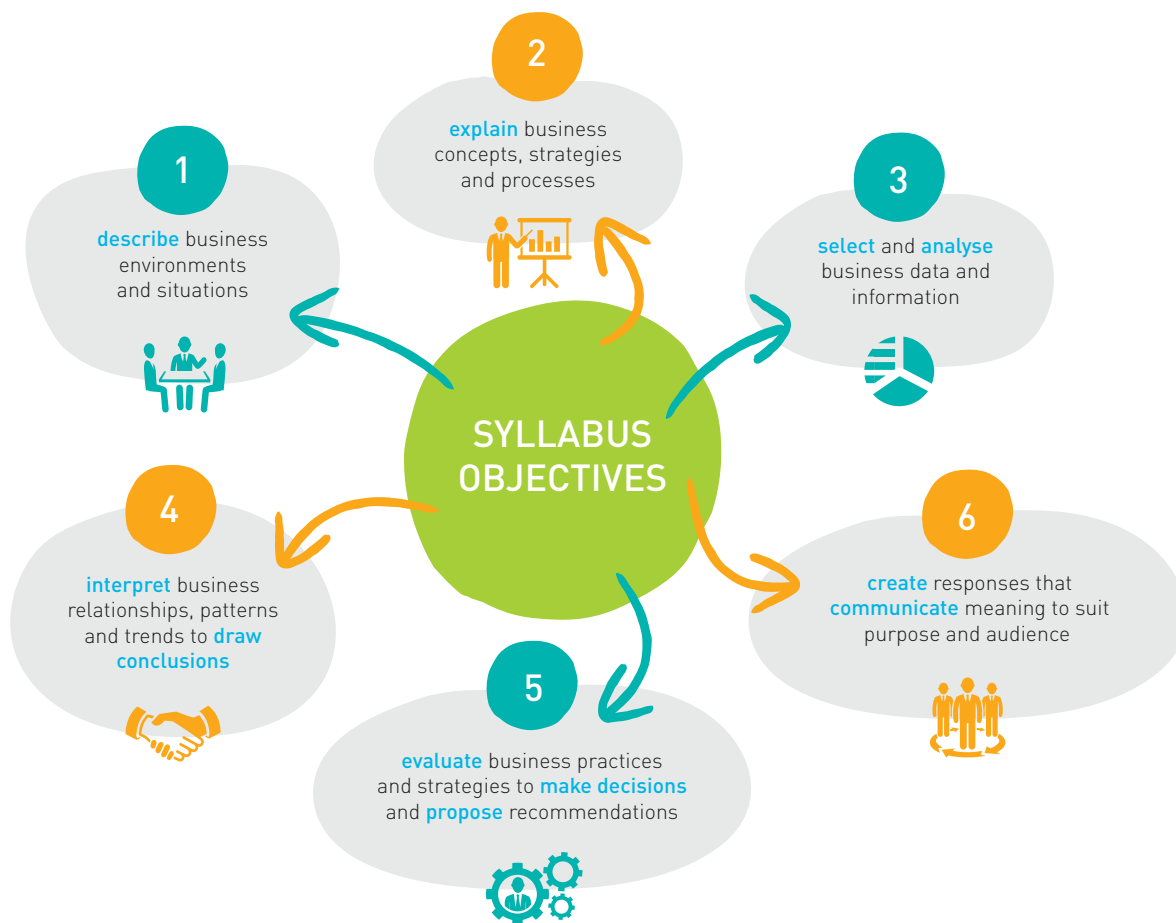
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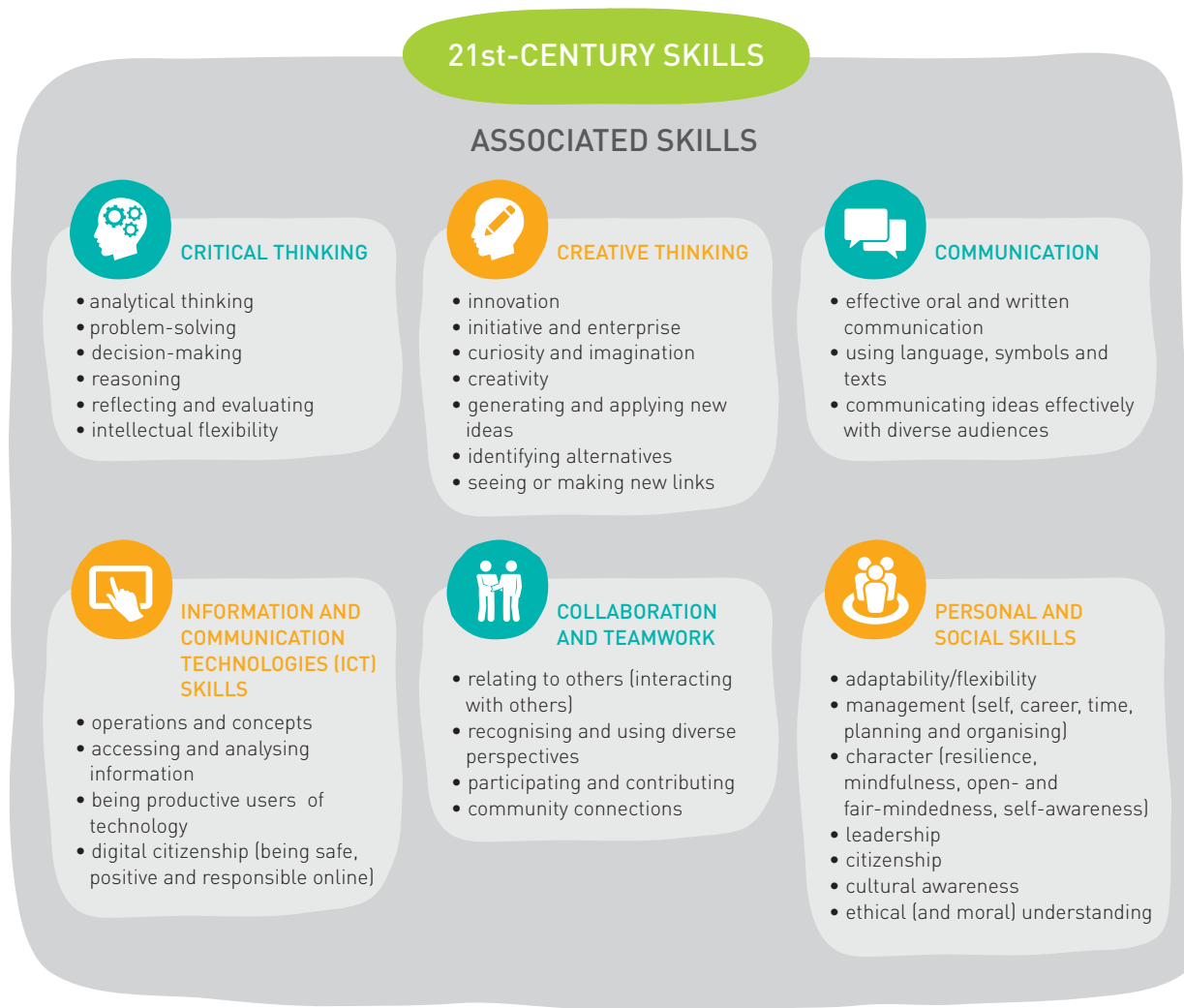
COGNITIONS

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 3 and 4, 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



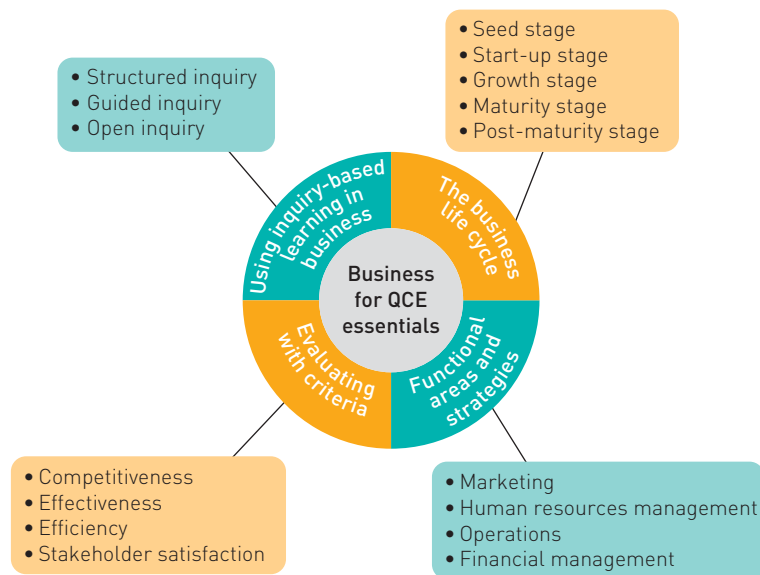
BUSINESS FOR QCE ESSENTIALS

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



Freedom Foods Group

FOCUS QUESTION: How has Freedom Foods successfully traversed the stages of the business life cycle?



© Freedom Foods Group Limited

Figure 1.1 Freedom Foods has developed through the stages of the business life cycle.

The Freedom Foods story

Freedom Foods embraces the philosophy that ‘to make something good, you have to make it yourself’. It is an approach that the business has embodied since start-up, with the creation of products that are wholesome, tasty and free from artificial colour or flavour, genetically modified ingredients and – when the product is designed to be free from allergens – allergens such as nuts and gluten. At its conception, this ‘free from’ approach was very much a niche focus. Today, Freedom has become a leader in the ‘free from’ food movement in Australia and has been innovating products for almost three decades.

2000–08: Pioneering a healthy food focus

The business began in Melbourne in 1990, at a time when wholesome, tasty, ‘free from’ foods were rare. Freedom created healthy alternative products, mostly gluten free and sold through health food stores.

During the 2000s Australian consumers became more health-conscious, and a trend towards ‘feel-good food’ emerged. This presented an opportunity for the business, with strong demand for its products meaning that what had been a niche market became more mainstream. After being acquired by So Natural Foods Australia Limited – now called Freedom Foods Group Limited – Freedom decided to grow its product range into a range of allergen-free products.

2009–14: Growing the ‘free from’ movement

Based on strong demand, and with limited capacity in the original plant, Freedom opened a dedicated ‘free from’ factory in Leeton, New South Wales, in 2009. This factory is one of only a few in the world where facilities are guaranteed ‘free from’ allergens such as wheat, rye, barley, triticale and nuts. This has been achieved through stringent quality and production standards and attention to detail. Consumers are assured of true allergen-free products from Freedom.

Freedom has an approved supplier program that manages the raw material ingredient supply process from sourcing at the farm to milling in the ‘free from’ facility. Every batch of finished products is tested to ensure that gluten, as found in wheat, rye, barley and triticale, is not detected.

Freedom has an onsite laboratory that tests for allergens using the best available ELISA microwell testing kits. It uses external NATA-certified food laboratories to validate its testing methods. Freedom also uses the VITAL (Voluntary Incident Trace Allergen Labelling) system, an assessment tool that is used to evaluate the risk of potential allergen contamination during the manufacturing process. These tests are incorporated into the quality management systems to guarantee product quality and customer satisfaction.

2015–present: A strategic focus – expansion, innovation and awards

Freedom Foods has continued to grow, expanding into the North American and Chinese markets with cereals, snacks and dairy products, seeking to bring healthier choices to consumers around the world. In 2017, Freedom Foods entered into a strategic partnership with Seamild, a Chinese manufacturer of oat-based cereal and food brands. This has seen Freedom Foods expand the range of Seamild-branded oat-based cereal products sourced directly from Australia, including oat cluster and oat-based snacking products. Both Freedom Foods and Seamild have said they would like to expand their collaboration for marketing and distributing Freedom Food-branded products in China.

Domestically, the business now has six state-of-the-art factories in New South Wales and Victoria, and produces more than 250 products across the cereals, snacks, plant-based beverages, dairy and nutritional categories. Freedom Foods Group is constantly innovating to create delicious and healthy food and beverages. This work has been recognised in the awards the company has achieved.

Australian consumers voted Freedom Foods products as Product of the Year 2019 for product innovation in two health categories. Barley⁺ Bars are changing the face of healthy snacking, featuring a ‘super’ barley, BARLEYmaxTM, developed by Australia’s leading scientific research organisation, the Commonwealth Scientific and Industrial Research Organisation (CSIRO).

Unlike other muesli bars, Barley⁺ contains high levels of the type of fibres that feed the gut bacteria, also known as prebiotic, fermentable fibre – the type that often falls considerably short in Western diets.



© Freedom Foods Group Limited

Figure 1.2 Freedom Foods Barley⁺ Bars were voted Product of the Year 2019 by Australian consumers in the Health Bars category.

Another Freedom winner in the Product of the Year 2019 awards was the Messy Monkeys Snack Bars range. Like the rest of the Messy Monkeys range, the products contain 'hidden goodness'; in this case from the inclusion of navy beans and real fruit pieces. They contain 100 per cent natural sugars – no added sugars – and no artificial colours or flavours, while providing children with 26 per cent of their daily fibre intake*.

*Nutrient Reference Values for Australia and New Zealand for children 4–8 years (Australian National Health and Medical Research Council, 9 September 2005).



© Freedom Foods Group Limited

Figure 1.3 Freedom Foods Messy Monkeys Snack Bars were voted Product of the Year 2019 by Australian consumers in the Gluten Free – Kids category.

Promoting a healthier choice

Today, Freedom Foods Group is a leading global health food company whose mission is 'Making Food Better'. The group has distribution contracts with the major

supermarket chains in Australia and globally, and has embraced the global trend of 'health and wellness' to expand its branded offerings in multiple categories, targeting consumer groups with sought-after 'better for you' alternatives.

Freedom Foods has achieved success with a proactive sales team and by making great-tasting, high-quality, healthy foods and beverages for a global market. Partnerships with sporting professionals such as the New South Wales Waratahs, and with high-profile dietitians including healthy lifestyle authority Dr Joanna McMillan, has raised brand awareness for Freedom Foods and created positive associations.



© Freedom Foods Group Limited, Waratahs Media Unit 2019

Figure 1.4 The NSW Waratahs rugby union team partnered with Freedom Foods Group in 2017 as part of its commitment to its players' nutrition. Players are supplied with superior whole grain cereals, snacks and wraps from the company's gut health range, Barley⁺.



© Freedom Foods Group Limited

Figure 1.5 New product development has achieved success with Messy Monkeys having high levels of customer satisfaction.

Questions

- Describe** the characteristics of Freedom Foods at each stage of its business life cycle and **identify** which stage Freedom Foods is currently in.
- Explain** the strategies Freedom Foods has employed to achieve success in a competitive market.
- Create** a USP analysis of the cereal range to **analyse** the unique selling proposition of Freedom Foods.
- Interpret** the USP analysis to **draw conclusions** about the implications of the strategic direction at Freedom Foods as it seeks to remain competitive in the marketplace.

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.

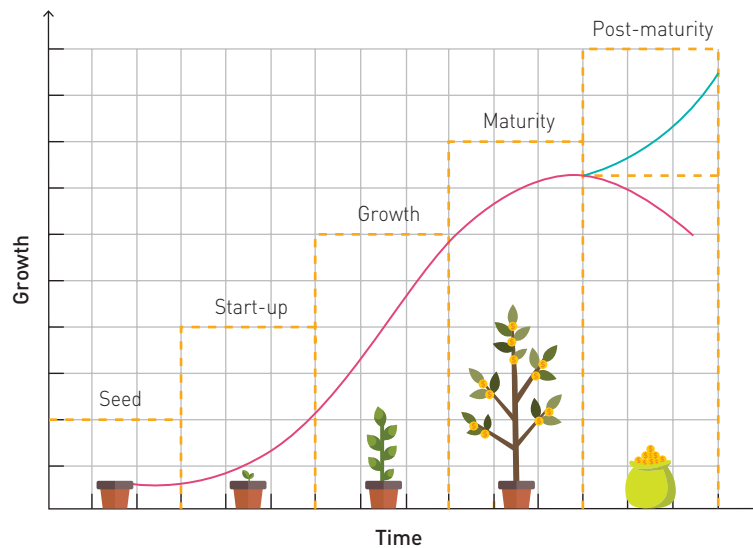


Figure 1.6 The five stages of the business life cycle

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

Table 1.1

FINANCIAL MANAGEMENT STRATEGIES	HUMAN RESOURCES MANAGEMENT STRATEGIES	MARKETING STRATEGIES	OPERATIONAL STRATEGIES
Asset management	Appraisal	Competitive pricing	Corporate social responsibility
Budgeting	Communication models	Costs plus pricing	Cost leadership
Capital markets	Corporate wellness	Cream-skimming	Distribution channels
Cash flow	Employer of choice status	Developing a niche market	Economies of scale
Comparative financial reporting	Induction	Digital marketing	Emerging technology
Credit policies	Job design	Email marketing	Expansion
Debt finance	Leadership and management	Emerging technologies and platforms	Exporting products or services
Downsizing	Motivation	Integrated marketing	Facility management
Equity finance	Performance management	Penetration pricing	Innovation
Going public	Positive psychology	Product diversification	Minimising wastage
Goodwill	Promotion	Psychological pricing	Outsourcing
Hedging	Recruitment process	Public relations	Project management
Long-term financing	Redundancy	Rebranding	Research and development
Offshoring	Restructuring	Research and development	Sustainability
Outsourcing	Rewards and benefits	Social media platforms	Transformation process
Point-of-sale systems	Selection process	Target markets	
Restructuring	Training and development	Traditional marketing	
Short-term financing	Wellbeing programs		

The seed stage

The seed stage is the very beginning of the business life cycle, when the business is just a thought or an idea. In this stage, initial testing, research into the industry and feedback from friends, family or other industry specialists help to develop and refine the idea. It is during the seed stage that the viability of the business idea is determined and key stakeholders are identified and engaged. These may include business mentors, suppliers, customers and partners. A legal structure for the business needs to be registered and a business plan will also need to be written. It is at the seed stage that the funding needed to acquire resources for prototype development, production, property for the business location and the potential hire and training of staff is sourced – for example, through loans, investments, crowdfunding or grants.

Challenges of the seed stage

One of the major challenges in the seed stage is the time, energy and money required to develop the idea into a business while there is no revenue or income stream to rely on. The seed stage involves a significant outlay to establish the business. This may include initial operational costs, production costs, infrastructure, or market entry and legal fees associated with the business idea. If a business in the seed stage does not have a clear business plan in place to achieve market acceptance, or is not ready for market at the anticipated start-up date, the financial setbacks can have a serious impact on the viability of the business idea.



Figure 1.7 Effective planning at the seed stage is an essential factor in the success of a business.

Strategies for the seed stage

During the seed stage, completing a business plan is the biggest success factor for an emerging business. The business plan needs to include a clear vision; the goals and objectives of the founders; 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



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Figure 1.8 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

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 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**. 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 through mergers and acquisitions.

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 its negative financial results 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 advisers is essential. A business in a steady state cannot maintain this state forever, so must adopt repositioning strategies to secure injections of revenue, such as by reducing production or operation costs. If a business is in decline, adopting 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.

Evaluating with criteria

Key learnings

You will learn about the four criteria (singular: criterion) used to evaluate business strategies and practices (Figure 1.9). They are:

- competitiveness
- effectiveness
- efficiency
- stakeholder satisfaction.

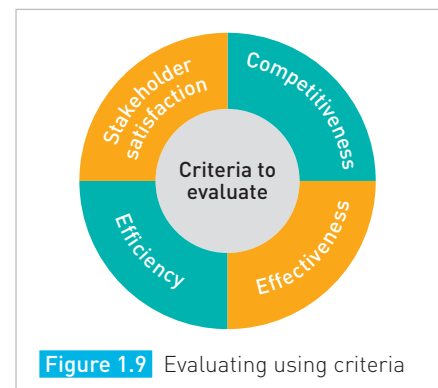


Figure 1.9 Evaluating using criteria

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.

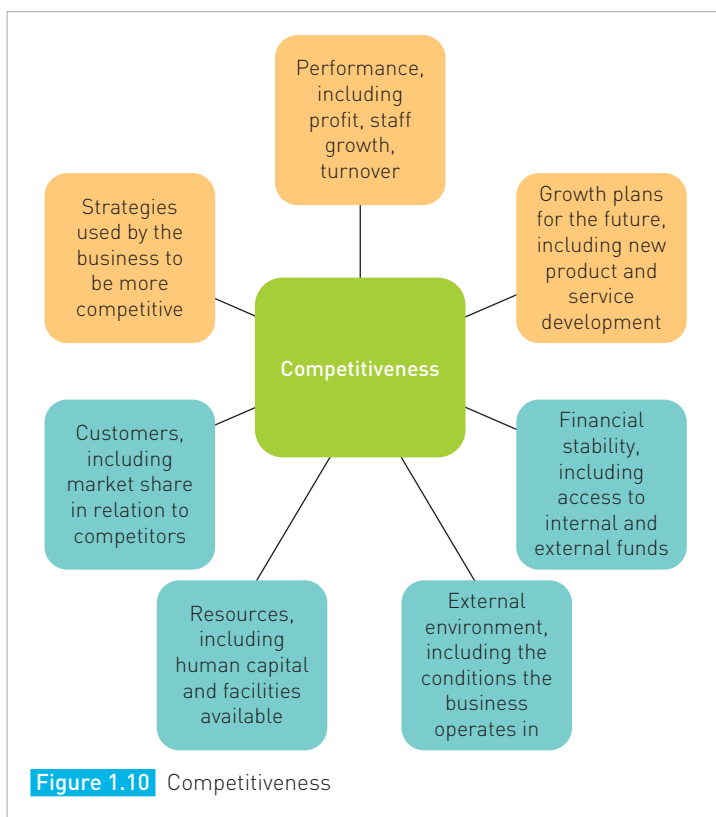
Administration: a process, explained under the *Corporations Act 2001* (Cwlth), whereby an insolvent company is placed in the hands of an independent person who assesses the options available, and generates the best outcome for all stakeholders including the business owner and creditors. Administration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

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 1.10).

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

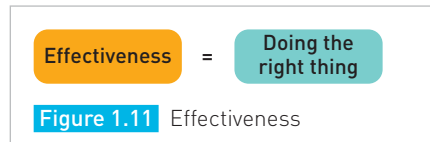
‘To what degree has the business achieved goals and/or objectives and to what extent has the business solved targeted problems?’ (Business 2019 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority)

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 1.11).

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 large business that offers a new, unique product or service to the market may achieve an increase in revenue and generate a new customer base. With strategically planned public relations, the business could benefit from the positive exposure it has gained.

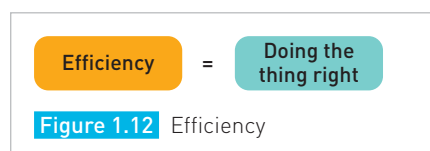
As all business practices can be evaluated using effectiveness as the criterion, businesses must ensure they set SMART objectives so that judgements are informed and can be justified with evidence. SMART objectives are covered in Chapter 2 of *Business for QCE Units 1 & 2*.



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 1.12).

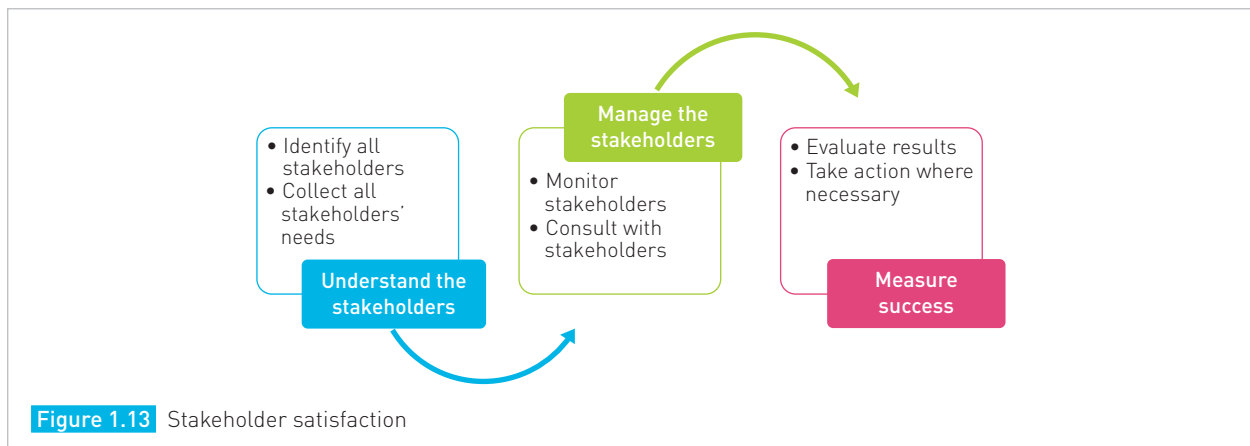


Efficiency therefore requires a precise and comprehensive investigation into a business's processes – the way in which it operates. Efficiency can be used to judge the length of time used to complete a task, the speed in which processes are completed, the rate of output, the reduction of negative environmental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

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 1.13).



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?

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.

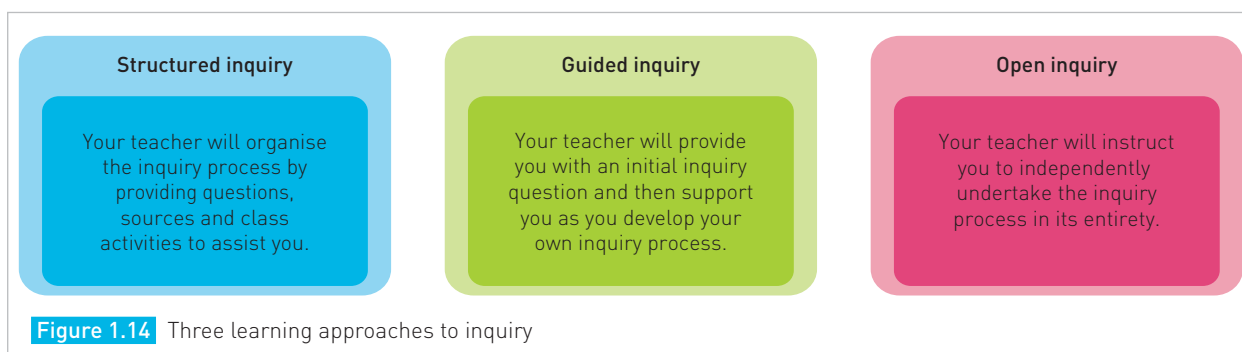


Inquiry-based learning: a framework that informs how an investigation can be completed through conducting research, analysis of information, evaluation of outcomes and a reflection on the process

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

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 1.14.



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

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

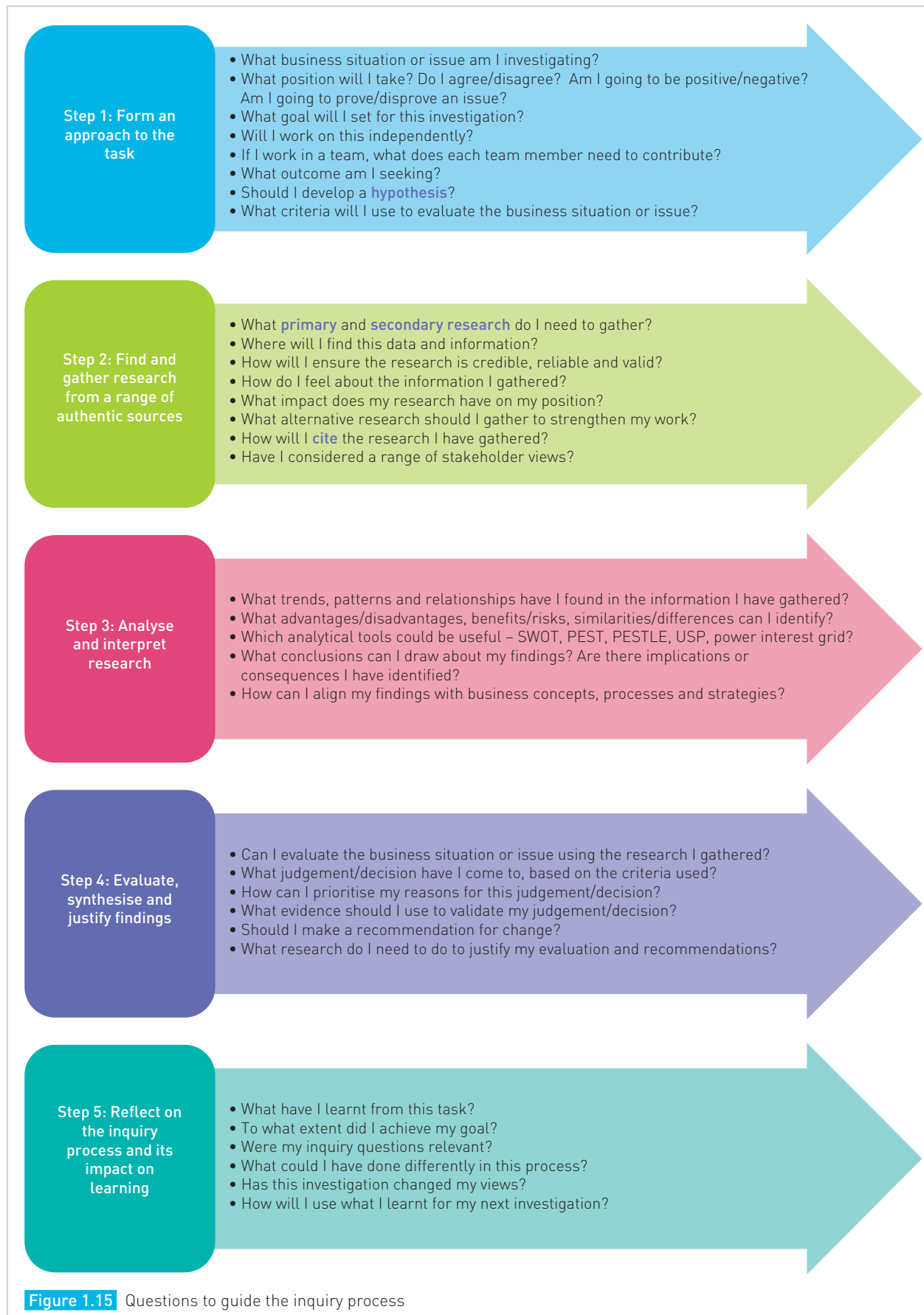


Figure 1.15 Questions to guide the inquiry process

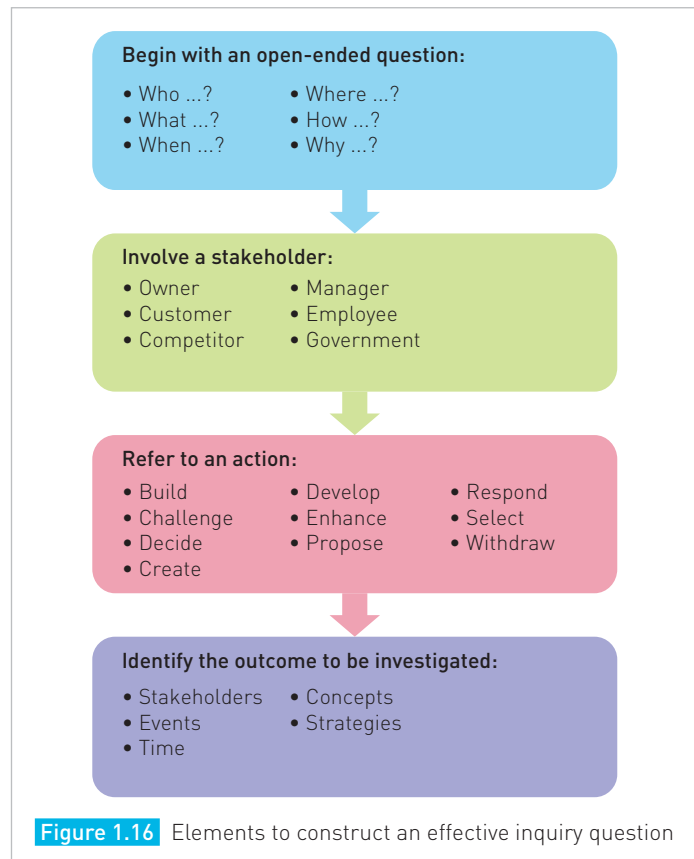
How to construct inquiry questions

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 1.16).

Using Figure 1.16 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?



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

Primary research: information and data sources that provide direct evidence or a 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 or secondary source in a body of text by acknowledging the author and year of publication

Unit

3

Business diversification

Topic 1 Competitive markets

Businesses in the maturity stage of the business life cycle are in highly competitive environments



STRATEGIC PLANNING

Growth occurs vertically and horizontally



Maturity stage businesses need to continually engage in strategic planning to remain competitive and continue to grow

Strategic planning occurs through goals and objectives, risk management (PPPR) and contingency planning

EXPANDING MARKETS

Businesses can expand domestically, globally and online



EXPANSION STRATEGIES



MODES OF ENTRY

Expansion can occur through:
Importing and exporting



	Number of businesses	Value of exports
Large	6 464	\$277 966 000
Medium	14 854	\$10 367 000
Small	30 674	\$2 547 000
Total goods exporters	51 992	\$290 880 000

← 2016–17 Statistics of Australian businesses that export goods, by business size



International agents



Licensing



Strategic alliances



Overseas manufacturing
Outsourcing
Offshoring



Sales subsidiary

MANAGING HUMAN RESOURCES

47%

of HR leaders cite employee retention and turnover as their top workforce management challenge

WHY DO PEOPLE LEAVE JOBS?

22%

lack of career development



12%

lack of support with work-life balance

9%

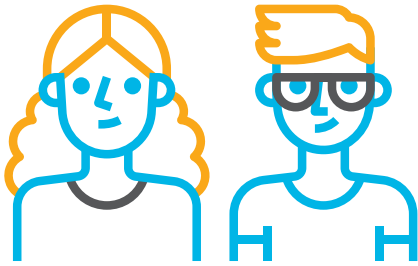
unsatisfactory compensation and benefits

11%

their manager's behaviour

poor wellbeing

9%



30%

of millennials leave their jobs because they received a better job offer from another company

27%

of millennials think their career goals aren't aligned with their company

13%



of millennials see a lack of career opportunities within the company



87%

of employees expect their employer to support them in balancing their work and personal commitments

HUMAN RESOURCES STRATEGIES



Employer of choice



Work-life balance



Fostering intrapreneurship



Workplace diversity



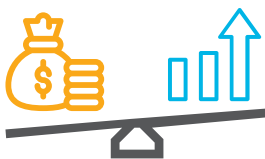
Inclusive workplaces



Leadership styles

FINANCE

Business expansion strategies can be expensive. Evaluating strategies ensures they are viable. Not all costs and returns are monetary.



Cost-benefit analysis and triple bottom line

FINANCING OPTIONS

Expansion strategies can be financed through:



Private equity



Dividends



Money in capital markets



Going public



Government grants and incentives

2

DOMESTIC AND GLOBAL EXPANSION

What you will learn

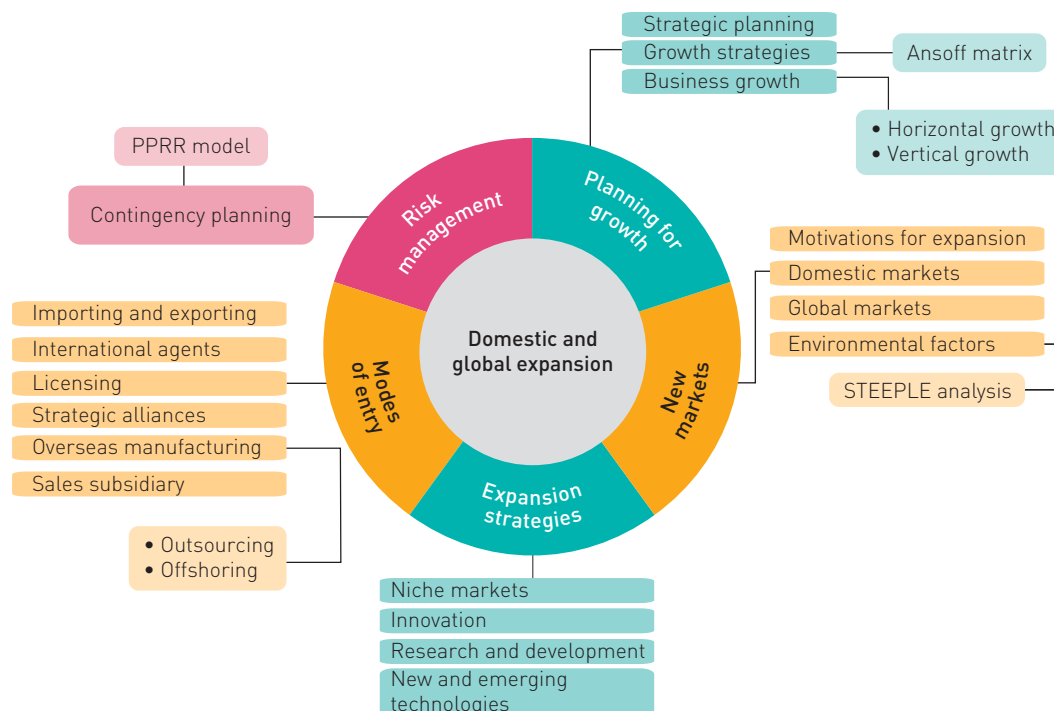
In order to remain competitive, a business in the maturity stage of the business life cycle must consider and utilise a range of growth strategies and practices. For a mature business, a common strategy for growth is the expansion of the business to new domestic or global markets that will increase its market share. When expanding into these new markets, the business must consider the modes of entry, risk management practices and environmental factors to decide whether it expands all or just part of its business operations and offerings.

This chapter will provide you with the opportunity to:

- **describe** the environmental factors of domestic and global markets
- **explain** the strategies and modes of entry a mature business may adopt for expansion, and the importance of risk management
- **select** data and information to **analyse** the socio-cultural, technological, economic, environmental, political, legal and ethical factors (STEEPLE analysis) and the strengths, weaknesses, opportunities and threats (SWOT analysis) affecting modes of entry for domestic and global markets
- **interpret** relationships, patterns and trends in the SWOT analysis and STEEPLE analysis to **draw conclusions** about the implications of expansion for a mature business
- **evaluate** modes of entry and expansion strategies for domestic and global markets
- **create** responses to **communicate** strategies to stakeholders.

The analytical tools used in this chapter are:

- SWOT analysis
- STEEPLE analysis.



Key skills

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

- creative thinking:
 - innovation
 - initiative and enterprise
 - curiosity and imagination
 - creativity
 - generating and applying new ideas
 - identifying alternatives
 - seeing or making new links
- critical thinking:
 - analytical thinking
 - problem-solving
 - intellectual flexibility
 - reflecting and evaluating
- 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
 - cultural awareness
 - ethical (and moral) understanding
- 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



Walker Seafoods Australia

FOCUS QUESTION: What growth strategies did you adopt when expanding into new markets?

Walker Seafoods Australia is an Australian-owned and -operated seafood company based in Mooloolaba, Queensland. It is the largest wild-caught tuna and swordfish company, and the only MSC-certified tuna company, in Australia. Heidi Walker, owner and managing director, explains, 'MSC is the global standard for wild-caught seafood sustainability and is highly regarded in the US and Europe'.

Walker Seafoods Australia is primarily known for producing high-quality, export-grade product, which is caught off the east coast of Australia, processed in Mooloolaba, shipped to Brisbane, loaded onto planes and distributed across the globe. Distribution is mostly to the United States, Japan and Switzerland. Despite air-freighting about 40 tonnes of product a week, Walker Seafoods Australia cannot meet the demands of the global market for its top-quality product.

Its fishery, the Eastern Tuna and Billfish Fishery, is a relatively small operation on a global scale and the amount of MSC fish it catches will never meet the demand of customers worldwide. This worldwide demand for Walker Seafoods products took off when the business secured Marine Stewardship Council (MSC) certification for its yellowfin tuna, albacore tuna and swordfish. The MSC works with scientists, fisheries, seafood producers and brands to promote sustainable fishing and to safeguard seafood supplies for the future. Businesses choose to meet the

standards of the MSC in order to demonstrate the sustainability of their products. The blue MSC label makes it easy to choose seafood that has been caught by fisheries which care for the environment.

When Walker Seafoods became MSC-certified, it was able to tap into new markets, particularly within the US and Switzerland, in stores such as Wholefoods and Coop (the second-largest supermarket chain in Switzerland).



Figure 2.1 Walker Seafoods Australia is the only MSC-certified tuna company in Australia.

These strategic alliances with major wholesalers opened many doors in the US and European markets.

Walker Seafoods Australia developed a niche market for its product by securing MSC certification, and strategic alliances enabled it to enter markets it otherwise couldn't. Heidi Walker explains, 'These markets are very sophisticated, high-end markets in wealthy countries that are prepared to pay a premium for sustainably certified fish. Rather than competing on a world stage with price, we wanted to offer a premium, sustainable product that would be highly sought-after'.

While Australia initially lagged a little bit with MSC, in the last few years there has been a major increase in chefs taking interest in MSC and sourcing sustainably caught fish. 'Chefs were scared to use tuna, scared to put swordfish on their menu, because they didn't think it was sustainable ... now, with MSC, we're supplying Neil Perry at Rockpool, Matt Moran at Aria and Tetsuya's.'

Because of MSC certification, Walker Seafoods Australia has had to meet the demands of its buyers in relation to strict traceability and paperwork. 'We find our customers in Japan and Switzerland to be very particular when it comes to paperwork and follow-through. On our end we have had to be extremely compliant with their requests and ensuring follow-through is precise and in a timely fashion', explains Walker.

Obtaining MSC certification required a large financial investment; however, this strategy has



© 2018 Walker Seafoods Australia

Figure 2.2 Heidi Walker, owner and managing director of Walker Seafoods, was a finalist in the Tom Burns Award for Women in International Business at the 2018 Premier of Queensland Export Awards.

enabled Walker Seafoods to expand both domestically – in the restaurant trade within Australia – and globally, exporting fresh whole fish on the same day they were graded and packed at the facility in Mooloolaba.

Questions

- 1 **Describe** the business opportunity that led to the expansion of Walker Seafoods Australia.
- 2 **Explain** the strategies Walker Seafoods adopted to expand into new domestic and global markets.
- 3 **Discuss** if, and how, the strategies differ between the domestic and global markets.
- 4 **Explain** the mode of entry that Walker Seafoods used when it expanded into the global market.
- 5 **Explain** the term 'niche market'. **Identify** and **explain** the nature of Walker Seafoods Australia's niche market.
- 6 Using criteria, **evaluate** the success of the decision by Walker Seafoods Australia to invest in MSC certification.

Planning for growth in the maturity stage

Key learnings

You will learn about business growth through examining:

- strategic planning for growth
- the Ansoff matrix
- the difference between vertical and horizontal business growth.

When a business has fully captured its target market, can no longer grow in its current state or has hit the peak of its market, it has entered the maturity stage of the business life cycle. This often means the revenue of the business can start to plateau or even decline as competition grows, sales decrease, operating costs increase, innovations arise and customer demands change or evolve. In order to extend its life cycle and remain competitive in the market, a business must continually engage in **strategic planning** to ensure it continues to track towards achieving its overall aims and is continually experiencing growth or moving into new markets.

Strategic planning: a long-term view of where the business is going and how it will get there, typically over two to five years

This growth does not simply mean increased sales, but could be growth in areas such as production, facilities, procedures, resourcing and marketing.



Figure 2.3 Strategic planning is essential to ensure businesses in the maturity stage of the business life cycle continue to grow and achieve their objectives.

A business that implements a deliberate and well-executed **growth strategy** ensures that it remains viable and continues to achieve its goals and objectives. Some of the goals or objectives often identified by a business during strategic planning in the maturity stage are to:

- avoid entering a state of decline
- increase its share of the existing market
- enter a new market
- acquire new sales and customers.

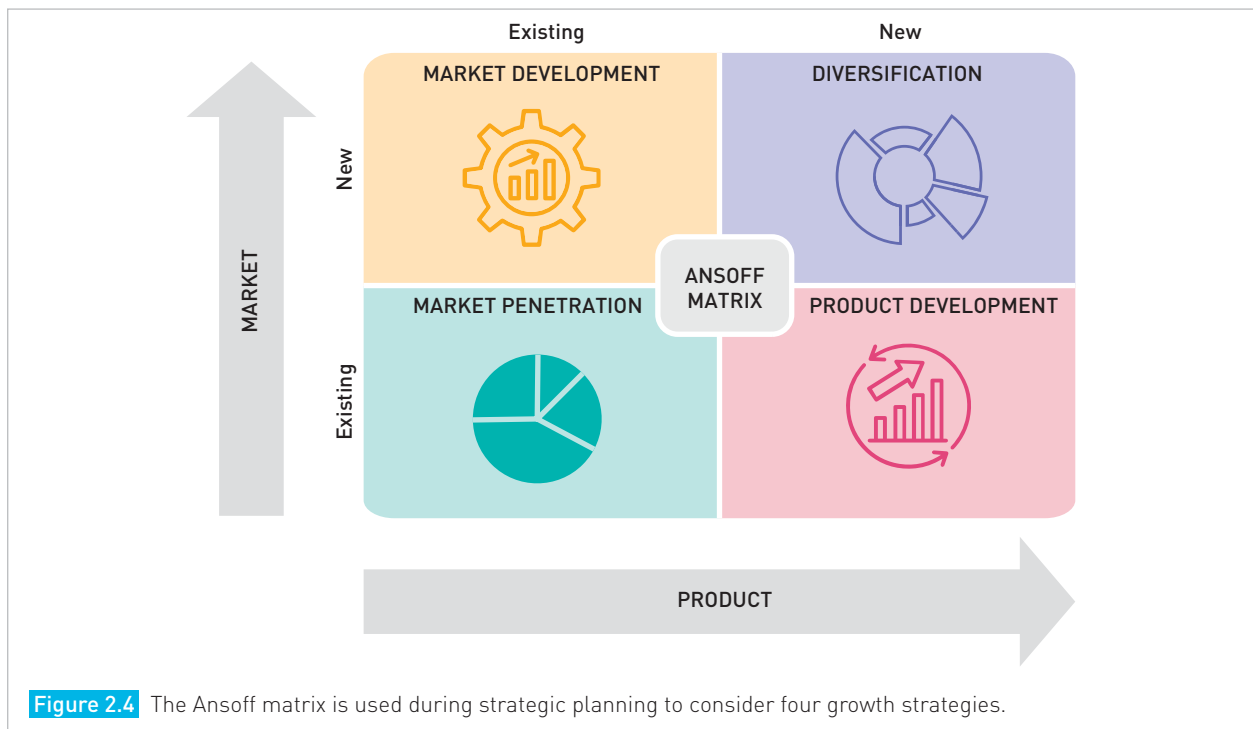


Figure 2.4 The Ansoff matrix is used during strategic planning to consider four growth strategies.

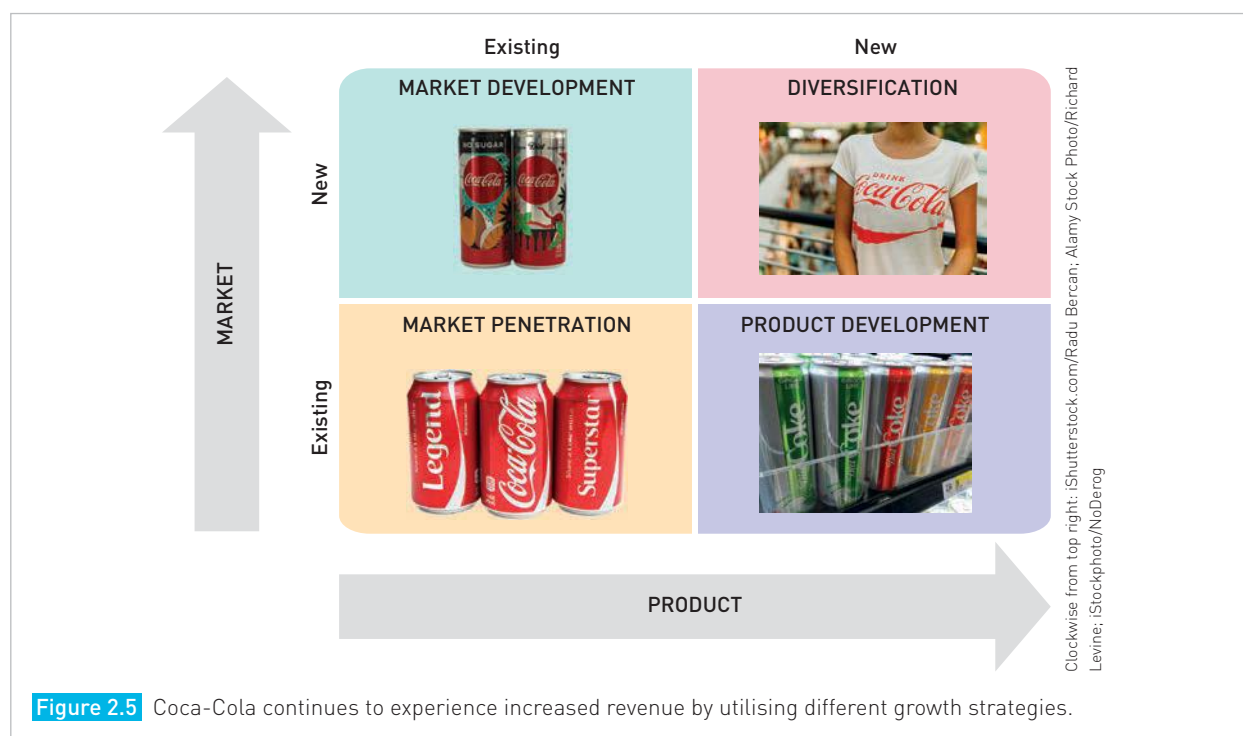
Growth strategy: specific strategy affecting either new or existing products and markets, designed to increase the overall market share of a business

First published by *Harvard Business Review* in 1957, the Ansoff matrix, or ‘Product–market matrix’, is a strategic planning tool used to help a business identify opportunities to grow its revenue.

The growth strategies are categorised into four main areas:

- *market penetration* – this strategy focuses on expanding sales of existing products in the existing market; for example, price drops, marketing campaigns and increased customer service
- *market development* – this strategy focuses on putting an existing product into an entirely new market; for example, opening a new store in a new location or country, or expanding to sell online as well as in a physical location
- *product development* – this strategy focuses on introducing a new product into the existing market; for example, designing a new, environmentally conscious product to meet the changing needs of consumers
- *diversification* – this strategy focuses on entering a new market with a new product or service; for example, expanding the scope of the current business into an unrelated market to widen the reach of goods and services offered.

To use the matrix, a business brainstorms options for growth into each of the quadrants and then examining the risks of each before deciding which strategies to pursue. For example, Coca-Cola has utilised growth strategies across all of the quadrants over time to continue to expand its offerings, grow into new markets and become the most well-known brand in the world.



Go to the MindTools website and look at the revised Ansoff matrix, featuring nine strategies.

QUESTIONS 2.1



- 1 **Explain** why strategic planning needs to be an ongoing strategy for businesses and not just a start-up or ideation tool.
- 2 **Explain** why businesses need to adopt growth strategies in the maturity stage of the business life cycle.
- 3 **Discuss** why the Ansoff matrix has been adapted, and what the value of the newer version might be in comparison with the original matrix.
- 4 **Brainstorm** examples of specific strategies that could be utilised for expansion in each of the four quadrants of the Ansoff matrix.
- 5 **Analyse** each of the four strategies to **evaluate** and rank the level of risk of each quadrant.

As well as planned growth, there are times when business growth occurs unexpectedly or rapidly. This means that staffing, production levels or customers of a business increase greatly over a short period of time outside of a planned strategy or strategic intent. This is not considered the norm, and in general, businesses need to actively seek out new opportunities to grow. Regardless of what opportunities a business pursues for growth, it must adopt **strategies** that reflect the goals and objectives as determined by whether it is seeking to grow the business horizontally or vertically.

Vertical growth

Vertical growth in a business focuses on existing customers. The objective of the business is generally to take a greater share of the profits from the market it already exists in through increased sales opportunities or by taking over processes such as production and distribution that it may not currently manage. In vertical growth, a business often adapts its current goods and services or creates new products to appeal to its current target market. For example, a lunch restaurant that extends its hours to offer dinner to its existing target market and in its present location is expanding vertically.

Vertical growth can also be seen in supermarkets. Many products sold on supermarket shelves now carry either the private label of the supermarket chain or a ‘phantom’ label owned by the supermarket. This vertical growth strategy has allowed supermarkets to increase their profit margins since many private labels have significantly lower manufacturing and distribution costs than the branded competition.



Figure 2.7 Private labels like those pictured and phantom brands increase the revenue opportunities in supermarkets such as Coles and Woolworths.

Horizontal growth

When a business increases or expands its geographical reach by selling its existing products and services to new customers in new locations, it experiences **horizontal growth**. This means a successful product, service or business model is replicated into a new market or sector. It may mean simply selling the product in a new market, or a slight adaptation of the existing product to bring more revenue to the business, or it could be the acquisition of other businesses.

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

Vertical growth: the adaptation of business products and services to increase sales revenue from the existing market



Figure 2.6 Well-executed strategies ensure a business achieves its desired goals and/or objectives.



Figure 2.8 Business growth is necessary to maintain viability and profitability of a business.

Horizontal growth: the replication or expansion of a business product, service or model into new markets or industries

An author who has their work translated into a number of different languages experiences horizontal growth by making one product accessible to new markets. Horizontal growth can also be seen in technology companies that leverage a successful product or model into new markets. For example, apps such as Uber, Uber Eats and UberPool use the same type of mobile technology to change the way customers engage with everyday services, and have already successfully disrupted the taxi and food delivery industries.

A business may also plan to grow both horizontally and vertically at the same time, expanding its product offering and geographic reach to offer a new product to a new market outside its existing business.

QUESTIONS 2.2



- 1 **Explain** what business diversification is and why it is important to businesses in the maturity stage of the business life cycle.
- 2 **Explain** the difference between horizontal and vertical growth strategies.
- 3 **Identify** the type of growth experienced by the business in each of the following situations:
 - a Amazon's introduction of Amazon Prime
 - b Toyota's introduction of the Prius model
 - c Apple's introduction of the Apple Store.
- 4 **Explain** whether the strategies in the Ansoff matrix would be considered horizontal or vertical growth. Why is deciding the type of growth important in strategic planning?
- 5 **Compare** the characteristics and risks of vertical and horizontal growth to **analyse** the implications of the two different types of growth. **Make a decision** on which type of growth you think poses the greater risk to businesses.

GAINING INSIGHT



The 'grow or die' lie

By Edward D Hess

In the race to grow a business, it must be remembered that the real key for success is carefully managed growth.

All growth is good. Bigger is better. All businesses must either 'grow or die'. These popular business axioms are routinely lauded on Wall Street, at business schools and by some of the most well-respected business consultants of the day. Few question their validity. But actually, these 'truths' are anything but. At best, those beliefs are half-truths; at worst, they're pure fiction.

'Grow or die' is a belief that has no basis in scientific research or in business reality. Growth can be good *and* growth can be bad. Bigger can be good *and* bigger can be bad. When not approached carefully, growth can destroy value as it outstrips a company's managerial capacity, processes, quality and financial controls, or substantially dilutes customer value propositions.

Between 2005 and 2007, Starbucks aggressively opened new store locations and made several operational changes that diluted its customer value proposition, diluted its high employee-engagement culture, violated its real estate site selection controls and weakened its high value-added 'experience' business model. For Toyota, too much growth too quickly resulted in quality issues that led to multiple recalls.

In a recent study I conducted among high-growth private companies, several of the successful entrepreneurs showed as repeat entrepreneurs who had 'imploded' their first business by taking on too much growth too quickly. Growth overwhelmed them. They learned to respect growth's destructive ability and, in their second venture, paced growth so that it did not overwhelm their people, processes and controls.

That is the 'gas pedal' approach to managing growth. Let up on the growth gas pedal as needed to



Figure 2.9 Is it simply a myth that businesses must grow or die?

give the company's people, processes and controls time to catch up.

Instead of 'Grow or die', be motivated by the motto 'Improve or die'. Every business must continually improve its customer value proposition better than its competition in order to stay viable. That's where real success lies.

Growth is change (and change isn't easy). There are limits to an individual's and an organization's ability to process change. Growth requires the entrepreneur to install more processes, procedures, controls and measurement systems. The right processes and controls must be put in place and taught to employees. In addition, the right information needs to reach the manager regarding variances from processes and controls so mistakes can be fixed quickly and not escalate into a larger problem.

Growth also requires that the entrepreneur change what he or she does. Successful and sustainable growth requires the right kind of leadership, the right environment (culture) and the right processes.

Growth is evolutionary. Sometimes, tough decisions are required in order to keep up. Growth requires the evolution of the entrepreneur and the management team and more sophisticated processes and controls. Often, if not always, the business model and customer value proposition evolve, too. Furthermore, this evolution is continuous, and anticipating and responding to it can require making some fairly dramatic – and difficult – changes.

One surprising finding of my research was that companies frequently had to upgrade their management teams as they grew. Often, managers who operated effectively at one revenue level of the business were unable to manage effectively at a much higher revenue level. The jobs simply outgrew their skills.

The need to upgrade managers to fit the expanding job demands was gut-wrenching for many entrepreneurs because the now-ineffective managers had often had a successful history with the business but were now in over their head. This is yet another important factor that entrepreneurs must be prepared to deal with as they think about growing their business.

Growth requires continuous learning and constant improvement. The entrepreneur and employees must be constantly open to learning and adapting and improving in an incremental, iterative and experimental manner. No matter how big a company gets, continuous improvement is required.

My research of high-organic-growth companies highlighted one factor they all share: a 'be better' DNA. Their 'be better' focus was the underpinning

of every growth initiative, whether it was top-line, bottom-line or developing new concepts. Continuous improvement is the DNA of growth. The good news is that continuous improvements lead to more loyal customers who can be the company's best advertising.

Growth requires disciplined focus and prioritization. The entrepreneur must strategically focus the business on a compelling differentiating customer value proposition and achieving daily operational excellence and consistency. Any growing business has resource constraints – limited people, time, and capital – so it is critical that the entrepreneur spend his or her time on the most important areas that can drive success. These priorities may vary with the type of business or the phase of growth.

To set priorities, entrepreneurs must have concrete and useful data about their business, communicate the priorities to their personnel, and implement processes to ensure that these priorities are carried out. One entrepreneur whom I interviewed prioritized his focus simply as customers, quality and cash flow. For him, if an issue did not impact directly and materially one of those three areas, it could wait.

Growth is process intensive. Growth requires implementing processes, which include controls. These are the step-by-step instructions for how to do a task. Processes are necessary to hire employees and train them; to minimize mistakes and institutionalize quality standards; and to deliver products and services on time, 99 percent defect-free. Controls are necessary to set boundaries on allowable behaviour and also alert management to deviations from processes.

Processes are the 'how' part of doing business. As businesses grow, the entrepreneur loses the ability to be hands-on with all aspects of the business. There is simply too much to do. So the challenge is for the entrepreneur to increase the probability that others will do the tasks as he or she would like them done. To accomplish this goal, the entrepreneur implements processes.

There are two basic types of processes. The first type are the directions, instructions and standards for how to do specific tasks. These include rules or controls for mitigating financial and quality risks. Most processes are designed to instruct an employee how to do something or what not to do. The second type has a goal of producing reliable, timely data or feedback that will reveal variances or mistakes. These data-collecting processes are designed to get the key data in the hands of the entrepreneur quickly as the business grows.

Growth creates business risks that must be managed. Growth stresses people, processes,

quality controls and financial controls. Growth can dilute a business's culture and customer value proposition and put the business in a different competitive space. Understanding these risks is critical to managing the pace of growth and preventing growth from overwhelming the business.

To get a better handle on growth risks, the business owner needs to consider how strategic space will change as the company gets bigger. It will probably enter a new competitive space, facing bigger and better competitors. Those new competitors may be better capitalized and be able to engage in price competition, driving down the company's margins.

A company can minimize this and other big risks by planning for growth, pacing growth and prioritizing what controls and processes it needs to have in place prior to taking on much growth. By carefully considering the timing and whether the right people, processes and controls are in place to manage the growth, entrepreneurs can take their business to greater and greater heights.

Source: Edward D Hess, Professor of Business Administration, Batten Executive-in-Residence & Batten Faculty Fellow, Darden Graduate School of Business, University of Virginia.

As originally published in *In Business Magazine*, December 2012 issue.

Questions

- 1 **Explain** what growth is according to the article.
- 2 **Explain** the two processes outlined for growth. Why are these processes so important?
- 3 **Identify** the challenges associated with the maturity stage of the business life cycle and growth according to the article. Are there any other challenges that you can **identify**?
- 4 Using examples, in sentences, **explain** the implications when a business experiences too much growth too quickly.

New markets

Key learnings

You will learn about new markets through examining:

- motives for expansion
- avenues and environmental factors of domestic expansion
- avenues and environmental factors of global expansion.

Motivations for expansion

During the strategic planning of a mature business, the business should have decided on a growth strategy and the type of growth to pursue for business **expansion**. This expansion can be locally targeted or a global pursuit as a business seeks to increase its market share and its overall revenue. Whether a business chooses to expand domestically or globally, the motivations for entering new markets may include:

- access to a broader market
- profit potential
- competitive advantage
- expense reductions
- reducing risk of decline
- increased buying power
- production cost reductions
- an offer by a foreign distributor
- economies of scale.



Figure 2.10 Businesses can expand into domestic or global markets to gain access to a wider customer base.

Expansion: a business strategy to increase market share by entering new markets and providing new avenues to reach customers

GAINING INSIGHT



Levels of business expansion

Generally, business expansion or growth activity can occur on five levels: domestic, international, multinational, transnational and global business.

Domestic business

A domestic business operates within the boundaries of one country. It is generally a small business such as a hairdresser, fruit shop or cafe that buys its resources and sells its products and services in the national or local market only.

International business

An international business is based in one country but imports from, or exports to, other countries to obtain resources or revenue. Most large companies that have no investment outside their home country but that engage in business activity across multiple countries are international businesses. Examples of international businesses are Wesfarmers Limited and the Suncorp Group.

Multinational business

A multinational business is generally structured with a headquarters in its country of origin but has expanded with subsidiaries or assembly or production facilities in several countries and regions of the world. There is some limited decentralisation of decision-making, but a number of key areas such as human resources are managed through the business headquarters. Examples of multinational businesses with headquarters in Queensland are Flight Centre Travel Group and Michael Hill International Ltd.

Transnational business

Transnational businesses have a decentralised approach: decision-making, R&D and marketing powers are given to each of several individual foreign and independently operated centres around the world. Transnational businesses don't have subsidiaries; rather, they have other companies registered in different countries. Examples of transnational businesses are Nestlé and Unilever.

Global business

A global business has operations worldwide, and it does not identify any home country. It operates facilities and business activities in many countries around the world, through the use of the same coordinated brand in all markets. Generally, one corporate office is responsible for global strategy, as in the case of McDonald's or Coca-Cola.

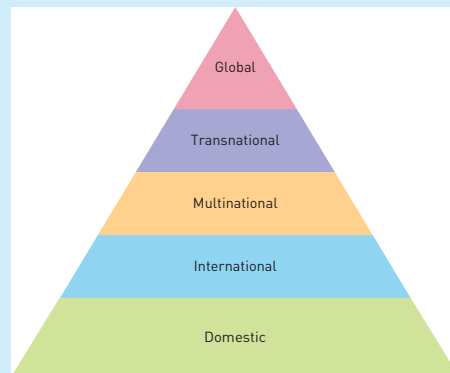


Figure 2.11 Levels of business activity in expanding markets

Domestic markets

A business that seeks to grow horizontally into new markets generally begins its expansion by opening new locations within the same country or offering online services with nationwide delivery. This is a **domestic market** and means that the business growth occurs within the geographical limits of the country. When the business and the customers reside in the same country, the business transactions are relatively straightforward despite the number of stores a business might open or the reach of its delivery services.

In a domestic market, if the expansion occurs through a new store or new location, it is generally a replication of the original and follows the same laws, customs and trade regulations. This is one of the advantages of domestic trade, along with low transaction costs, cheaper postage and handling, and processing of sales in one currency.

Domestic market: the supply of, and demand for, goods and services within a single country; also referred to as the internal market

SUSTAINABILITY



Demand for sustainable cleaning products drives expansion: OurEco Clean

OurEco Clean is a well-established, reputable Australian private company manufacturing natural cleaning products using Australian botanical essential oils. Wanting to use only environmentally friendly, chemical-free cleaning products in her own home, founder Kym Smith found it difficult to source ready-made products. So, using a variety of natural ingredients such as bicarbonate of soda, citric acid and Australian botanical oils, Kym developed a range of 11 natural, chemical-free cleaning and air freshener products that aren't harmful to humans or the environment.

Kym is passionate about the health of the planet, and her goal is to remove nasty chemicals from family homes. This is an objective shared by many consumers who realise that the scarcity of resources and health of the planet require more sustainable practices.

The demand for organic and environmentally friendly cleaning products drove rapid growth for OurEco Clean, and the production of products that started in a garage in 2012 quickly expanded to a factory to meet demand across Australia.



Figure 2.12 The demand for sustainable and environmentally friendly cleaning products drove expansion into new markets.

OurEco Clean's domestic expansion occurred through retail distribution via IGA supermarkets, Drakes Supermarkets and Foodland stores, and key organic and natural product retailers. In 2016, the company began exporting to New Zealand and is planning for US market entry.

Operating in familiar environments reduces the risks associated with expansion and eliminates the need to develop new resources, suppliers and logistics since the business operations are already in place and established. Domestic expansion also promotes economic growth within the country where the business is located. Domestic economic growth is necessary to ensure a country doesn't go into **recession** and is attractive to other countries looking to expand their international trade.

Global markets

With developments in technology and increasing ease of communication, being able to operate in the global economy is becoming more important for mature businesses. Increased inter-country contacts and relationships are leading to greater globalisation and growth for many businesses. **Globalisation**, or international business, takes place when business activities occur beyond the borders of the home country and involve at least one other country. A country's **gross domestic product (GDP)** is the best measure of its overall economic strength, and closely connects with companies looking to expand internationally to help them make informed and strategic decisions about the markets they expand into.

Recession: a period when the economy of a country is in decline and conditions for business are not considered optimal

Globalisation: the process of extending manufacturing or trade operations to other parts of the world beyond the home country of a business

Gross domestic product (GDP): the total value of everything produced by all the people and companies within a country

GAINING INSIGHT



Understanding GDP and business expansion

The GDP's effect on business



iStockphoto/andresr

Figure 2.13 The GDP can help a business to strategically choose new markets.

If you've ever wondered why some countries are more financially stable than others, the gross domestic product or GDP is a major marker. It's used to measure the performance of a country's economy and is often referred to as the 'size' of the economy. Because an economy's success is judged by growth, it's often referred to in comparison from the previous quarter or year. If it falls, the country is facing tough times. If it rises, the country's economy is booming, which has a significant effect on the country's place in the world, especially regarding trade and investments. A GDP can't make or break a business because it's the result of how businesses are doing as a whole. Still, it can undoubtedly hinder a business's growth in many ways.

What is a GDP?

A GDP is the total value of all goods and services produced within a country during a specific period. You can get the GDP by either adding up what everyone in a nation earned during a particular period or adding up what everyone spent. The period typically ranges from quarterly to yearly. When the GDP rises, it indicates economic growth. If a GDP falls, it can show a national recession. This number

is used by governments and private companies to predict various markets and is released by the Bureau of Economic Analysis quarterly.

The GDP affects your interest rates

The GDP has everything to do with how much interest businesses have to pay. The [United States] Federal Reserve reviews the GDP to reset interest rates regularly. If the economy appears to be stalled, the Federal Reserve will lower interest rates to foster growth. This is a great time for a business to take out a loan – and that's exactly what the Federal Reserve wants. If the GDP is growing, the Federal Reserve will raise interest rates to control inflation and slow businesses down.

Companies use the GDP to predict business growth

The GDP is an indicator of how our country's economy is doing. This means a business can use it to predict whether their industry will grow or if it will falter. When the GDP falls, companies may opt to start saving extra cash as a backup, which means layoffs and cost-cutting measures. If the GDP is booming, a business may choose to expand, for example, hire new employees, pay higher salaries, open new departments and promote more products.

Investors pay close attention to the GDP

It's a risky decision to invest if the GDP is plummeting. For this reason, sharp changes in the GDP have a significant effect on the stock market. In a poor economic climate, stock prices tend to shrink because it's believed that businesses as a whole will be making less money. Then again, it could be a great idea to invest if the GDP is expected to rise, but is currently at a low. Either way, it's difficult for companies to find investors – be it privately or on the stock market – if the GDP is faltering.

Source: Mariel Loveland, 'The GDP's effect on business', Bizfluent, 26 June 2018. Copyright © Leaf Group Ltd.

Questions

- 1 Identify** the equivalent of the US Federal Reserve that is responsible for monitoring GDP and interest rates in Australia.
- 2 Research** and **select** data and information about Australia's recent GDP reporting.
- 3 Interpret** the selected GDP data about Australia to **decide** if Australia would be considered a strong market or economy for business growth.
- 4 Explain** how GDP affects the choice of market for a business planning to expand.

Emerging markets

When planning for expansion into the global market, businesses must consider the stability of the market economy they enter and the forecasts for factors that may impact on their success. One strategy for expansion is to move into an emerging market. In an emerging market, the economy is not considered to be as strict or efficient as in advanced markets, but there is a growing population with disposable income and an interest in purchasing goods and services that may previously have been unavailable in the region. Examples of countries currently considered to be emerging markets include Brazil, Chile, China, Colombia, Hungary, Indonesia, India, Malaysia, Mexico, Peru, the Philippines, Poland, Russia, South Africa, Thailand and Turkey.

Expanding into an **emerging market** and becoming the first business to offer a good or service in that market provides an opportunity for the business to:

- obtain a large market share before competitors arrive in the market
- access customers with growing disposable income in a strengthening economy
- access capital and resources currently untapped in the market



Figure 2.14 Globalisation extends the reach of a business beyond its country of origin.

EMERGING MARKET ECONOMIES IN 2019

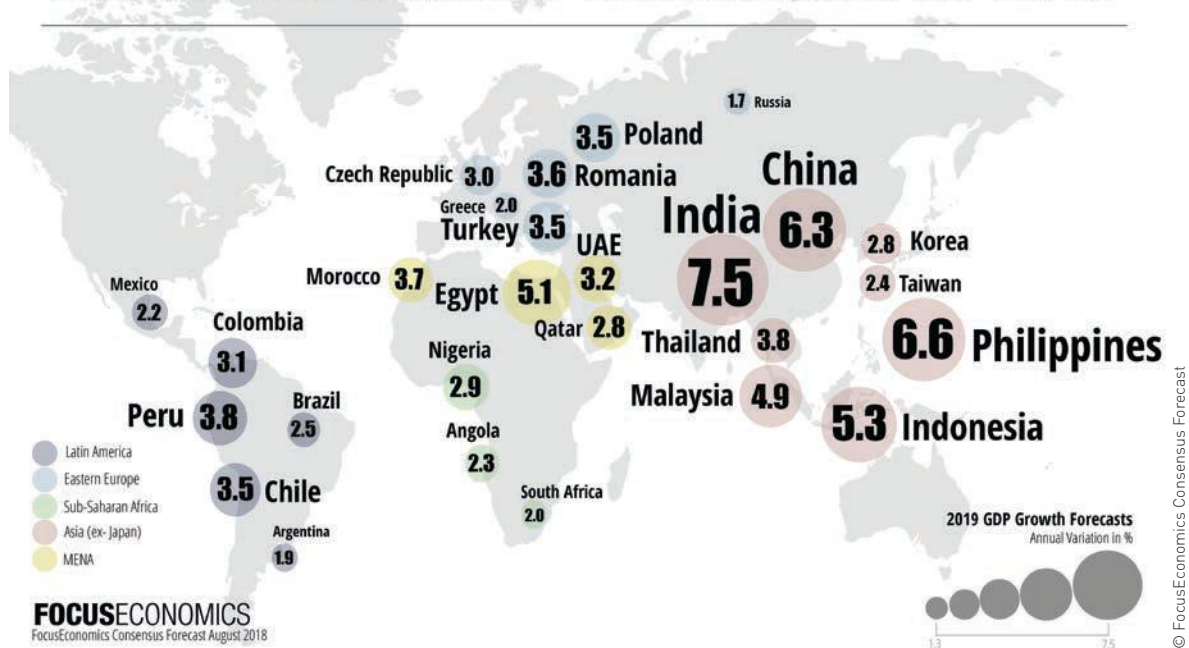


Figure 2.15 Emerging markets provide a number of opportunities for global expansion.

Emerging market: a market that is building accountability and strength, opening to new foreign investment and trade, and expected to provide higher returns despite greater risks

- build the brand as prestigious or scarce
- gain a higher-than-average return for investors with the initial expansion.

Despite the advantages and opportunities of emerging markets, they still present a number of challenges and considerations – for example, intellectual property. Often, developing markets don't have the same respect for intellectual property as is seen in Australia or other advanced markets. It can also be hard to enforce copyright in the face of imitation products or counterfeits.

Researching and understanding markets is useful to understand how different countries operate. While it can be difficult to find reliable information and data for some markets, particularly emerging economies, there are government agencies and departments set up to assist businesses looking to expand.

Visit the Austrade website to see the resources the Australian Government provides to assist businesses looking to expand overseas.



INQUIRY



Inquiry task: Understanding emerging markets

- 1 You are to conduct an inquiry into one of the emerging markets identified in Figure 2.15. You are to research the country to **identify** and **analyse** the strengths, weaknesses, opportunities and threats (SWOT) of expansion to that market.
- 2 **Select** data and information relating to your chosen emerging market to **create** a SWOT analysis.
- 3 **Analyse** the strengths, weaknesses, opportunities and threats identified to **draw conclusions** about the implications of expanding into an emerging market.
- 4 **Create** a series of short paragraphs to **explain** three of these implications.
- 5 **Create** a one-page letter to **explain** whether expanding into the emerging market you investigated is a viable consideration for an Australian business owner. Use the SWOT analysis to support your explanations.



Dreamstime.com/Marina Putlova

Figure 2.16 Emerging markets can be an attractive expansion opportunity for mature businesses.

Environmental factors

When a business expands into a new market, whether it is a domestic market or a **global market**, it must first gain the knowledge and skills relevant to the location. In global expansion, this means researching and understanding the country and culture the business plans to expand to. This includes knowing the socio-cultural, technological, economic, environmental, political, legal and ethical factors (STEEPLE) that might impact customer buying habits and the economic stability of the country.

ANALYTICAL TOOL



The tool: STEEPLE analysis (macro environmental factors)

As explained in *Business for QCE Units 1 & 2*, an environmental scan can be completed through a PEST or PESTLE analysis. Further building on this, a STEEPLE analysis adds the consideration of ethical factors. The ethical environment includes the processes and actions that influence behaviours inside the business and its relationship with the outside environment. This includes how employees, customers, partners, competitors and the community are treated. The ethical environment also considers the corporate social responsibility, morality, integrity and sustainability of the business. The ethical environment is important for an expanding business; it links closely to the legal environment affecting expansion choices and ensures the business is compliant in the new market and is ethical in its entry to another country.

Global market: the buying or selling of goods and services in all countries of the world



Figure 2.17 A STEEPLE analysis considers the environmental factors for a business expanding into the global market.

Questions

- 1 **Explain** the role of a STEEPLE analysis in strategic planning for expansion.
- 2 **Select** data and information to **create** a STEEPLE analysis of the external environmental factors relevant to the expansion of an Australian-owned business in your region into the Asian market.
- 3 **Draw conclusions** about the implications of expanding into the Asian market based on your STEEPLE analysis.
- 4 **Explain** your findings and conclusions in a short report for the business owners outlining whether they should pursue global expansion, and why or why not.

While it can be challenging to grow globally and to understand the differences between domestic and international business, this should not inhibit international growth. Businesses that ignore the environmental factors of potential markets risk damaging their brand, sabotaging their entry or jeopardising their success.

Along with a STEEPLE analysis of the environment, expanding businesses should also consider the culture, etiquette, communication and logistical practices associated with the new market.

Culture

Culture can vary dramatically from country to country, so understanding both the social and business culture in another country is essential to success when entering a new global market. Culture covers the ideas, customs and social behaviour of a

particular country, group of people or society. This means that elements of a particular country – from business practices to advertising and marketing or negotiating sales – must be considered when entering a new market. Different cultures place importance on different topics, and cultural considerations can be sensitive, so making an effort to understand and respect them will go a long way during expansion.

USE A STEEPLE ANALYSIS WHEN:

Planning to launch a new product or service

Planning to enter a new market

Planning for new ways to enter into existing markets

Figure 2.18 A STEEPLE analysis can examine factors outside the business's control.

GAINING INSIGHT



Cultural understanding in expansion: Menchie's Frozen Yogurt

Menchie's Frozen Yogurt is an award-winning franchise with more than 540 locations around the world. The first store opened in Valley Village, a suburb of Los Angeles, California, in 2007 and was an immediate success.

In 2010, Menchie's Frozen Yogurt was recognised as the fastest growing food franchise in the United States, and today it is the largest self-serve frozen yoghurt franchise in the world. Stores are in development throughout the USA, Canada, Puerto Rico, England, South Africa, Kuwait, Bahrain, the Bahamas, Bangladesh, Guatemala, United Arab Emirates, Qatar, India, China and Japan.

CEO Amit Kleinberger knows it is critical to spend time learning about prospective marketplaces. He attributes much of his international success to the effort he puts into learning about new regions and the people who live there. Kleinberger states that he does not do any business

in a country before studying its geopolitical climate, how commodities are driven in each market, what motivates consumers and how best to market to them.



Figure 2.19 Menchie's Frozen Yogurt is the largest self-serve frozen yoghurt franchise in the world.

Questions

- 1 **Explain** why the CEO, Amit Kleinberger, spends time learning about new markets.
- 2 **Select** data and information to **create** a STEEPLE analysis of the external environmental factors relevant to opening a store in Australia.
- 3 **Create** a paragraph response to **explain** your analysis and **make a decision** about whether Menchie's should consider expanding into Australia or not.

Communication

Communication strategies are important in any market. In international markets, careful consideration must be given to communicating in other languages. While English is often considered to be the ‘global language’, the way a message is conveyed is as important in international transactions as the message itself. Translating the business name, products and key business messages also requires careful consideration to ensure that cultural blunders are avoided. One strategy for this is to hire a native speaker or a professional translation agency to ensure the entry into new markets and to reduce the risk of alienating stakeholders, or even of prosecution.

GAINING INSIGHT



Blunders in expansion

In 1987, KFC set up its first outlet in mainland China. Its famous ‘finger-lickin’ good’ slogan was translated into Chinese characters that actually meant ‘eat your

fingers off’. The slogan was changed once the mistake was realised, and today there are more than 900 KFC restaurants in China.



Figure 2.20 Appropriate translation of business names and slogans is important when expanding into global markets.

Etiquette

Etiquette refers to those behaviours that are accepted or considered polite in a particular culture, profession or group. When doing business in new markets, it is important to consider and behave according to the standards of etiquette in the country of expansion. In Australia, a firm handshake, direct eye contact or a polite kiss on the cheek may seem common practice as a greeting, but any of them could be considered offensive to a foreign colleague or client (see Figure 2.21).

Political and legal systems

Like culture and etiquette, the political and legal systems can vary significantly from country to country. A business that is expanding globally must become aware of and abide by the rules and laws of a new country, not the ones it is used to in its own market. It is important to investigate how laws or business regulations can impact on the viability of the product or success of the expansion before choosing a new

global market. Consulting with legal professionals in the country for expansion can help to ensure areas such as intellectual property, taxation, employment regulations and consumer protection are appropriately managed and upheld.

Communication (accepted introductions)

	Handshakes	How to address?	Dress code?	Business cards
	  Light Firm	  First name Title + Surname	  Sharp Casual	  No ritual Both hands
 Australia			 	
 Brazil				
 Canada				
 USA			 	
 UK				
 France				
 India				
 Japan				
 New Zealand				
 Hong Kong				

Figure 2.21 Respecting business etiquette is important when expanding into new global markets.

Etiquette for business meetings

	Is pre-business chitchat customary?	If there's an agenda, do meetings stick to it?	Are interruptions allowed?	What kind of communication style is the norm?
	Yes Minimal No	Yes No	Yes No	Direct Indirect
 Australia				
 Brazil				
 Canada				
 USA				
 UK				
 France				
 India				
 Japan				
 New Zealand				
 Hong Kong				

Figure 2.21 (continued) Respecting business etiquette is important when expanding into new global markets.
Source: Based on 'Business etiquette around the world', May 2015, <https://www.ctbusinesstravel.co.uk/news/blog/business-etiquette-around-the-world/CC-BY-SA-4.0> licence

Logistics

The practicality of doing business in new markets must also be considered before expansion. The proximity of the new location to the manufacturing location, time zone differences for communicating between locations, the implications for getting products or services to the new market, and how goods are moved within the country – all should be considered before committing to that market.

QUESTIONS 2.3



- 1 **Explain** why researching and understanding a new market is fundamental to expansion.
- 2 **Explain** the impact operating and external environmental factors have when expanding to a global market.
- 3 **Discuss** whether the internal environment needs consideration in the strategic planning of a business intending to expand.

Expansion strategies

Key learnings

You will learn about the strategies a mature business adopts to expand into new global markets by examining expansion:

- into niche markets
- through innovation
- driven by research and development
- driven by emerging technologies.

Developing a niche market

A **niche market** is a small segment of the market that has a unique set of characteristics. It is a smaller market that focuses on a specific demographic, product or service. A niche market can be strategically developed by an expanding business or can evolve organically. Developing or servicing a niche market allows smaller businesses the opportunity to compete with larger businesses that may already have the majority share of the mainstream market.

GAINING INSIGHT



Floating Images: Ipswich business captures niche market

Floating Images Hot Air Balloon Flights was created and established in 1997. Operated by Graeme and Ruth Day, it is South East Queensland's only balloon operator that offers a unique opportunity to combine a city and country balloon flight over the heritage city of Ipswich and the Scenic Rim region. It is the first and only balloon operator based in the Ipswich, Scenic Rim and Somerset regions.

Circumstances can lead you to be doing things that you didn't think you would be doing and in the 1980s, when studying for an Associate Diploma of Agriculture at Gatton, Graeme Day had no idea how much that study would help pave the way for his future career as a hot air balloon pilot. While travelling through France and Germany with friends, Graeme had an opportunity to help the crew of a balloon company: 'I worked for that company for six months as crew and in that time there were discussions; they needed another pilot.'

Graeme, who was working on a British passport, was asked to train as a pilot, provided he would hang

Floating Images, Greg Sullivan



Figure 2.22 Floating Images Hot Air Balloon Flights is South East Queensland's first and only Australian Tourism Accreditation Program (ATAP) accredited hot air balloon operator.

around to work for the company. He spent six years piloting balloons through the skies above France.

Niche market: a small segment of the market that has a unique set of characteristics

Spring, summer and autumn in Alsace, but in wintertime we used to do flights over the French Alps and they were three- to five-hour flights sometimes.

I knew that I could make a business out of this. I saw other people doing it ... People are normally doing balloon flights because it's a celebration of life. Be it a birthday, anniversary, wedding or proposal ... People want to celebrate some aspect of their life through something special and ballooning is considered as one of those memorable experiences that they want to tick off their bucket list. It's their life experiences list.

This combined with the trend away from materialistic gifts towards experience gifts, and with only about 20 commercial hot air ballooning operations in Australia, Floating Images continues to bring tourists to Ipswich and boosts the wider economy. 'We're looking at the next five years and the future. I'm currently learning Chinese at the University of Queensland in Brisbane because of the Chinese market', Graeme says.

Source: Shannon Newley, 'Ipswich business with niche market floating high', *The Queensland Times*, 25 September 2017 © The Queensland Times Pty Limited 2019.

Questions

- 1 **Describe** the competitive environment that Floating Images exists in.
- 2 **Explain** the niche market that Floating Images has developed inside this competitive environment.
- 3 **Create** a SWOT analysis to **analyse** the strengths, weaknesses, opportunities and threats of expanding Floating Images beyond its niche market in South East Queensland.
- 4 **Analyse** your findings and **make a decision** about whether Floating Images should pursue business expansion in a new domestic or global market.
- 5 **Explain** if a niche market could be developed or replicated in a new market.

Innovation for expansion

Competitive environments in both domestic and global markets require businesses to continually engage in innovative practices and apply innovative theories or strategies to all four key business functions. As explained in Chapter 4 of *Business for QCE Units 1 & 2*, innovation theories are applied to the product, process, marketing or organisational methods of the business. When expanding into global markets, innovation is a necessary strategy to maintain a competitive advantage and retain or grow a share of the market.

GAINING INSIGHT



HeliMods: Expansion driven by innovative practices

HeliMods, based in Caloundra, was launched in 2002 by Will Shrapnel. The Sunshine Coast company transforms helicopters into elite emergency and rescue aircraft and has grown to deliver products and configurations in global markets including Australia, Borneo, Antarctica, Europe and North America.

Through the delivery of innovative, world-leading aerospace products and services, HeliMods takes

helicopters and does all the engineering and most of the manufacturing to turn them into high-tech emergency medical, search-and-rescue or disaster relief machines in Australia and around the world. In the same way other companies transform vans into ambulances or police vehicles, HeliMods transforms helicopters.

After winning Telstra Queensland Business of the Year and the Queensland Medium and Making Waves category in 2018, HeliMods has been catapulted into the spotlight as a regional champion of innovation. Recognised as a world leader in the helicopter modification and special missions space, HeliMods was also a finalist in the Dermot MycManus Award for Innovation at the 2018 Premier of Queensland's Export Awards.

In 2019, the Civil Aviation Safety Authority (CASA) approved HeliMods as one of only six active organisations in the world to receive CASR Subpart 21.J – Approved Design Organisation status. Under the Civil Aviation Safety Regulations, Subpart 21.J



© HeliMods Pty Ltd

Figure 2.23 HeliMods was named Telstra Queensland Business of the Year for 2018.

allows Approved Design Organisations (ADOs) to carry out design and technical data approval functions, within the scope of their approval certificate, without further reference to CASA or other authorised persons. The CASR 21.J approval is not just applicable to the civil aviation market, but can be exploited in acquiring, sustaining and operating Defence Aviation platforms. The Defence Aviation Safety Regulation (DASR) airworthiness recognition process makes CASR 21.J approval, and HeliMods experience in rotary wing major design change and supplemental type certification, more relevant than ever. Obtaining CASR 21.J status adds to a long list of quality and certification achievements for HeliMods and increases its scope for further innovation and development.

The organisation now holds over 30 Rotary Wing STCs, more than any other organisation in Australia, and is also AS9100D and ISO 9001:2015 certified. These are the highest level QMS certifications in the aerospace and defence industries.

The business currently employs 30 people at Caloundra, and is experiencing huge growth. Its facility



© HeliMods Pty Ltd

Figure 2.24 HeliMods' automated stretcher system can be used for aircraft and road vehicles. This innovation allows rapid loading of patients at the push of a button.

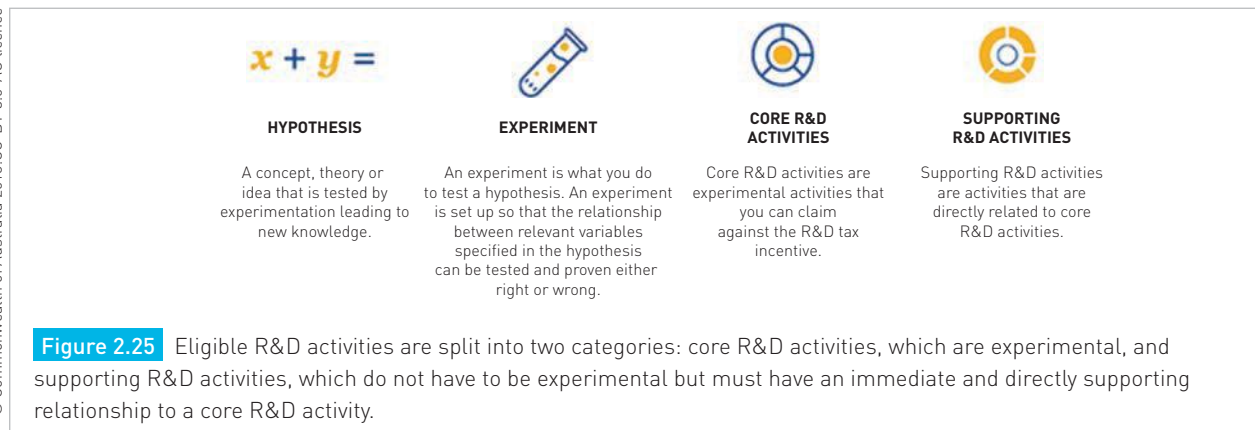
is the only one of its kind in the southern hemisphere and one of the most sophisticated in the world, pushing the boundaries of what is possible and supporting the helicopters used in life-and-death rescue missions.

Research and development

The activities that a business engages in to develop new services or products, improve existing services or products or evolve its processes are called **research and development** or 'R&D'. R&D helps a business to find innovative ways to improve, invent or gain a competitive edge. It is an important strategy to ensure that a business is sustainable, keeps up with emerging technologies and maintains viability as future-ready. R&D activities are often designed around finding new ways to reduce costs and increase productivity or generate new profit streams.

The Australian Government provides an R&D tax incentive that encourages companies to engage in R&D benefiting Australia. This incentive is a tax benefit for businesses to help offset some of the cost of conducting eligible R&D activities.

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An R&D strategy depends on the size of the business. In small businesses, R&D tends to focus more on product development because of budget limitations, while larger businesses may be able to dedicate more time and resources to R&D to introduce new products as well as improve existing ones. For mature businesses,

Research and development: the process by which a business develops new technology or improves existing technology to improve operations

an R&D strategy may also involve adopting a global approach to research and development. This means that the R&D activities span many countries, cultures and languages and can significantly enable organisations to improve their innovation strategies.

GAINING INSIGHT



Twenty years of R&D to improve sleep

Re-Time Pty Ltd was formed in 2010 to help people re-time their body clocks and improve sleep. Initially, the business set out to develop a solution to help thousands of people improve their sleep. Since 1987, Professor Leon Lack and Dr Helen Wright from Flinders University had been researching and developing the world's first wearable green-blue light therapy device – a product that would deliver an alternative to sleep-assisting drug therapy via wearable technology.

Over the course of two years, seven engineers, two ophthalmic experts and two sleep psychologists designed an ergonomic wearable device called Re-Timer. It took four design iterations and 160 logged design changes before it was released to



© 2019 Re-Time Pty Ltd.

Figure 2.26 Re-Time Pty Ltd had many challenges turning its prototype into a commercially viable product.

market in November 2012 by the University-owned business.

The device is now sold in over 40 countries, its biggest markets being the United States, England, the Netherlands, France, Canada, Australia and Japan.

Demand for the technology continues to grow and it has won accolades from a variety of users – everyone from late night nurses who struggle with shift work through to professional athletes like the Socceroos who play internationally and experience disrupted sleep patterns due to overseas flights.

...
[CEO and co-founder Ben] Olsen says the company's strategy is to release one new product every year for four years, keeping them at the forefront of sleep therapy research and wearable device technology.

'Our first product (the Re-Timer glasses) is working and in the market. We've a second product that we call Thim that is a wearable sleep-tracking device. It's a smart ring device. That's where the bulk of our R&D activity is currently at. This is something we've created from scratch and it will be commercial very soon.

'We're a continuous development business ... Every time we get an R&D cheque it goes straight into the R&D bucket. It's a continually rolling R&D strategy.'

Source: 'Re-Time: An R&D journey that'll put you to sleep', Department of Industry, Innovation and Science, 6 June 2018
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The continuing evolution of technology, and increased access to it, also drives R&D with many industries now globalising their R&D strategies. This then drives expansion through tasks that are performed in global markets, including the establishment of R&D centres around the world. An example is the Ford Motor Company, which is investing more in R&D in Australia than any other motor vehicle manufacturer. It invested \$2 billion between 2010 and 2016 and the US head office signed off on a \$500 million research and development program for Australia in 2019.

Emerging technologies

Businesses that invest in research and development and strive for innovation will develop, utilise or encounter **emerging technologies**. These technologies are important in business diversification and expansion as they are technologies that are considered to substantially alter the environment they will contribute to. They are often described as breakthrough technologies that are likely to shape our lives in the near future. In business, emerging technologies can disrupt industries, drive business growth, facilitate expansion and create niche markets.

Emerging technology: a new technology with the potential to substantially alter the business and social environment



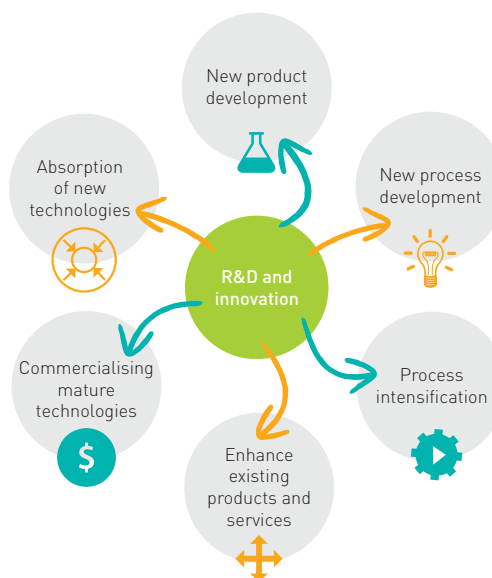


Figure 2.27 R&D and innovation investments can give businesses a competitive edge through new and improved technologies, processes and products.

GAINING INSIGHT



World Economic Forum: Top 10 emerging technologies of 2018

The 10 emerging technologies on this list published by the World Economic Forum were selected by a panel of scientists and experts. They are technologies identified as having the potential to be disruptive by altering deep-rooted practices or shaking up whole industries.

Augmented reality

Overlaying information and animation on to real-world images is set to go mainstream. In the future, augmented reality will help surgeons visualize tissues beneath a patient's skin in three dimensions and conjure up holographic-like guides to take you through a museum.

Personalised medicine

Advanced diagnostic tools are set to tailor your medicines to you, detecting and quantifying multiple signs of a disorder to decide how likely you are to contract a disease. One helps women with certain types of breast cancer avoid chemotherapy. It can also be used to diagnose endometriosis, without the need for surgery, as well as brain disorders, like autism, Parkinson's and Alzheimer's.

AI-led molecular design

The days of science relying on educated predictions – or guesses – to create new drugs and materials may become a thing of the past as artificial intelligence takes over. Instead of messy experiments, machine-learning algorithms will analyse all known past tests,

discern patterns and predict what new molecules are likely to work. As well as speeding up the process and reducing chemical waste, it will help the pharmaceutical industry identify and develop new drugs at a rapid pace.

More capable digital helpers

If you're becoming reliant on Siri and Alexa to switch on your music or give you the weather forecast, you'll soon be able to access far more sophisticated digital aides. Powered by AI, the latest technology will mine the cloud and outline various arguments on topics that are important to you.

Implantable drug-making cells

For people who have to take medicine regularly, the idea of having a tiny drug factory implanted in the body is probably very appealing. At some point in your life you've probably needed to take a course of drugs and struggled to remember when to take them. Until now, implant use was limited because users also needed to take immune-suppressing drugs to prevent their bodies attacking the implant. Now the technology

is sophisticated enough to work without being rejected by the immune system and could transform the treatment of long-term conditions.

Gene drive

Changing genes knowingly can be controversial and often goes hand-in-hand with ethical questions. And while gene drives – natural or engineered genetic elements that spread through populations quickly – are no different, they offer enormous power to fight disease or eliminate species of pests such as mosquitoes that transmit malaria.

Algorithms for quantum computers

Computers that use quantum mechanics to perform calculations can solve some problems far more efficiently than a conventional computer. While early use was held back by disruptions to their function, the latest research has improved that and a growing number of academics are developing programmes and quantum software. Once refined, powerful quantum computers could simulate nature and help design materials.

Plasmonic materials

Is this the technology that will make Harry Potter's invisibility cloak a reality? While that is probably still a way off, plasmonic devices that manipulate electron clouds and light at the nanoscale are set to increase magnetic memory storage and the sensitivity of biological sensors. Several companies are developing new products,

including a device that can distinguish viral from bacterial infections and a heat-assisted magnetic recording device. Light-activated nanoparticles are also being investigated for their ability to treat cancer without damaging healthy tissue.

Lab-grown meat

Would you eat a burger that you knew had been grown in a lab? Meat grown from cultured cells could cut the environmental costs of producing meat and eliminate the unethical treatment suffered by animals that are raised for food. With the technology improving all the time, duck, chicken, and beef produced without slaughter could be on its way to a kitchen near you sooner than you think.

Electroceuticals

Electroceuticals offer the ability to treat ailments using electrical impulses. One approach, targeting the vagus nerve – the system that sends signals from the brain to most organs – is poised to transform care for many conditions, since it has the potential to regulate the immune system. This has been used to treat epilepsy and depression for more than a decade, and now looks set to aid sufferers of migraines, obesity and rheumatoid arthritis.

Source: Oliver Cann, 'These are the top 10 emerging technologies of 2018', World Economic Forum, 14 September 2018

To read more about the list of emerging technologies, go to the World Economic Forum Emerging Technologies Report.



Questions

- 1 **Explain** why being aware of emerging technologies such as these is important for businesses to remain competitive.
- 2 **Explain** what the implications could be for a business that doesn't embrace emerging technologies.
- 3 **Discuss** whether all businesses need to progress with technology to remain competitive. **Explain** why or why not.
- 4 **Discuss** which of these emerging technologies you think is most valuable. Why? Do you also think this will be the most profitable in the market?
- 5 **Create** an advertisement to market a prototype of a product utilising one of the emerging technologies identified above.

The continuous emergence of new technologies and innovations means a business must constantly evaluate its activities and its strategic planning to re-evaluate its priorities and rethink how it uses technology to continue to engage its audiences.

Technology develops faster than business can implement it, so being in a position to take advantage of emerging technologies while they are beginning to trend helps a business keep its competitive advantage.

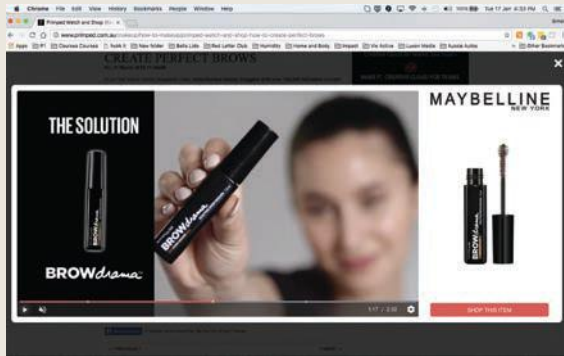
Most of the emerging technologies and innovations being adopted by businesses today mean that the customer no longer receives a 'one size fits all' experience. Instead, technologies are aiming to transform all areas of business into customised and personalised experiences.

EMERGING TECHNOLOGIES



Pixmoto: Introducing video commerce

Pixmoto is redefining the e-commerce landscape by combining video content with an intuitive and interactive e-commerce experience that opens up an entirely new revenue stream for bloggers, publishers and retailers.

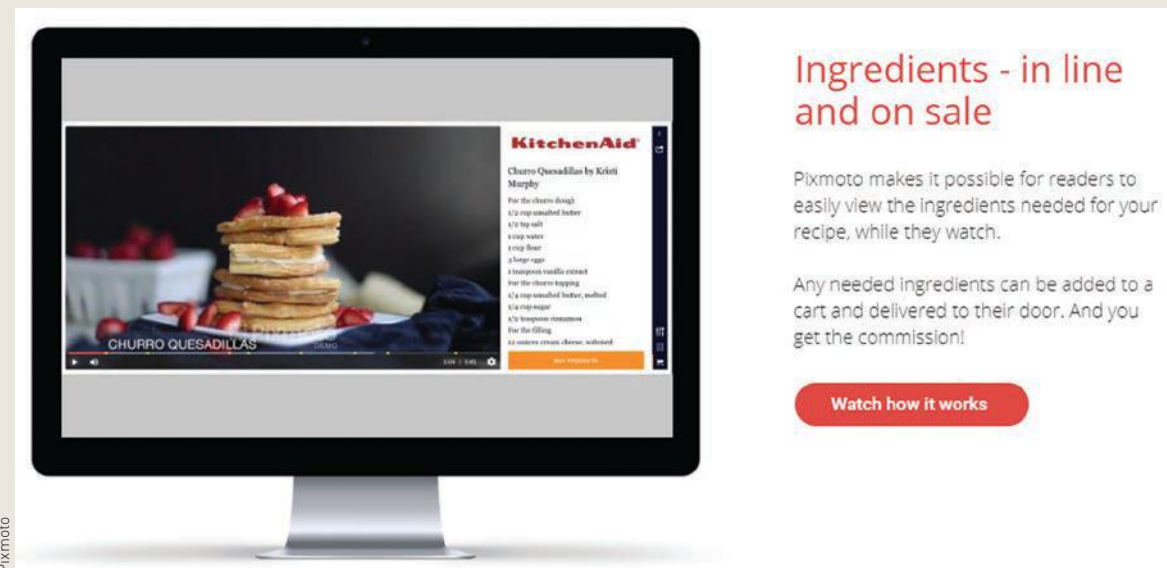


Pixmoto

Figure 2.28 Pixmoto brings video instruction and product placement together to enable in-video shopping.

Pixmoto makes instructional videos even more immersive and creates an irresistible sales proposition for sponsors. This means video instruction and product placement can now exist together in one concise, compelling interface empowering online retailers, publishers and bloggers to sell more products online through digital video. This unique approach to online video marketing is set to transform online videos and is already enabling in-video purchasing for the food and beauty industries. It gives viewers the ability to purchase ingredients and equipment while still watching an instructional recipe video.

With offices already established in Brisbane and in Boulder, Colorado, Pixmoto is preparing to disrupt the way online content translates to online sales.



Pixmoto

Figure 2.29 Ingredients and cooking equipment can be added to an online shopping cart while watching an instructional recipe video.

Source: Pixmoto.com

Modes of entry

Key learnings

You will learn about the modes a mature business might adopt for entering into global markets including:

- understanding the need for a market entry strategy
- examining the different market entry strategies, such as exporting, licensing, international agents and distributors, strategic alliances, joint ventures, overseas manufacturing and sales subsidiaries.

During the strategic planning for expansion, as well as analysing the environmental factors, a business needs to consider its mode of entry. This is its planned strategy or process to establish the delivery of its goods or

services into the new market. A business may adopt the same mode of entry for all global markets or may choose to utilise different strategies for each global market.

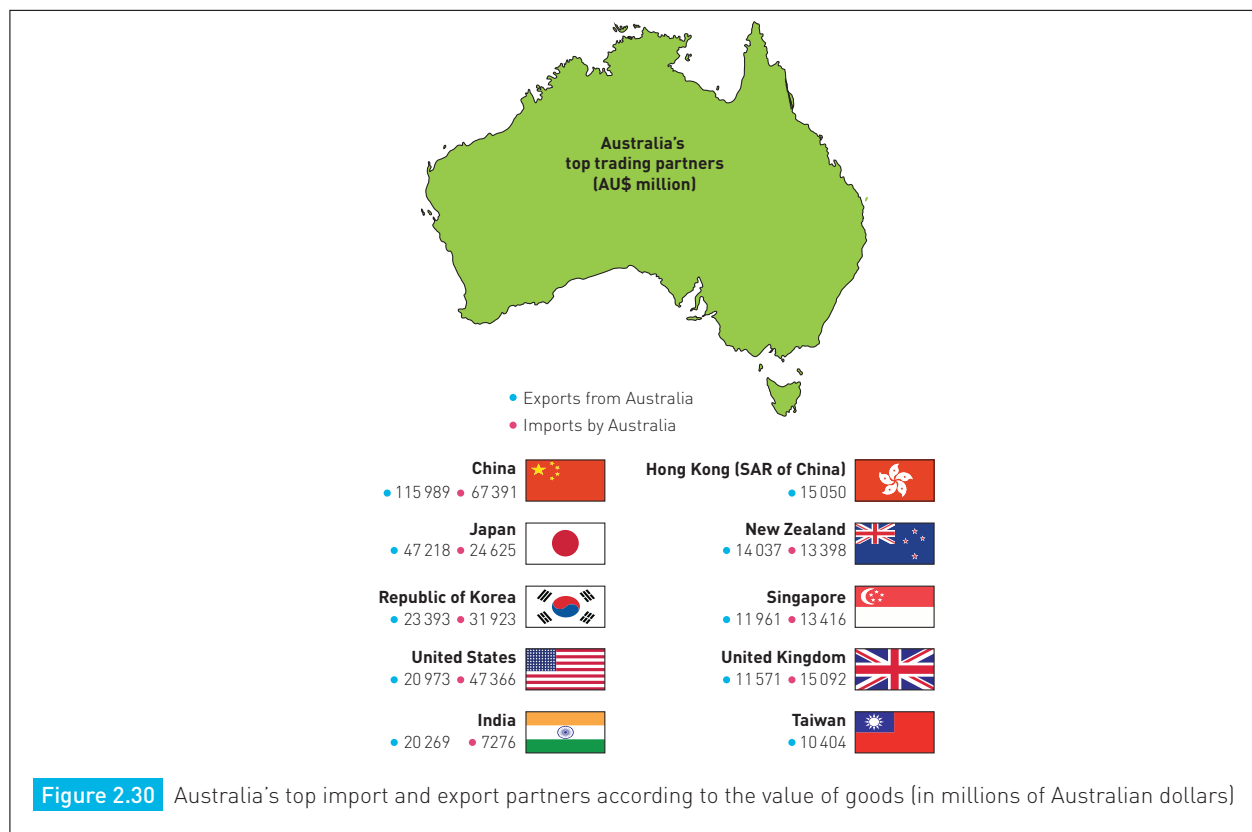
Financing the market entry strategy can be costly and, depending on the size of the expansion plans, the expanding business may need to seek partnerships, investors or loans to support and to fund its expansion. As explained in Chapter 6 of *Business for QCE Units 1 & 2*, financing can occur through equity or debt financing. In expansion, the business must ensure its cash flow, cash reserves and available capital align with its mode of entry costs. Financing strategies will be explored further in the next chapter.

The common strategies for market entry that a business can adopt in global expansion are grouped into three formats:

- movement of goods and services between countries – for example, exporting, importing and trade
- contractual agreements to facilitate entry to other countries – for example, licensing, franchising, strategic alliances and joint ventures
- development of strategies and operations in other countries – for example, through outsourcing and offshoring, subsidiaries and foreign direct investment.

Importing and exporting

When goods or services are sent between countries, they are being imported and exported. Businesses that **export** their products manufacture the products in their home country and then send them off to be sold in another country. Importing and exporting is usually an entry-level introduction to global expansion and international business activities. Generally, starting an **import** or export operation doesn't require a large capital investment because the operations remain in the home country.



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Export: to manufacture products in a home country and then send them to be sold in another country

Import: to bring a good or service into one country from another for processing, sale or distribution

SUSTAINABILITY



Sustainable exporting

In May 2015, Dr. Oetker, a German-based family-owned company, acquired Queen Fine Foods, a leading vanilla essence and food colouring brand within Australia and New Zealand. Founded in Brisbane in 1897, Queen Fine Foods Pty Ltd (Queen) is an iconic brand in Australia. Providing vanilla extracts to Australian kitchens for 121 years, it expanded beyond its humble origins in vanilla essence to become a modern baking brand that offers over 100 individual items. Its flagship vanilla and vanilla-related products, which include extracts, pastes and concentrates, are used far and wide by chefs in five-star restaurants in Japan, Germany and the USA, as well as by mums baking for their families in Mount Isa, Queensland.

Queen has strategically grown its export markets, assisting this growth, unlike many of its international peers. Queen not only calls on its unique vanilla extraction techniques for a competitive advantage, but has also benefited from its flexibility in producing a wide range of retail package formats, such as tubes, jars and bottles, vertically integrated via in-house PET blow-moulding. Complementing these manufacturing advantages, Queen has a deep understanding of the vanilla industry, its growers and their requirements for a sustainable future.

Queen has undertaken and continues to commit to a range of sustainable initiatives. It pioneered the large-scale organic certification of vanilla in its closest producing neighbour – Papua New Guinea – to add further value to its crop. It also established the now Fairtrade International–certified Vanilla Growers Association in Vava'u, Tonga, after funding a rehabilitation project of vanilla in that country.



© Queen Fine Foods

Figure 2.31 The diverse products produced by Queen Fine Foods are exported and distributed around the world to meet the needs of different markets.

Licensing

In global expansion, **licensing** means that a contractual agreement is in place that allows one business to use another business's intellectual property (IP). This means they are purchasing a licence to use patents, brands, designs, or business knowledge in another market or country. Licensing allows a business to enter a foreign market with a limited risk, and international licensing means that a business in one country allows another business in another country to use its intellectual property.

As explained in Chapter 6 of *Business for QCE Units 1 & 2*, franchising is a form of licensing that allows a business owner to operate a business model as an 'alter ego' of the parent company. Franchising can be utilised as an entry strategy or as a growth strategy into new markets. McDonald's is an example of a global franchise where each new store or market entry is owned by a local business. The local business pays McDonald's franchise fees, and in turn receives the necessary branding, equipment and how-to operational procedures.

In licensing and franchising, the branding and operating standards are usually carefully monitored and there is limited ability to modify the franchise. In Australia, when a licensing agreement for a new market is being formed, it may be exclusive or non-exclusive.

Exclusive licences

An exclusive licence is the most common form of licensing adopted by Australian businesses. This type of licence allows an Australian business to commercialise its IP and sell it to new domestic and international markets. An exclusive licence generally means that the **licensee** is given the rights to use the IP of the brand to the exclusion

Licensing: a contractual agreement that allows a business to use the intellectual property (IP) of another business

Licensee: the person or business that holds a licence to conduct approved business activities or operate a business under a licensing agreement

of all others. This also excludes the **licensor** from entering the market of the exclusive licensee. As with all contracts, there can always be exceptions, adjustments and restrictions to the licensing. An exclusive licence with an exception is called a sole licence. For example, the licensing could be restricted to a product, field or geographical area within the market.

GAINING INSIGHT



Licensing: Hal Leonard Australia Pty Ltd

Hal Leonard Australia Pty Ltd is a subsidiary of Hal Leonard Corporation, founded in 1947, which is the world leader in the print music industry. Selling products in more than 65 countries around the world, Hal Leonard Corporation represents in print some of the world's best known and most respected artists,



Figure 2.32 Hal Leonard Australia is the exclusive distributor for AMEB (Australian Music Examinations Board) publications. (Logo © Hal Leonard Australia Pty Ltd)

including The Beatles, Miles Davis, Diana Krall, Justin Timberlake and Stevie Wonder, as well as the music of Irving Berlin, and Rodgers and Hammerstein.

In January 2002, Hal Leonard Australia Pty Ltd established its Licensing and Hire Department, which handles the promotion and performance licensing of a wide catalogue of musicals, plays and classical works. In late 2010 HLA acquired AMPD (All Music Publishing & Distribution, previously Allans Publishing) and in 2011 became the exclusive distributor for AMEB (Australian Music Examinations Board) publications.

These licences have reinforced Hal Leonard Australia as a driving force in the print music and theatrical licensing markets in Australasia.

Non-exclusive licences

Unlike an exclusive licence, a non-exclusive licence means that, even though the licensee has been given the right to use the intellectual property in a market, they may not be the only licensee. This means the licensor may choose to also enter the market and exploit the same intellectual property, or sign any number of other licensees in the same market.

As well as exclusive and non-exclusive licences for goods and services, businesses may adopt an open-source licence. This kind of licence applies to computer software, and it specifies that the source code of the software is freely available so that other software developers may base their own software on it. Software produced in this way must also be open-source, or freely available.

GAINING INSIGHT



Opmantek software: Open-source and commercial licence, disrupting the network management and IT audit industries worldwide

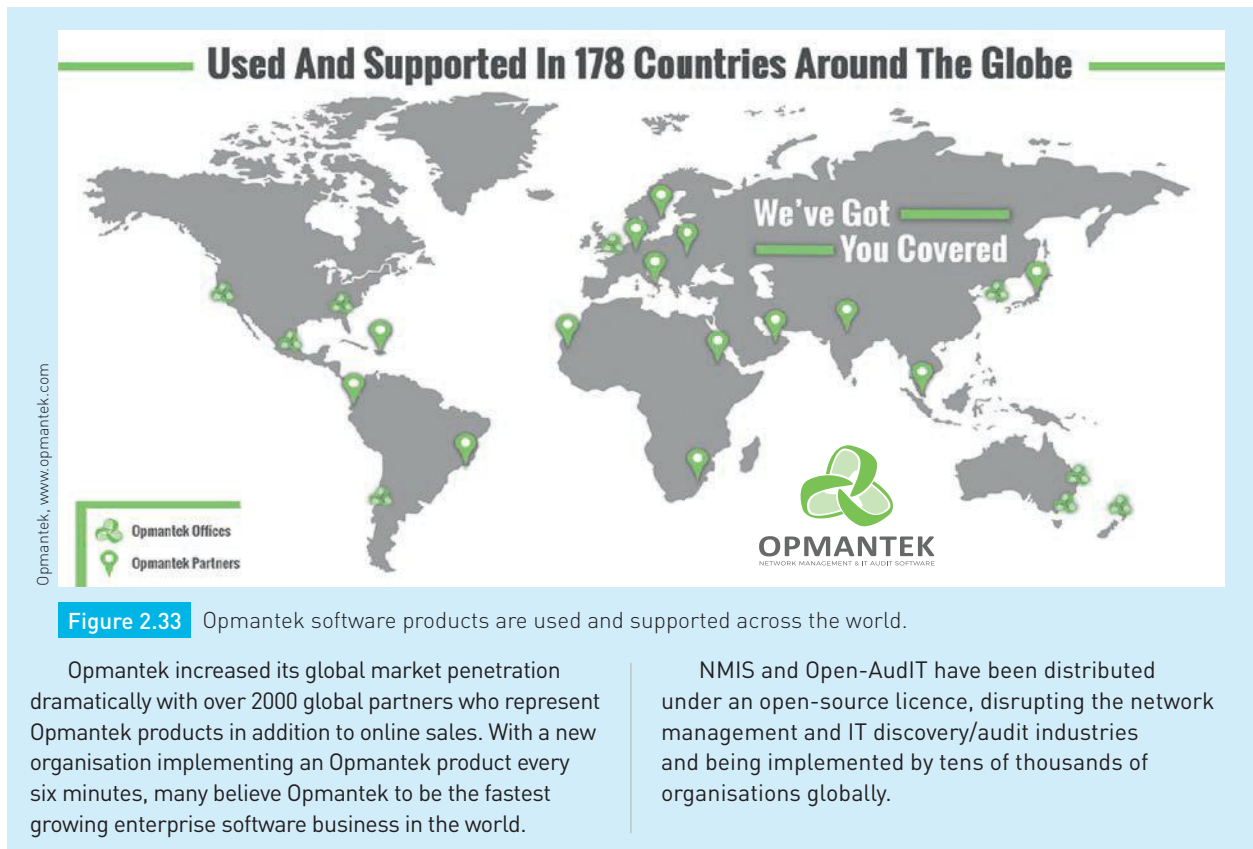
Opmantek develops enterprise-class, multi-award-winning software that helps IT teams audit IT environments, detect faults, review current and historical network performance, and predict where future failures are likely to occur.

Opmantek was originally a Gold Coast-based start-up, founded by Danny Maher in October 2010 after buying the rights for NMIS from a New Zealand company and recognising the opportunity for commercialisation.

The software is now used by over 130 000 organisations worldwide to manage some of the world's most complex IT environments, including some of the largest telecommunications carriers, managed service providers and banks.

Opmantek is a world leader in the fields of artificial intelligence operations (AIOps), IT infrastructure management and audit software, and is the 2018 Australian Exporter of the Year for Digital Technologies.

Licensor: the person or business with the legal rights over a business who then gives, sells or otherwise enables another person or business a limited right to use the business's intellectual property



International agents and distributors

In some countries, particularly those in Asia, a local partner is commonly considered to be an essential requirement. These local partners can act as an international agent or as a distributor. Contacting a country's economic development agency can help a business navigate its global expansion, and often there are financial grants and incentives available for bringing an economic boost to a new region.

Table 2.1 Understanding the roles of agents and distributors helps an expanding business to choose the appropriate partner.

ROLE OF THE AGENT	ROLE OF THE DISTRIBUTOR
Agents do not take ownership of goods but act as a representative of the supplier.	A distributor buys goods and then resells the goods to local end users who may be retailers or consumers.
An agent is generally paid by the exporter based on a commission of sales value generated.	In some cases, the distributor may sell to other wholesalers who then sell to local retailers or end users.
The exporter receives orders for customers from the agent but then delivers goods or services directly to customers, invoices the customers, and collects payments from the customers.	Distributors may carry complementary and competing lines and usually offer after-sales service.
The exporter is also responsible for setting the selling price, although the agent will likely provide input on local market conditions to help the exporter decide on pricing.	Distributors are paid fees by adding a margin to products, and their fees are higher than those of agents because they usually carry inventory, extend credit for customers, and are responsible for marketing.
Agents are generally based in the export market and often represent several complementary product or service lines.	A distributor has more responsibilities in selling your product in market than an agent, they require a higher margin. This may impact on how you price your product; you will probably need to absorb the distributor margin otherwise your pricing to the end customer will be too high.
They may operate on an exclusive basis, as the sole agent for a company's goods or services in a specific export market, or as one of a number of agents for the exporter in that market – that is, on a non-exclusive basis.	Some exporters find that they are unable to use a distributor as their profit margin is too small to provide enough margin for the distributor and a competitive price for end users.

Source: www.austrade.gov.au/Australian/Export/Guide-to-exporting/Agents-and-distributors. © Commonwealth of Australia 2018 CC-BY-4.0 licence.

The definition and responsibilities of agents and distributors can vary depending on the country or industry, so support from the government department or economic agency can be beneficial in expansion operations.

Strategic alliances and joint ventures

Joint ventures and **strategic alliances** are partnerships that allow businesses with complementary skills to benefit from one another's strengths. The businesses pool resources and share the costs of manufacturing and distributing new products and services. While both are legal agreements between the businesses, in a joint venture the agreement between two or more companies is to form a new business that is owned by both.

A joint venture can access assets, knowledge and financial resources without altering the parent companies. A strategic alliance, on the other hand, enables a business that wants to gain a new area of expertise or access to new technology or markets to partner with another company that would benefit equally from the partnership. Strategic alliances often have a limited scope and function.

GAINING INSIGHT



Qantas and Emirates strategic alliance



EPA/AAP Photos

Figure 2.34 Airlines form strategic alliances to give them access to a wider share of the market.

Australian domestic air travel is a duopoly between Qantas (with its subsidiary, Jetstar) and Virgin (which owns a controlling stake in Tiger Airways), while the international market is more competitive. Qantas remains a highly competitive business in international travel, with strong brand loyalty. In 2013, it established a strategic alliance with Emirates, giving the two businesses a combined network of over 60 global destinations and making it one of the most comprehensive in global air travel. This strategic alliance has been confirmed to extend until at least 2023, with benefits to customers including increased schedule choice and access to customer service lounges.

Questions

- 1 **Describe** the environmental factors that led to this strategic alliance.
- 2 **Explain** why the international travel market is so competitive.
- 3 Discuss why strategic alliances may have set end dates (such as 2023 in this case).

Joint venture: a partnership between two businesses that pool resources and invest to create a third, jointly owned business

Strategic alliance: a partnership between two businesses that benefit equally to gain access to a new area of expertise, technology or market

QUESTIONS 2.4



- 1 **Explain** the difference between a joint venture and a strategic alliance.
- 2 **Explain** why some strategic alliances have a limited scope or function.
- 3 Research and **identify** who the strategic partners of the following businesses are:
 - a Shell
 - b Apple
 - c McDonald's
 - d Commonwealth Bank.
- 4 **Create** sentence and paragraph responses to **explain** what benefits each of these strategic partnerships brings to the two parties.

Overseas manufacturing

When the rate of production, demand and location of distribution channels for a business increases, the business must consider strategies to reduce costs and increase efficiency in order to meet customer demands. One common strategy adopted by businesses in international or global expansion is to take business processes and manufacturing overseas. The relocation of business activities can be through **outsourcing** or **offshoring**. Reducing the operational costs of activities that can be outsourced or managed offshore will enable a business to focus on its core business and to invest any saved funds into marketing, research and development or other areas for improvement.

Outsourcing is a strategic decision to transfer certain activities in the business operations to external specialists and strategic allies, while offshoring is the transfer of jobs to different countries to leverage an advantage such as cost. Outsourcing typically focuses on cost-saving, and a strategic partnership involves a collaborative relationship characterised by mutual benefit and sharing of expertise, resources and capabilities. This can contribute to the competitiveness of both businesses, including maintaining brand awareness, market share and customer loyalty.

'It is possible to outsource work but not offshore it; for example, hiring an outside law firm to



iStockphoto/FangXiaNuo

Figure 2.35 Overseas manufacturing plants can reduce operational costs and increase efficiency.

Table 2.2 Comparison between offshoring and outsourcing

	OFFSHORING	OUTSOURCING
Definition	Offshoring means getting work done in a different country.	Outsourcing refers to contracting work out to an external organisation.
Risks and criticisms	Offshoring is often criticised for transferring jobs to other countries. Other risks include geopolitical risk, language differences and poor communication etc.	Risks of outsourcing include misaligned interests of clients and vendors, increased reliance on third parties, lack of in-house knowledge of critical (though not necessarily core) business operations etc.
Benefits	Benefits of offshoring are usually lower costs, better availability of skilled people, and getting work done faster through a global talent pool.	Usually companies outsource to take advantage of specialised skills, cost efficiencies and labour flexibility.

Source: www.diffen.com/difference/Offshoring_vs_Outsourcing

Outsourcing: a strategic decision to transfer certain activities in a business's operations to external specialists

Offshoring: the relocation of a business process or activity performed in one country to another country, with either the same or another business

review contracts instead of maintaining an in-house staff of lawyers. It is also possible to offshore work but not outsource it; for example, a Dell customer service centre in India to serve American clients' (diffen.com).

The call-centre in the latter case is not outsourced to a specialist business but rather managed by Dell in a different country.

Sales subsidiaries

A business that is owned and controlled by a larger company is called a subsidiary. A sales subsidiary sells the products of the ownership company through its subsidiaries. A subsidiary is still a legal business entity and is responsible for its own liabilities and operations. An overseas sales subsidiary is the establishment of marketing and distribution through smaller businesses in new markets and locations or by buying existing businesses to market and distribute products for the parent company. For example, Nike Inc. has bought and sold a number of subsidiaries. It still owns key subsidiaries Converse and Hurley. These brands enable the parent company Nike Inc. to achieve a wider reach in the athletic and lifestyle market.



Figure 2.36 Nike Inc. has bought and sold a number of subsidiaries to widen market reach and expand into new markets.

INQUIRY



Evaluating modes and strategies of expansion



Figure 2.37 In 2008, Starbucks closed 61 of its Australian stores. The remainder were sold in 2014. It has since reopened some stores and now has 39 Australian stores.

Stimulus one**Starbucks too hot (and expensive) for Australia**

Massive US coffee chain Starbucks ended up with a ton of melted iced macchiatos when it tried to push into Australia in 2000. Much like Target's failed leap to the Canadian market, Starbucks went down under with similar naïveté – Aussies act the same as Americans, so why wouldn't their coffee drinking habits be the same?

Unfortunately, the local movement dominates the Australian coffee market and for those prone to visiting chains, Starbucks proved to be too expensive. But the slow burn didn't set in until 2008 when the caffeine peddler suddenly closed 61 stores to the tune of a reported \$143 million loss. Starbucks kept the faith until 2014 when it handed over the remaining 24 stores to the Withers Group, which operates the 7-11 chain in Australia.

Source: www.firmex.com/thedealroom/ © 2019 Firmex Inc.

Stimulus two

Updated status of Starbucks in Australia.

Stimulus three

Watch the video 'Why Starbucks failed in Australia'.

Inquiry task

Using the inquiry model, read the above insight (stimulus one) and the updated status of Starbucks (stimulus two) and watch the video (stimulus three) to conduct an inquiry into the expansion and failure of Starbucks in Australia.

- 1 **Identify** and **explain** what strategies for expansion Starbucks tried to utilise when moving into the Australian market.
- 2 Use the information provided and your own research to **create** a STEEPLE analysis of the Starbucks expansion journey.
- 3 **Interpret** the findings of your STEEPLE analysis to **draw conclusions** about the implications of the Starbucks expansion in Australia.
- 4 **Evaluate** and **explain** why the strategies for expansion that Starbucks utilised in Australia were unsuccessful. **Discuss** its current strategy.
- 5 **Create** a short presentation or a one-page letter to the CEO of Starbucks to **recommend** strategies for Starbucks to renew its presence in the Australian market.



Why there are almost no Starbucks in Australia



Why Starbucks failed in Australia

Risk management**Key learnings**

You will learn about managing and minimising the risks of expansion by examining:

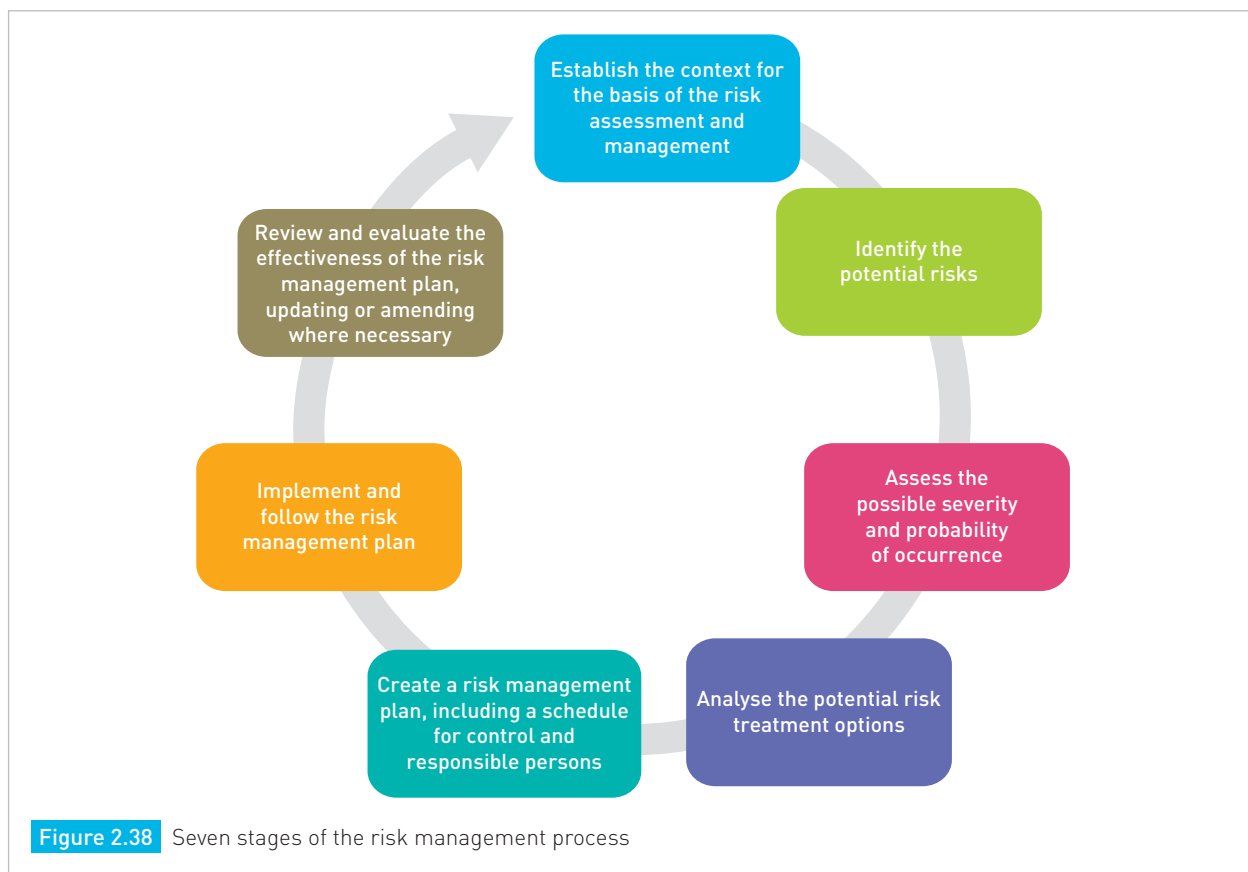
- the role of risk management during expansion
- the importance of risk management during strategic planning
- the role of contingency planning as a strategy for risk management.

In all areas of business, understanding and considering the level of risk associated with an activity is a necessary part of strategic planning. Whether it is the risks associated with the viability of a business idea, the risks associated with workplace operations, customer safety or the risks of global expansion, **risk management** is a crucial business strategy.

When assessing risk, the business must consider two areas: the probability of implications from the activity and the actual consequences should something go wrong. In order to prepare for risks that may arise, risk management requires continuous and systematic processes to identify and manage any foreseeable risks. In global expansion, many of the risks can be identified during a STEEPLE analysis.

Risk management: a process to identify, evaluate and understand the risk of business actions and decisions in order to minimise, control or eliminate the impact of unacceptable risks

This type of strategic planning or forward planning is important as there are different kinds of risks associated with international business and expansion. Risks can be more difficult to identify, changes can be more rapid than anticipated and the implications or damages more significant if a clear risk management strategy isn't in place.



Read the article ‘Risk Management: 7 Steps of Risk Management Process’ to learn about each of the stages in the risk management process.

Implications in global expansion can include issues such as a disruption to supplies and operations, loss of customer or employee confidence, damage to market reputation, business failure, natural disasters, and changes in tax, public opinion or government policy. While these risks are not exclusive to global expansion, when expanding operations internationally the level of risk is heightened and the number of factors beyond a business's control increases.



Contingency planning

As part of the risk management process, a business should also be engaged in **contingency planning**; this is also sometimes referred to as creating a ‘plan B’. Having a documented contingency plan means that business owners, managers and employees have considered and prepared for future events or circumstances that may significantly impact on their business.

Business Queensland outlines one approach to this, called the Prevention, Preparedness, Response and Recovery (PPRR) model. This model is also used by Australian emergency management and focuses on saving the business time and money by having plans in place to anticipate the impacts of setbacks, incidents and

Contingency planning: a prepared course of action designed to help a business respond effectively to a future event or circumstance that may or may not happen

disasters. The PPRR model puts plans in place to minimise losses in the event of an incident, and to anticipate possible direct impacts to a business and impacts on key stakeholders, which may flow on to the business. The PPRR steps, as explained by Business Queensland, are:

- *prevention* – take actions to reduce or eliminate the likelihood or effects of an incident
- *preparedness* – take steps before an incident to ensure effective response and recovery
- *response* – contain, control or minimise the impacts of an incident
- *recovery* – take steps to minimise disruption and recovery (see Figure 2.39).

Visit Business Queensland and investigate its risk management resources.



Figure 2.39 Business Queensland suggests the PPRR model as one approach to risk management and contingency planning.

INQUIRY



Inquiry task: Planning and managing the risks of expansion



Figure 2.40 Strategic planning involves considering the risks associated with modes of entry and expansion strategies before entering new global markets.

Austrade has developed a number of resources to help Australian businesses determine whether their business is ready for exporting.

You are to visit the Export Markets section of the Austrade website and conduct an inquiry into the risks of expanding into a new global market.

- 1 **Select** an export market from the countries available on Austrade and view its profile.
- 2 **Create** a SWOT analysis to consider the strengths, weaknesses, opportunities and threats of a local business from your region entering the global market you have investigated.
- 3 **Interpret** the SWOT analysis to **identify** the risks of expansion into the chosen country.
- 4 **Recommend** a contingency plan for at least one of the risks you identified during your SWOT analysis.
- 5 Using the criteria, **recommend** an appropriate expansion strategy to minimise the risks of expanding to the country of your choice.
- 6 **Create** a response in the form of a business letter, report or presentation to **communicate** your chosen expansion strategy to the business owner. Outline your risk management and contingency planning to justify why this strategy is most suitable for expansion.



Chapter 2 review

This chapter introduced strategies used by mature businesses for domestic and global expansion to ensure they remain competitive in the marketplace. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

2.1 Short items

- 1 **Explain** the difference between domestic and global expansion.
- 2 **Explain** the challenges for a business in the maturity stage of the business life cycle.
- 3 **Describe** the competitive environment for online businesses looking to expand their delivery of products to international markets.
- 4 **Describe** the factors of a STEEPLE analysis and why the addition of ethical factors is an important consideration when planning for global expansion.
- 5 **Explain** the common modes of entry for expansion into global markets.
- 6 **Explain** the relationship between strategic planning and risk management.
- 7 **Explain** why contingency planning is important when planning for expansion. **Outline** the possible consequences of a failure to plan.

2.2 Interpretive items

- 1 **Identify** a well-known Australian business that has successfully expanded internationally. **Describe** the expansion strategy and mode of entry it adopted in its diversification.
- 2 Using your knowledge of expansion and business diversification, **describe** the operating factors of the domestic and global market.
- 3 **Explain** why some businesses would choose to expand into emerging markets rather than into those that are advanced or established.
- 4 **Explain** the importance of research and development for Australian businesses wanting to remain competitive.
- 5 **Explain** why government departments such as Austrade invest and provide so many resources to help businesses grow beyond their domestic market.

2.3 Extended-response items

- 1 **Create** a multimodal response of 3–5 minutes to **explain** three reasons why a person might be motivated to expand domestically rather than internationally.
- 2 Using the criteria, **create** a written extended response in the form of a business report to **communicate** how expanding into a new market would give a competitive edge to a business owner in one of the competitive markets listed below:
 - a Optometry industry
 - b Dairy industry
 - c Car manufacturing industry
 - d Insurance industry

2.4 Activities

- 1 **Create** a table to **communicate** to business owners the advantages and disadvantages of each mode of entry for expanding into global markets.
- 2 Use a technology application to **create** a one-page brochure or flyer to **explain** the types of growth or diversification a mature business could plan for.
- 3 **Create** a table to compare the advantages and disadvantages of the modes of entry.



COMPETITIVE STRATEGIES: HUMAN RESOURCES AND FINANCE

What you will learn

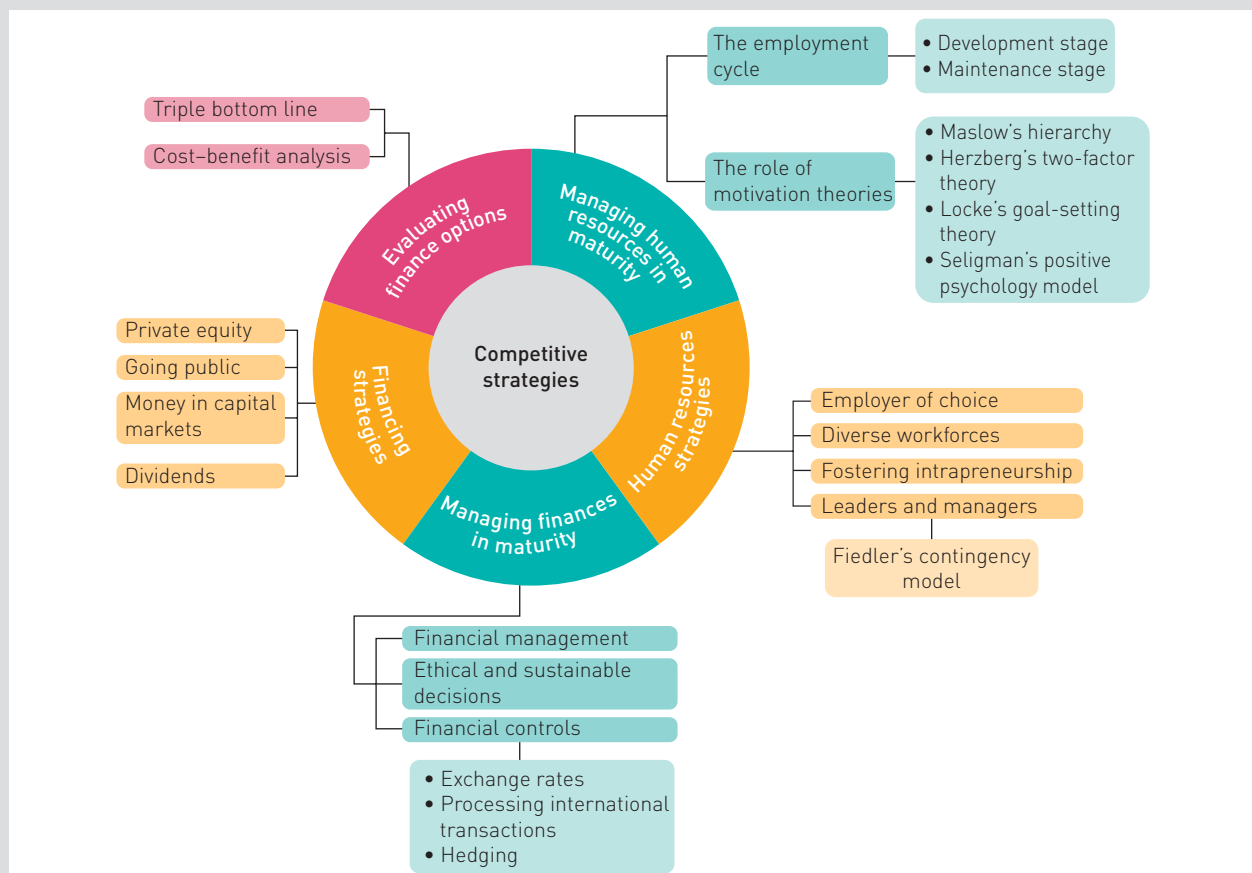
Along with strategies for expansion into new markets, to remain competitive a business must consider strategies for each of the functional areas. A business in the maturity stage of the business life cycle must consider the strategies for human resources management to ensure it attracts and retains quality staff in the widening competitive environment. Finance strategies are implemented to ensure that the expansion pursuits of the business are viable, sustainable and ethical. The management of these strategies is also important to ensure the culture of the workplace as led by leaders and managers reflects the goals and objectives of strategic planning.

This chapter will provide you with the opportunity to:

- **describe** the environmental factors that impact on human resources and financing
- **explain** the financing options for global operations
- **explain** the development and maintenance stages of the employment cycle and human resources strategies in competitive markets
- **select** data and information to **analyse** costs and benefits (cost–benefit analysis) of expanding into new markets
- **interpret** relationships, patterns and trends in the cost–benefit analysis to **draw conclusions** about the implications for expansion for a mature business
- **evaluate** financing options to **make a decision** and **propose** recommendations using criteria
- **create** responses to **communicate** strategies to stakeholders.

The analytical tool used in this chapter is:

- cost–benefit analysis.



Key skills

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

- creative thinking:
 - innovation
 - initiative and enterprise
 - curiosity and imagination
 - creativity
 - generating and applying new ideas
 - identifying alternatives
 - seeing or making new links
- critical thinking:
 - analytical thinking
 - problem-solving
 - intellectual flexibility
 - reflecting and evaluating
- 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
 - leadership
 - cultural awareness
 - ethical (and moral) understanding
- information and communication technologies (ICT) skills:
 - operations and concepts
 - accessing and analysing information
 - being productive users of technology.

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

GAINING INSIGHT



Josephmark

FOCUS QUESTION: What human resourcing or finance strategies have you leveraged in your expansion, both domestically and internationally?

Josephmark, founded in 2004, is a digital venture studio that identifies and incubates its own digital ventures (Vest, Hash and Undrtone) as well as creating digital products for clients (Myspace, CBA and Red Bull). From a small studio in Brisbane, Josephmark (JM) has taken its business global, with offices in Brisbane, Los Angeles, Stockholm and Sydney, and is now regarded as an Australian and global powerhouse.

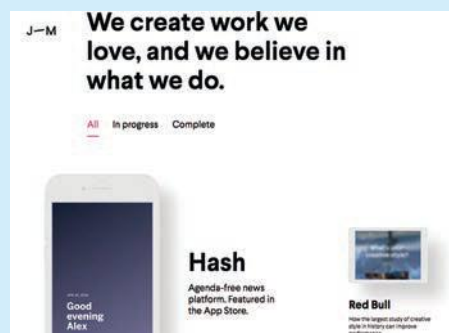


Figure 3.1 Josephmark has offices in Brisbane, Sydney, Los Angeles and Stockholm.

A better future happens by design, not chance

As a digital product studio, we design, develop and launch digital products that change the way we work, play and connect.

We help individuals, startups, brands and corporations see what the future could be – then we design a way to get there. Whether that's bringing an idea to life, growing or changing an existing product, or creating something entirely new.

We do so because we believe in using technology to make a better world, not a busier one. It should improve our real lives. The ones we live off screen. The ones that are messy and beautiful and sad and hilarious. That are muddy and chaotic and boring and bold.

We design to enhance life. We're not saying we're saving lives but we do believe design has the power to make the world a better place.

Figure 3.2 The vision of Josephmark.

Keeping great relationships with its clients as it grew or ventured out of Brisbane saw an organic expansion of the Josephmark brand across Australia. Josephmark CEO, Jess Huddart, explains, 'One of our earliest clients was Performance Frontiers, whom we started working with in 2005, and they led us to one of our earliest Sydney clients, BVN Architects'. Similarly, its work with *The Global Mail* (also in Sydney) began via a recommendation from the team at Wotnews (whom they collaborated with to create *We Are Hunted*).

Its selection as the company commissioned to redesign the new MySpace in 2011 was what really put Josephmark on the global map. Jess explains that its international journey actually started in 2010. In that year the company:

... did some work with Myspace for an app called Myspace Music Romeso, which essentially helped you find more music that you'd love based on your preferences – again, this was off the back of the work we did on *We Are Hunted*. At the time, the concept was very innovative and the user experience that we designed was also very cutting edge. Unfortunately, the app never took off due to music licensing issues, however when Myspace was acquired by Specific Media and Justin Timberlake a year later, we ended up on the invitation list to pitch for the redesign. We were the only agency to be asked outside the US and we ended up winning!

Working with Specific Media led to a couple of years flying the team back and forth between Brisbane and Los Angeles, as well as a stint living in New York City to try and break the market there, which ended up leading to the decision to open an office in Los Angeles. They were still a small team and the time zone challenge between Brisbane and New York City was too much. Basing the office in Los Angeles also meant they would still have access to both east and west coast opportunities. Jess explains:

At the time of expansion, the US dollar was very strong against the Australian dollar, so we made good money and we were a cheaper option in some ways. I also believe that our perspective (being relatively fresh) and general approach (we were told that our work ethic, commitment and quality of delivery were welcome surprises) helped us build trust and relationships quite quickly.



Figure 3.3 The team stay connected through the use of technology to facilitate flexible working hours and global locations.

This growing demand and expanding market meant the business needed to attract more staff in new locations. When recruiting talent, Jess believes that 'within the Brisbane market, because we have been able to travel overseas with our work and produce some really interesting digital projects, we attract a high calibre of talent'. Josephmark also offers flexible hours and allow its teams to work from the other offices in Los Angeles and Stockholm, if they choose. This strategy also helps retain staff who still wanted to work with Josephmark but also want to explore more of the world.



Figure 3.4 Ben Johnston and Jess Huddart of Josephmark believe their team is their best asset.

Opening the Stockholm branch was an opportunity that we took advantage of when one of our design strategists needed to move back there with his wife. We had relationships in Amsterdam that we are now utilising to help feed into our European expansion strategy.

Josephmark also has a People and Culture Director, who is responsible for making sure everyone is happy and doing what they're best at every day. She looks after the teams spread across Australia, Los Angeles and Stockholm, as well as helping to find new people to join the crew. Part of this strategy is a Learning and Development Fund, where each employee has a set amount they can use to attend courses, events or even work remotely. The team have used this to travel to Apple conferences in San Francisco, Confab in Minneapolis, The Conference in Malmö and cool local stuff such as Sydney's Semi Permanent or Melbourne's Pause Fest. There is also a personal fund that can be used for pretty much anything, from yoga to horse riding to Korean lessons.

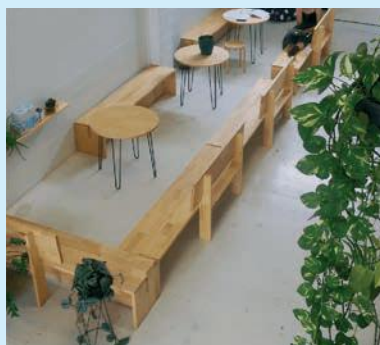


Figure 3.5 The Brisbane office fit-out encourages collaboration among the team.

Financing global operations is challenging. Josephmark has funded its entire operation privately and, for the most part, from the business itself or business loans. While there is an Export Market and Development Grant that the company applies for each year via AusTrade, Jess explains that the grant is becoming more popular and is not getting any more funding, so Josephmark has been receiving less each year.

Listed as one of the 100 Australian tech companies to watch in 2018, Josephmark continues to grow and mature. It will continue to design, develop and launch digital products. Its focus includes investigating designing for interface-less experiences, and exploring the impact of machine learning, AI and VR on various industries and day-to-day applications.

All images pp. 57–58 © Josephmark

Questions

- 1 **Describe** the facts and characteristics that evidence Josephmark's stage in the business life cycle.
- 2 **Describe** the environmental factors that affect the financing of global operations.
- 3 **Explain** some of the human resources strategies that have been identified at Josephmark.
- 4 **Explain** the relationship between the human resources strategies and the global expansion of Josephmark.
- 5 **Create** a STEEPLE analysis to consider the environmental factors that could impact Josephmark's planned expansion into more of the European market.
- 6 **Create** a 100-word job advertisement for a new administration assistant. Ensure you include information to market Josephmark as an employer of choice.

Managing human resources in maturity

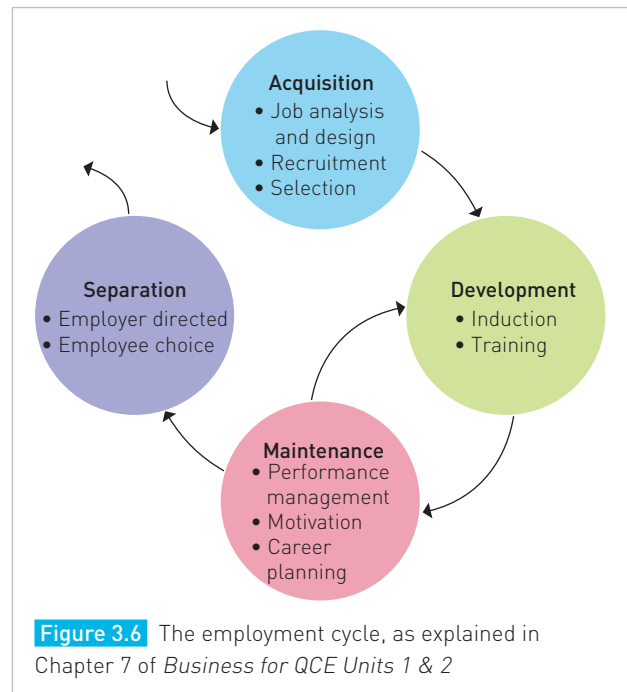
Key learnings

You will learn about managing human resources in maturity through examining:

- development and maintenance stages of the employment cycle
- the role of motivation theories in staff retention.

The employment cycle

As explained in Chapter 7 of *Business for QCE Units 1 & 2*, the employment cycle is made up of the four stages of employment through which an employee moves in a business. In the maturity stage of the business life cycle, the human resources focus is on the development and maintenance stages of the cycle. During the maturity stage, a business should be enabling strategies and processes to encourage an employee to continue to cycle through these two stages as they continually grow and evolve with the expanding and maturing business. It is not enough to simply recruit staff; staff need continual development and maintenance in order to maximise performance and retention of quality staff.



EMERGING TECHNOLOGIES



AI solutions for recruiting staff

Mya is an AI solution for the recruiting industry.

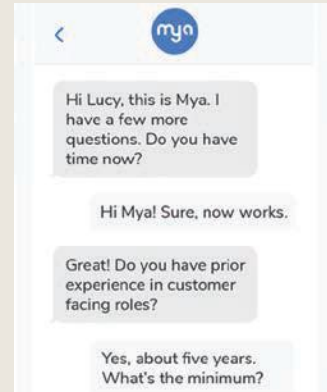
The Mya chatbot is able to ask candidates factual questions to determine whether their profiles match the position requirements: Are you available at the internship start date and throughout the entire internship period? What year are you currently in and how long is your degree course? Do you need us to make any reasonable adjustments in order for you to be able to complete your application? Do you have any questions for me regarding the company culture, application process, or position details? This type of bias-free, objective screening goes beyond resumes to intelligently streamline the search for new talents.

User-friendly, Mya is accessible via mobile phone anytime and anywhere. From the start, Mya presents itself as a chatbot. At the end of this first phase, qualified applicants are put in contact with recruiters. Especially valuable in a world where many job seekers do not have the necessary level of information regarding their application follow-up, this technology provides ongoing reminders and updates for a more considerate, more people-centric experience.

Source: 'Using artificial intelligence in order to help candidates experience', www.loreal.com, 2018

L'Oréal is the world's largest cosmetics company and currently markets over 500 brands and thousands of individual products in all sectors of the beauty business. The L'Oréal Group currently employs 82 600 people worldwide and receives over 1 million applications per year. L'Oréal rolled out its first conversational platform with Mya Systems in September 2018, targeting candidates seeking internships and positions such as Beauty Advisors.

Mya was able to filter applicants based on aspects such as qualification, location and salary. The platform was successfully deployed in the UK, the US and France, and will be introduced in other countries.



Mya Systems, Inc.

Figure 3.7 Mya is a conversational AI recruiter that helps to automate outreach and communication with candidates across the entire recruiting life cycle by asking and answering questions relevant to the employer's criteria in natural language.

“Over the last seven months, 13,000 candidates have spoken to Mya. An average recruiter takes 45 minutes to screen, schedule and do a phone interview. Mya took charge of doing the entire process in 4-5 minutes. Hence, saving 40 minutes per CV. Bhoite shared, “We saved 45 working days on a six months period for our UK recruiting team. Thus, helping them to redeploy this time in other value-added tasks.”

Source: Anushree Sharma, 'How AI reinvented hiring practice at L'Oréal', www.peoplematters.com, 16 August 2018

Figure 3.8 L'Oréal has adopted Mya to help streamline its recruitment process for intern applications.

Development stage

The **development** stage during start-up and growth of a business focuses on building the culture of the business and inducting and **onboarding** staff. As the business grows, the processes of the development stage need to be formalised to ensure that staff feel supported, valued and significant in the achievement of business goals and objectives.

For businesses that have reached the maturity stage of the business life cycle the continual development of staff through training will ensure they continue to grow, learn and develop; this provides personal improvement and benefits the business.

Continual cycling through the development stage also ensures staff have the opportunity to update their existing knowledge and can keep up to date with emerging technologies and new processes or demands that evolve in industry. A strong development program and investment in staff skills will lead to enhanced retention, minimising the risk of staff stagnation and dissatisfaction in the workplace.



Figure 3.9 Sir Richard Branson believes employers should 'train people well enough so they can leave, treat them well enough so they don't want to'.

Maintenance stage

While employees cycle between development and **maintenance**, in maturity it is the leadership and management of employees that is crucial to making the maintenance stage last. While the length of the maintenance stage is different for all employees, it is in this stage that employees should be at the peak of their productivity and progressing in the levels of management.

This stage of the cycle also requires that staff continue to be motivated with recognition and rewards along with clear progression pathways to keep them engaged and challenged within their roles.

The culture of the business is also an integral factor in the maintenance stage; a negative or toxic business culture will inevitably lead to employee dissatisfaction, high staff turnover and increased costs in recruitment and training. To extend the maintenance stage and staff retention in the maturity stage of the business life cycle it is important to build and foster relationships with staff, keep open communication and transparency and seek feedback and measure morale regularly. These strategies will help managers and leaders understand what motivates their employees, how they are coping or feeling with current working conditions and situations and give indicators for areas of need or weakness within the organisation.

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

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

Onboarding: the process whereby new staff learn the social and performance areas of their new job, including attitudes, knowledge, skills and behaviours

EMERGING TECHNOLOGIES



Technology for HR productivity: The rise of pulse surveys

An employee pulse survey is a fast and frequent survey to get instant feedback to HR. A pulse survey is generally designed to be done weekly and to give a quick insight into the health of a business.

With the use of technology and many emerging pulse survey applications, an employee pulse survey can be done quickly and securely over the Internet, rather than using paper or custom in-house survey software. Staff engagement and company culture are often identified as critical business issues. To help address these issues, using real-time and continual feedback allows management to quickly identify specific business insights and prioritise areas to focus on improving.



Figure 3.10 An example of an employee pulse survey

© Expert Training Systems (ETS) PLC

QUESTIONS 3.1



- 1 **Explain** the development stage of the employment cycle.
- 2 **Explain** the maintenance stage of the employment cycle.
- 3 **Explain** the difference between the induction and onboarding processes for new staff in the development stage of the business life cycle.
- 4 **Describe** the environmental factors that can affect the maintenance and development stages of the employment life cycle.
- 5 **Create** a short business editorial, to be published online, that **explains** the importance of investing in these two stages of the employment cycle.

Motivation theories

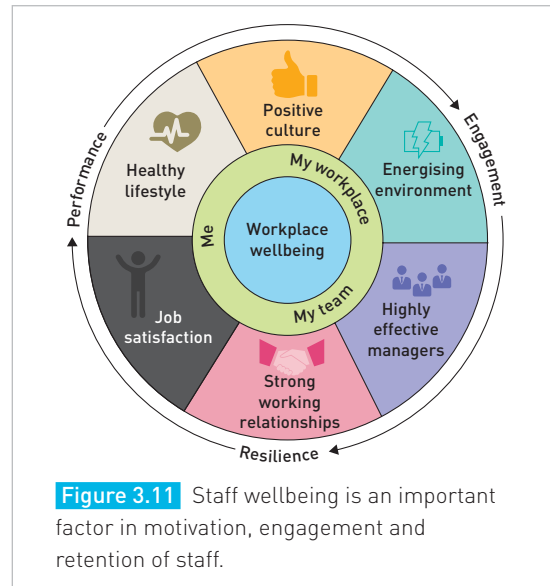
As the market becomes more competitive, leaders and managers seek new ways to continue to motivate their employees. As explained in *Business for QCE Units 1 & 2*, motivational theories help a business to understand behaviours and respond accordingly to meet the needs of its stakeholders. In the employment cycle, motivational theories are relevant to help leaders and managers to understand each of their staff members and to implement appropriate strategies to externally motivate them. However, as employers, leaders and managers become more aware of the many different types of personalities and priorities of their employees they realise that human resources strategies are not always a 'one size fits all' approach. Understanding what drives and motivates employees means that communication and reward will occur in different ways to suit different personalities. Strategies to promote internal motivation and **staff wellbeing** are as important as the external drivers and will help to ensure **staff retention**.

Staff wellbeing: the physical and mental state of employees demonstrated through work/life balance, satisfaction and engagement

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

The reasons for leaders, managers and employers to invest in staff wellbeing as a strategy for staff loyalty and retention include:

- increased satisfaction
- increased morale
- increased productivity
- reduced absenteeism
- better relationships between employees and management
- open communication channels
- a more sustainable workforce.



GAINING INSIGHT



Follow the leader: Seven employee motivation and retention strategies used by tech giants

The goal of every motivation and retention strategy is to keep the valuable employees of a company from leaving to start their own business or go to work for the competition.

Tech giants like Google, Apple, and Facebook are known to go well beyond their way in keeping their employees happy through the use of various motivation and retention strategies. They have to. With enormous profits they are well aware that their success rests on the shoulders of the people who work for them.

If they don't work hard to keep their talent happy and satisfied, the most valuable parts of the company can go and work for any of their many competitors.

Tech giants offer a lot of benefits for their employees that should make them happy to come to work every day, feel valued and listened to, and increase their loyalty to the company.

Many of these benefits can be implemented in other companies as well, at least to some extent, so for anyone wondering how to keep their best employees happy, here's a rundown of a few of the methods the giants of the tech industry are using.

Employee stock purchase and pension

Let's start with the basics. Giving employees a chance to buy stock in the company is an effective way of reinforcing their sense of being a part of the enterprise.

Company stock as part of a rewards scheme works perfectly for top management. Tech companies know this, so companies like Qualcomm, Salesforce, and Microsoft offer this option to their employees.

Tech companies offer different kinds of 401ks. eBay, Qualcomm and Intuit offer a 401k match, for example.

But no matter what kind of pension plan a company offers to its employees, it will go a long way in letting employees know the company thinks about their future.

Maternal and paternal leave

Most of the developed countries in the world mandate that new parents, specifically new mothers, receive some kind of paid maternal leave.

While the United States doesn't have such legislation, a lot of the big tech companies have instated paid maternal and paternal leave. Yahoo has a reputation for having one of the best paid parental leave policies in the industry. Google gives mothers five months of paid leave with all benefits, and fathers up to 12 weeks. Facebook offers four months of leave and Zuckerberg made use of that option.

While paid maternal and paternal leave seems like something that would hurt a company's financial bottom line, scaling this measure to the amount of time a company could afford would be a good start.

Health insurance

The very basic health insurance plan is okay, but tech giants usually offer their employees something more. Most of the big ones offer at least dental insurance along with general health insurance plans. Vision healthcare is also included, as is family coverage. Oracle has gone as far as to include mental healthcare in their package.

Tuition assistance

A big part of retention and motivation is allowing employees to grow professionally by helping them acquire new knowledge.

Companies regularly organize employee trainings, but the tech industry has another thing in mind, they offer tuition assistance to their employees.

Microsoft, Adobe, Salesforce, and eBay all offer either tuition aid or tuition reimbursement.

Encourage employees to work on personal projects

Google has a well-known 80–20 rule, which states that its employees can spend up to 20 percent of their time at work working on their personal projects.

These projects don't need to have anything to do with Google or tech, their subject is entirely up for the employee to decide.

Giving employees room to work on something they are personally passionate about while they are at work is a way to ensure they like going to work even more.

Other tech companies have other policies which aim to give their employees time to devote themselves to something that's not in their job description.

For example, eBay offers its employees a sabbatical after five years of working for the company. Intel has a similar policy that kicks in after four or seven years of working at the company.

Some small perks

Every little thing a company can do to make their employees more comfortable counts.

Free coffee, free gym membership, performance related bonuses are some of the things companies like Twitter, Intel, and VMW are offering.

Microsoft offers its employees a childcare plan, and so does Cisco, and some companies are offering reimbursement of travel expenses.

Of course, going as far as offering employees free dry cleaning, which is what Facebook does, is also an option, the only limit is the company's creativity and the feasibility of the costs of the perks.

Work actively in making employees happier

Having a strong HR department in the company is one of the key things to having successful motivation and retention programs. Google has done something better, they have a sector called people analytics, with the sole job of figuring out what [their] employees desire.

While not every company can create a similar team, every company should take the lesson and work actively towards making their employees happy. The philosophy of most tech giants is that a happy employee is a good team member. But a happy employee is also a motivated worker who's in for the long run.

Source: Michael Rogers, 'Follow the leader: 7 employee motivation and retention strategies used by tech giants', business.com, 22 February 2017

Questions

- 1 **Create** a table to compare the advantages and disadvantages of the strategies identified and explained in the article above.
- 2 Use a technology application to **create** a visually engaging flyer or infographic to **communicate** the role and benefits of motivation.

QUESTIONS 3.2

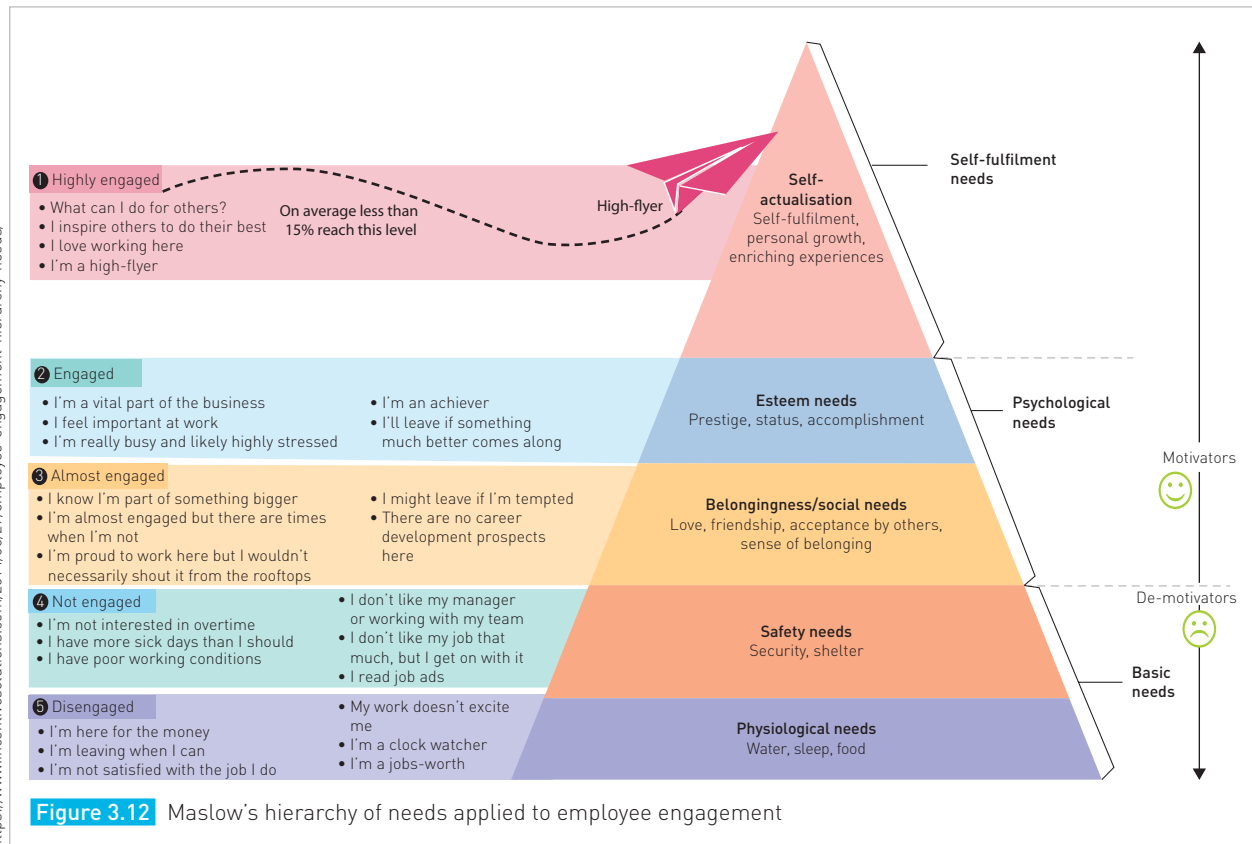


- 1 **Explain** the benefits of a motivated workforce.
- 2 **Explain** why motivated staff are likely to remain loyal to an employer or workplace.
- 3 **Explain** how staff wellbeing strategies could motivate a workforce.
- 4 **Discuss** why employees may not all respond to motivational strategies in the same way.

Revisiting the theories presented in *Business for QCE Units 1 & 2*, the impact of human resources strategies can be seen in the way staff are or are not motivated and engaged with their organisation. The motivation of the employees can be affected by a range of factors, such as their wage, job security, the management structure and the frequency of recognition – all factors that are identified as significant in a number of the motivational theories.

Maslow's hierarchy of needs

When applied to human resources, each level of Maslow's hierarchy of needs aligns with the level of engagement and satisfaction an employee feels towards their workplace. If employees aren't paid sufficiently or their job is threatened then they disconnect from the workplace, whereas an employee who feels valued and recognised will often take ownership of their role and lead with enthusiasm. This high-flying and highly engaged employee will also motivate and inspire others to want to perform on their level.



QUESTIONS 3.3



- 1 **Explain** how Maslow's hierarchy of needs impacts on staff engagement at the development and maintenance stages of the employment cycle.
- 2 **Describe** the behaviours a leader or manager should look for in an employee at each level of Maslow's hierarchy.
- 3 **Recommend** ways in which a leader or manager could re-engage employees in the lower layers of the hierarchy.

GAINING INSIGHT



CSL Australia: Motivating staff through transparency and continuous training

Established in 1999, CSL Australia Ltd (CSLA) is today the largest owner of Australian-registered vessels operating in Australian waters and the major supplier of shipping services to the construction and building industries. With more than 150 Australian maritime workers employed on CSLA-owned vessels and transshipment vessels, CSL recognises the importance of employee involvement.

Management encourages a culture of open communication at CSL Australia with transparency and clear communication a motivator for staff. Staff see all of the monthly data on trade and profits and visiting international managers share financial details with the staff. This inclusive management style has generated growth and loyalty amongst employees.

CSL undertakes to train, develop and nurture young Australians attracted to a life at sea with staff regularly given the opportunity to undertake courses at the Australian Maritime College in Launceston,



Shutterstock.com/MartinLueke

Figure 3.13 CSL Australia's inclusive leadership drives growth and loyalty.

Tasmania, to upgrade their knowledge and ensure they remain competitive in the global shipping world. Local management and staff are also active in the community and help support the local economy.

Locke's goal-setting theory

As explained in *Business for QCE Units 1 & 2*, Locke's goal-setting theory is essential in establishing and achieving organisational goals. The same theory when applied to the individual objectives and goals of each employee is often considered as the most useful way to motivate employees. Goal-setting, particularly through the development of SMART goals, can be a powerful tool for managers and leaders to channel an employee's efforts for increased performance and productivity. Often, staff in complicated and demanding roles already have a high level of their own intrinsic motivation but formalised goal-setting frameworks can ensure they don't push themselves too hard or set unrealistic measures around the complexity of the task and maintain motivation for continued growth and achievement.

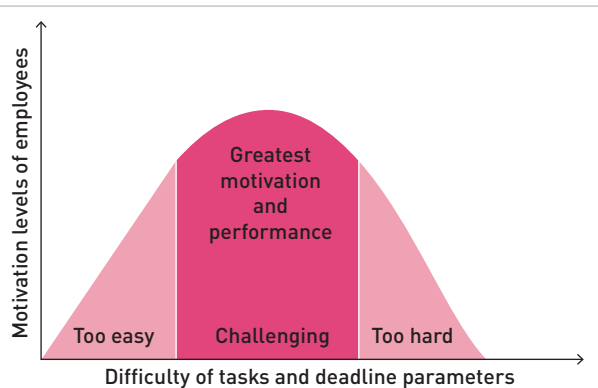


Figure 3.14 Locke's goal-setting theory identifies challenging, but not overwhelming, goals as an employee motivator.

Herzberg's two-factor theory

When applying Herzberg's theory to the employment cycle, ensuring the work environment is satisfactory is essential before any positive motivators take effect. This means that employers need to ensure the hygiene factors are addressed but not used as a way to try to motivate employees. While they may appear to encourage increased efficiency or

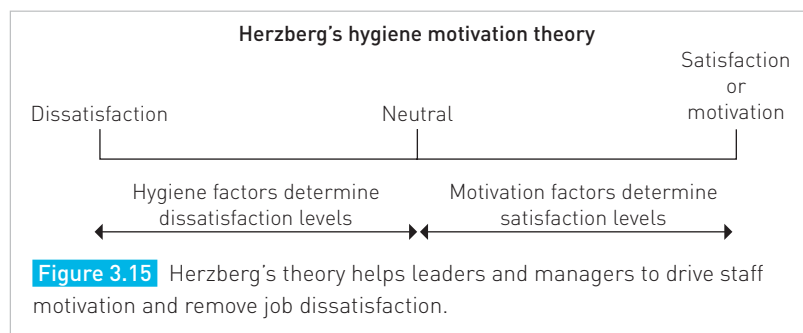
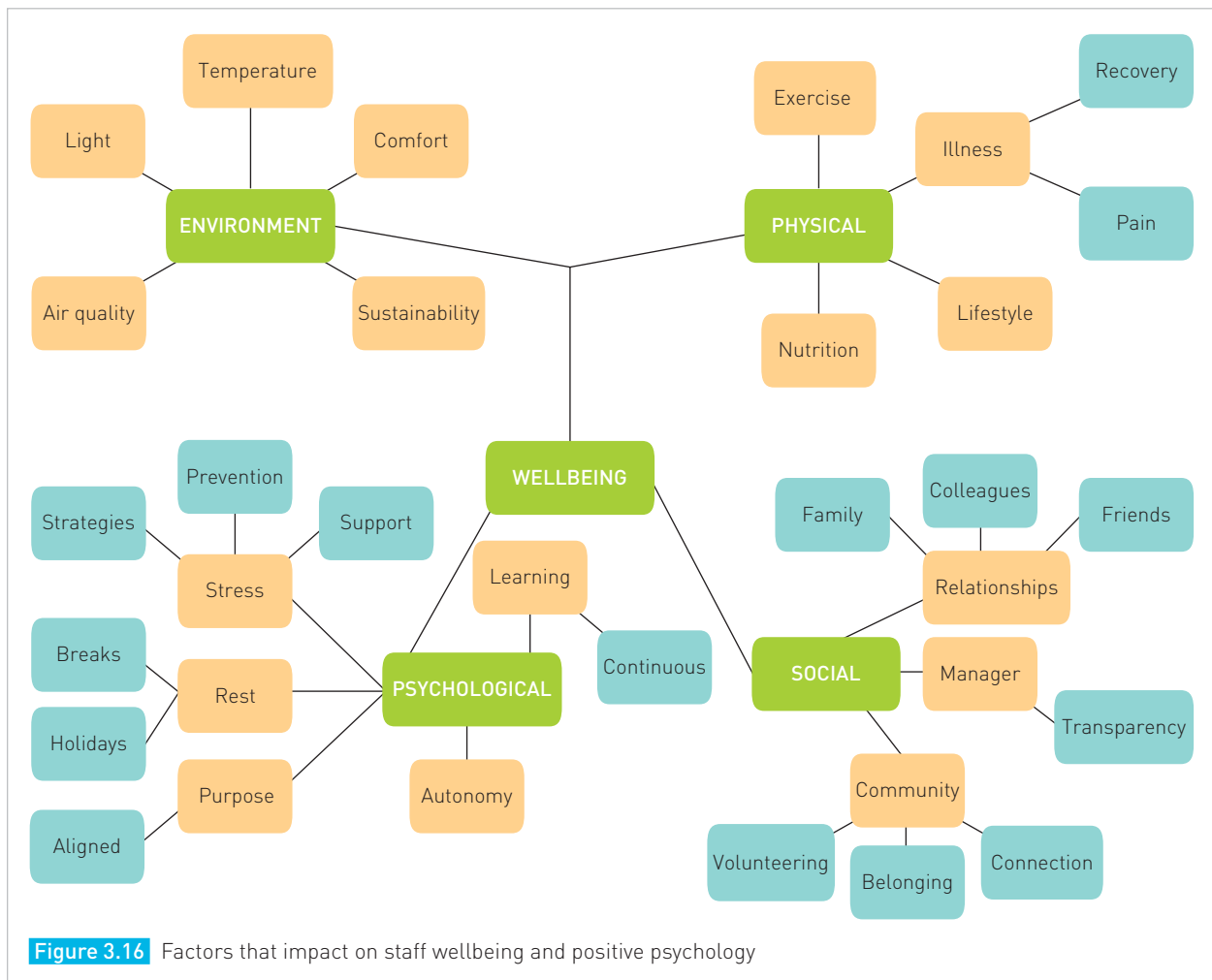


Figure 3.15 Herzberg's theory helps leaders and managers to drive staff motivation and remove job dissatisfaction.

productivity in the short term, they are not actually motivators for maximum engagement and job satisfaction.

Positive psychology and motivation

As the needs of workplaces and employers continue to change, the strategies and approaches of employers, leaders and managers also continue to evolve. In today's work environments the focus has shifted from using only external motivation strategies for the financial gain of the workplace to more holistic motivational approaches. These holistic approaches look at all the factors that affect staff wellbeing and focus on ensuring employees are well and engaged. This employee wellness then leads to an employee's own intrinsic motivation and ultimately an improved bottom line for the workplace. Many of the factors and strategies associated with holistic and intrinsic motivation are referred to as positive psychology or a positive psychological work environment.



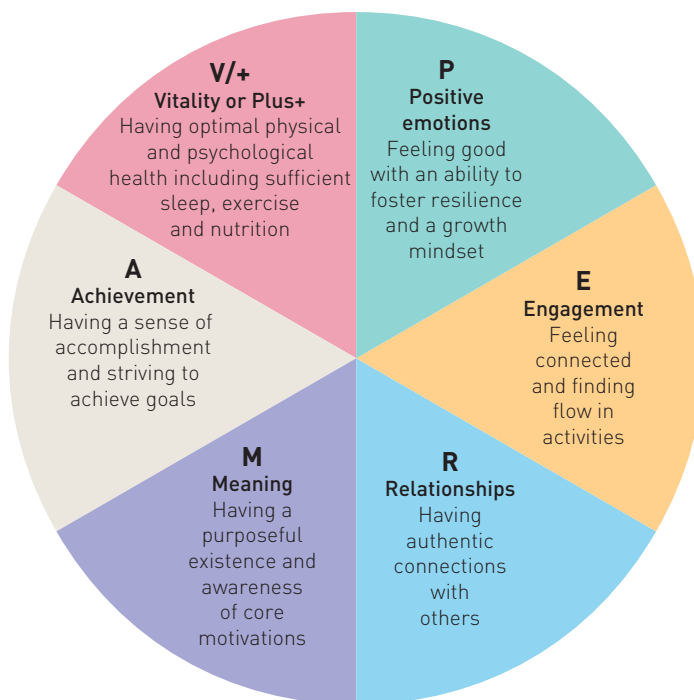
Dr Martin Seligman is commonly known as the founder of positive psychology; however, it was Abraham Maslow who first coined the term in 1954. Maslow's hierarchy of needs and Seligman's positive psychology both focus on increasing wellbeing for the sake of improving people's lives and improving society. The implementation of positive psychology by leaders and managers is designed to help employees live the best lives they can and to acknowledge their unique humanity along the way.

Fostering a positive psychological environment in the workplace is a key that can boost the bottom line, create a positive working experience for all employees and maintain employee engagement. Employee engagement has also been linked to decreased absenteeism and higher rates of employee retention.

Positive psychology is often implemented into workplaces through Seligman's PERMA framework. This framework consists of the five essential elements that Seligman believes should be in place in order for people to experience lasting wellbeing. The five elements are as follows:

- *Positive emotion* such as kindness, gratitude, hope or contentment contributes to overall wellbeing.
- *Engagement* is about being totally absorbed (in the flow) by tasks.
- *Relationships* and being authentically connected to other people leads to strong positive relationships.
- *Meaning* in life comes from a purposeful existence; for example, through serving something that is bigger than self, altruism or philanthropy.
- *Achievement* and accomplishment, including having goals and meeting those goals, lead to a person flourishing.

There are now a number of variations or iterations to the PERMA framework being introduced. The likes of PERMA+ and PERMA-V include 'vitality factors' such as physical activity, nutrition, sleep and optimism, forming a holistic framework on which to build wellbeing.



Adapted from Martin Seligman's theory of Positive Psychology: Positive Emotion, Engagement, Relationships, Meaning, Accomplishments. <https://positivepsychologyprogram.com/perma-model/>

Figure 3.17 Elements of Dr Martin Seligman's positive psychology are explained through the PERMA, PERMA+ and PERMA-V framework models.

GAINING INSIGHT



The Ritz-Carlton: Employee motivation and psychological ownership

The selection and on-boarding process of new Ritz-Carlton employees begins with instilling 'psychological ownership' to the Ritz-Carlton brand. Psychological ownership can be defined as the degree to which an employee feels as though their workplace or organisation is their own and becomes an important part of an employee's self-identity.

The Ritz-Carlton builds on this sense of ownership through employee empowerment. Each employee is encouraged to go above and beyond to create unique, memorable and personal relationships with guests. This empowers employees – known as the Ladies and

Gentlemen of the Ritz-Carlton – to make decisions, craft special moments and resolve customer issues. Empowerment moves employees beyond passivity and simply being a 'warm body' at work.

The 'service values' of the Ritz-Carlton also foster a sense of psychological ownership. Each service value begins with the word 'I.' Using the pronoun 'I' not only reinforces an individual's contribution, but also promotes accountability and ownership. It encourages the Ladies and Gentlemen of the Ritz-Carlton to volunteer ideas, approaches and solutions – whether they are problem-solving or innovating – and that is motivating.

Human resources strategies

Key learnings

You will learn about human resources strategies in a competitive market through examining:

- employer of choice strategies
- diversity in the workplace
- fostering intrapreneurship
- leadership styles
- management strategies.

Employer of choice

Labelling a business as an **employer of choice** means that the business is a desirable place to work. Specific and deliberate strategies by today's employers seek to create a work culture that is more collaborative and open than the old 'them and us' relationship. This trend towards flat leadership, transparent communication and consultative decision making in teams is evidence of the changing needs and attitudes of today's working environments.

Table 3.1 The changing nature of employee and employer relationship needs

TRADITIONAL EMPLOYER/EMPLOYEE FOCUS		MODERN EMPLOYER/EMPLOYEE FOCUS
Traditional structured rosters and working hours	→	Flexible working arrangements and hours
Internal focus	→	Customer and performance focus
Hierarchy	→	Collaboration and inclusive work teams
Functional-based work tasks	→	Project-based work tasks
Initial induction training	→	Continual learning and development
Closed communication channels with filtered information	→	Open and transparent communication channels

As industries become more and more competitive, the need for skilled, motivated and loyal employees is increasing. This means that workplaces need to implement an employer of choice strategy, to offer employee benefits in an attempt to attract and retain quality staff. Employer of choice strategies can be seen as superficial and for show if they are not genuine. The strategies adopted by each individual workplace need to reflect the unique needs and motivations of its employees and the quality of the relationship, or psychological benefits of the employee and employer interactions.

With the rise of labels and lists including 'best employers' and 'the best places to work' published by various organisations, gaining a spot on one of these lists is a marketing tool for the business and a clear strategy for attracting quality staff. Employer of choice status can come from the working conditions, the flexibility, the lifestyle benefits or the progression opportunities of a workplace. Well-known employers of choice such as Google, which has topped lists by Glassdoor and Fortune, are considered to offer some of the best employee perks, opportunities for career growth, work that positively impacts the human race and innovative culture.

However, despite their place on a list, employers of choice must have a range of strategies and perks to cater to the varying needs and motivations of their workforce. Not every employer of choice will fit every employee, but they do all have in common that they seek to be the place where each of their employees is happiest to work.

Employer of choice: a recruitment and retention strategy to offer attractive incentives, meaning people will choose to work for, dedicate themselves to and be loyal towards a business, despite offers from alternative employers

INQUIRY



Inquiry task: The best place to work

With data collected from 10 million employees, the Great Place to Work Institute produces reports from the world's largest study of human resources management. You are to conduct an inquiry into great places to work and **analyse** the strengths, weaknesses, opportunities and threats (SWOT) of employer of choice strategies.

Follow the weblink to access the 'World's Best Workplaces 2018' report.

- 1 **Explain** why being on a list like this would be an advantage to employers.
- 2 **Select** an employer on the list of great places to work.
- 3 **Research** and **select** data and information relating to your chosen workplace to **create** a SWOT analysis of the employer of choice strategies.
- 4 **Analyse** the strengths, weaknesses, opportunities and threats identified to **draw conclusions** about the implications of being an employer of choice.
- 5 **Create** a series of short paragraphs to **explain** three of these implications.



© GPTW

Figure 3.18 The Great Place to Work Institute publishes a list of the best workplaces each year.

Diverse workforce

Diversity in the workplace means having employees from a wide range of backgrounds. This can include having employees of different ages, gender, ethnicity, physical ability, sexual orientation, religious belief, work experience, educational background, and so on. A **diverse** workforce must also foster an environment that is **inclusive** of the differences of all employees.

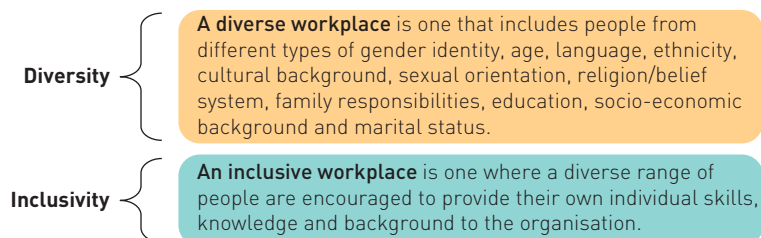


Figure 3.19 Workplaces need to strive to be inclusive, not just diverse.

Diverse: of various kinds or forms; different from each other

Inclusive: a workplace that is accepting and welcoming to all kinds of people regardless of their differences

GAINING INSIGHT



Workplace diversity: A competitive advantage

The ever-changing and colourful world is populated with a diversity of men and women from diverse backgrounds, hundreds of nationalities, distinctive cultures and uncommon geography – people of varying age, gender identity, sexual orientation, education, lifestyles and preferences.

Nissan believes that diversity is a source of strength and gives it a competitive advantage. With its products sold all around the world and customer expectations varying from market to market, according to different cultural and lifestyle needs, it is critical that employees of diverse nationalities and backgrounds play active roles at Nissan to meet the needs of its customers around the world.



Figure 3.20 Nissan's diversity strategy explains that when employees contribute with diverse ideas and perspectives, the results are better ideas that are more creative and add value.

A workplace should strive to embrace employee differences and provide opportunities for all employees to demonstrate their individual strengths. Having diversity and inclusivity is a valuable human resources strategy designed to foster collaboration, impact positively on internal activities and relationships and provides valuable experiences for all stakeholders.

In Queensland, the *Anti-Discrimination Act 1991* establishes a legal responsibility on employers to provide workplaces that are free from discrimination, sexual harassment, victimisation and vilification. Also, under the anti-discrimination laws, employers must offer equal employment opportunities (EEO). This means employees are treated on their merits at every stage of their employment – from the recruitment and interview process through to their daily duties, promotion, training and development opportunities, and their resignation, retrenchment or redundancy.

QUESTIONS 3.4



- 1 **Explain** the difference between diverse and inclusive workplaces.
- 2 **Explain** why legislation such as the *Anti-Discrimination Act 1991* and EEO strategies exist.
- 3 **Explain** why businesses plan for diversity and implement specific strategies to attract diverse employees.
- 4 **Identify** the potential risks that may arise for a business that does not foster a diverse workforce.

Fostering intrapreneurship

When an employee possesses the skills and characteristics of an **entrepreneur**, a human resources strategy is to foster and harness these skills for the benefit of the business they work for. As explained in *Business for QCE Units 1 & 2*, an entrepreneur is a person who sets up a business or businesses, taking on risks and persisting with a new idea in the hope of profit. In a business, an employee who possesses the same skills and characteristics but works for an employer and contributes to the bigger picture of their workplace is called an **intrapreneur**. Intrapreneurs are responsible for introducing ideas, inspiring creativity, leading and motivating those around them. They take proactive steps to improve business operations and they ensure the business meets targets to produce great results.

An intrapreneur can be distinguished from other employees because they not only function within their role capabilities, but they seek ways to contribute to the overall objectives and mission of the business they work for. As a human resources strategy, an employer needs to provide opportunities for the intrapreneur to focus and grow the operations of the company. As leaders and managers, intrapreneurs will ensure the smooth running of a business and innovate ways to increase team productivity. This means they must continue to be developed and invested in as leaders and given opportunities to grow and utilise their intrapreneurship capabilities.

When given the opportunity, intrapreneurs will motivate their teams, innovate work processes and come up with solutions to problems that might affect productivity and outcomes. To foster the skills of an intrapreneur and retain them in a business, they need to be given access and encouragement to look at all areas of the business and suggest changes. Intrapreneurs are passionate about achieving success and may suggest changes that require taking risks and need support from higher managers and leaders to implement.



Entrepreneur: a person who sets up a business or businesses, taking on financial risks in the hope of profit

Intrapreneur: a manager within a business who promotes innovative product development and marketing

GAINING INSIGHT



Three types of intrapreneurs



iStock.com/PeopleImages

Figure 3.22 There are three types of intrapreneurs.

A key contributor to intrapreneurship success is having the right skill sets and competencies to drive things to completion. As the entrepreneurial leader, you will need three types of people on your team to be successful: *creators*, *doers*, and *implementers*.

Our research showed that there are subtle differences between intrapreneurs that distinguish one from another. This wasn't the main focus of our research but it surfaced after looking at the results. We saw that intrapreneurs exhibited different clusters or groupings of behaviour, they performed different roles and leveraged certain competencies to accomplish their work.

The creator is the person with the innovative ideas. The doers are task-oriented individuals. The implementers are the individuals who bring things to closure. No matter what you call them – there are three types of intrapreneurs you will need on the team. Each requires a slightly different set of competencies and behaviours. This may seem like a simple way to view your team, but all three of these roles are important when it comes to intrapreneurship. It is rare to find all three of these types of intrapreneurs in one person, although we have. They are among the most effective and successful intrapreneurs.

Creators may be easier to spot. They are the idea generation people (the discovery phase.) They see possibilities. They are high on learning and love change. They are always looking for ways to do things better. They are big-picture thinkers and often are able to see the gestalt. They are independent and prefer to work in less structured environments. On the downside they can get bored easily and find it difficult to stay

focused on the details because they are always thinking of the next idea. *Creators develop the ideas that fuel innovation.*

Doers are focused on achieving objectives. They are the task-oriented individuals (the incubation phase.) They understand the big picture and can get involved in the details when they need to. They are assertive and take responsibility for their actions. They have good communication skills and are effective in instructing others. They are not afraid to stand up to authority or challenge the status quo. They are less concerned about structure and organizational obstacles that get in the way. They know what needs to get done. They just go it. *Doers are task-oriented and dedicated to their work.*

Implementers are the individuals who make things happen. They are focused on closure (the execution phase.) They know how to get things done or figure out how to get them done. They are goal-oriented, creative, and competitive. They have good planning and negotiating skills. They work well in high-pressure situations. They are good at taking the initiative, negotiating, and motivating others. They have the execution skills required to drive projects to completion. They don't let anything get in their way. *Implementers are high on closure.*

Use these descriptions as an initial filter when you are developing your team. Take a moment to mentally separate your team into these three categories. Once you've done this, you may want to use a behavioural assessment tool to get a better understanding of individual styles and work practices. They help you identify the specific behaviours that separate the creators from the doers and implementers. They can also help you identify those one or two individuals that can do it all.

Ask yourself: What are the strengths and weaknesses of each individual on the team? What about the team as a whole? How do you leverage each individual more effectively? Who are the most creative people on my team? Who are the individuals you can rely on to get the work done in a timely fashion? Who do you need to help bring things to closure? Asking these questions is a good way to ensure that you have the right mix of people on the team.

Intrapreneurship requires having the ability and skills to establish and achieve challenging goals. It means having the right set of behaviours

and competencies. You must be able to identify and develop the right mix of people and then organize work to best leverage their talent. Not everyone is suited for this role.

Intrapreneurship is a mindset, a set of competencies, a way of thinking and acting. It is how one looks at things and what actions they take [as] a result of that thinking. That is what is key.

Source: Susan Foley, '3 types of intrapreneurs', Corporate Entrepreneurs, 9 February 2016
© Corporate Entrepreneurs LLC

Questions

- 1 **Describe** the characteristics of each of the three types of intrapreneurs identified in the article above.
- 2 **Explain** why all three types of intrapreneurs are needed for the success of a business.
- 3 **Analyse** the contributions of an intrapreneur to a business to **create** a SWOT analysis table for the hiring of intrapreneurs as a human resources strategy.
- 4 **Interpret** the findings of the SWOT analysis to **explain** the role of a leader or manager in recruiting and fostering a range of staff personalities and skill sets.

Being an entrepreneur is challenging and has a high level of risk. Many are attracted to the idea of intrapreneurship as it provides a creative outlet like entrepreneurship with the stability of traditional employment. Intrapreneurs are valuable employees and if their intrapreneurial skills are not fostered and valued, they may seek out other employers who will recognise and provide opportunities for them to use their skill set.

GAINING INSIGHT



Fostering intrapreneurship at Facebook

They call it the 'Hackathon.' Every few months, Facebook's cadre of engineers, designers – even the cleaning crew – host an innovation all-nighter ... Hackathons are intrapreneurship incubators. Gathered on couches with laptops, soft drinks, and takeout Chinese, professional and amateur hackers alike are encouraged to dream the next big thing for the social media platform, transforming the dream into code. Facebook's Hackathons only have two rules: 1. *Dream outside of your day job*, and 2. *Hack*.

Source: Victoria Pelletier, 'Unleashing the innovation: The power of intrapreneurship', LinkedIn, 13 March 2018



Figure 3.23 The 'Like' button was created during a 'hackathon' to foster intrapreneurship.

Some of [Facebook's] most-loved products started at hackathons, got props at prototype forum, and made it to computers and phones, including Video, the Like button, Chat, Hip Hop for PHP, and even Timeline. But just because a project doesn't become a huge product doesn't mean it doesn't have a huge impact. Several years ago, an intern built the 'tagging in comments' functionality at a hackathon. When he presented it at the forum, everyone's reaction was the same – we couldn't believe that someone hadn't built this yet. It shipped to 100% of users within two weeks.

...
In 2007, about 20 people were turning up to hackathons, in 2012 that had risen to over 500 employees coming together to hack on apps for non-profits, new internal tools, and major upcoming features. The camaraderie, productivity, and occasional insanity of hackathons have helped make Facebook what it is – a social network embracing and fostering a culture of intrapreneurship.

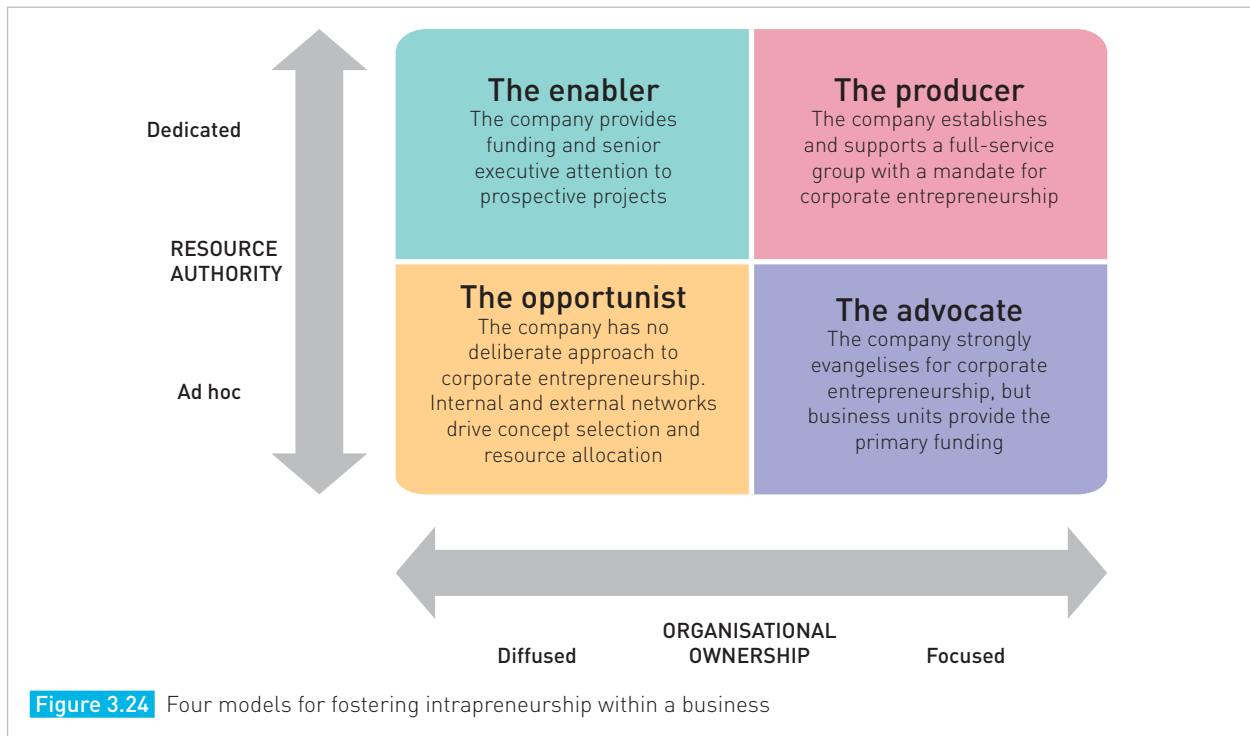
Source: Pedram Keyani, 'Stay focused and keep hacking', Facebook, 24 May 2012

The concept of intrapreneurship is gaining momentum in its use and while it might be considered a relatively new term by some, it is not an entirely new concept. Intrapreneurs are sometimes referred to as internal entrepreneurs or corporate entrepreneurs. Fostering intrapreneurship has been classified into four models by

researchers and strategists Robert Wolcott and Michael Lippitz. Their continuum shows four models differentiated by two dimensions:

- *organisational ownership* – who has the responsibility for the generation of new ideas and business within the organisation?
- *resource authority* – how will the new ideas and business innovations be funded, supported and resourced?

While each model is a distinct way to foster intrapreneurship, multiple models can be used in one business and concurrently at different levels of the business to foster a broad range of intrapreneurship and intrapreneurs within the business.



QUESTIONS 3.5



- 1 **Explain** the role of an intrapreneur in a mature business.
- 2 **Explain** why fostering intrapreneurship is necessary to get a competitive advantage.
- 3 **Create** a SWOT analysis to **identify** the strengths, weaknesses, opportunities and threats of fostering intrapreneurship inside a mature business.
- 4 **Create** an infographic or brochure to **communicate** two or three strategies for fostering intrapreneurship.
- 5 **Create** a paragraph response that outlines to business owners what the possible risks are if their entrepreneurial staff are not given the opportunity to be intrapreneurial within their business.

Leaders and managers in the maturity stage

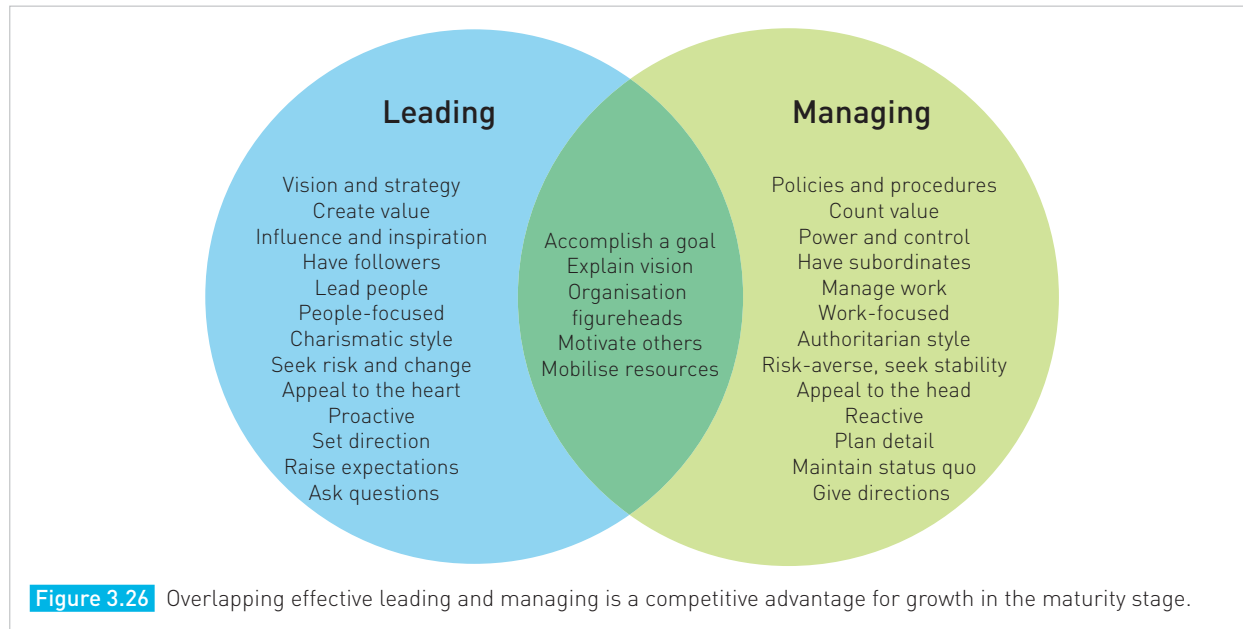
As outlined in Chapter 3 of *Business for QCE Units 1 & 2*, effective leadership is a key element of a business and there is no 'right' way to lead; however, each stage of the business life cycle will call for different strengths and focuses of leadership. This means the leader will adopt different **leadership styles** and employ different management strategies to drive the growth and expansion of a business in maturity and remain competitive in

Leadership styles: the traits, behavioural tendencies and characteristic methods of a person in a leadership position; an important dimension of leadership styles is the extent to which the leader is willing to delegate responsibility and encourage input

the market. The role of a leader in the maturity stage is to become the enabler, to facilitate the growth and intrapreneurship characteristics of other employees.

In the maturity stage of the business life cycle, the leader needs to mentor employees, building up management and leadership skills, and ensure the business remains competitive. This means they need to adopt different managerial skills that will ensure efficiency and effectiveness across all four functional areas and that they share the power and strategic responsibility to achieve the business goals and objectives.

In competitive environments, the challenge is to continue to lead with vision and not just focus on the managerial leading for outputs. By combining strong leadership with essential management strategies, a mature business can continue to grow and thrive through the motivation and mobilisation of its employees.



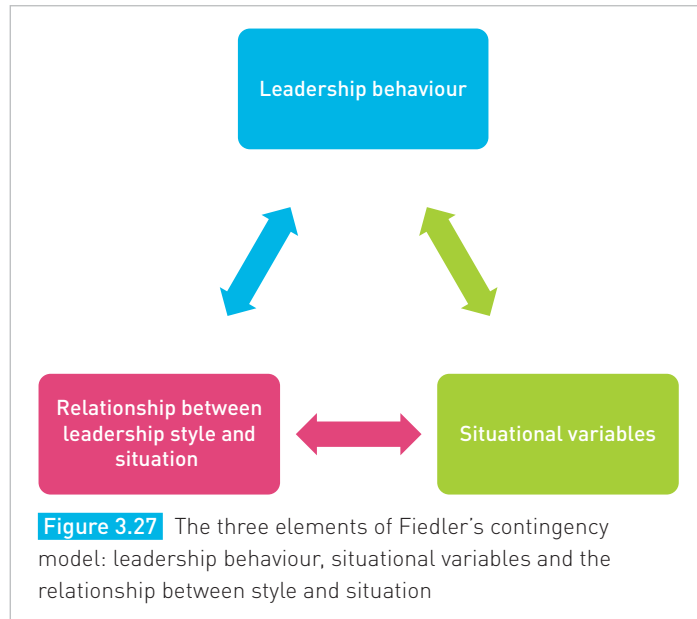
QUESTIONS 3.6



- 1 **Explain** why leadership styles are important to be competitive in the maturity stage of the business life cycle.
- 2 **Discuss** the idea that leaders often revert to behaving as managers during the maturity stage of the business.
- 3 **Explain** how each of the six leadership styles impacts on the fostering of intrapreneurship. **Make a decision** on whether one leadership style is more likely to encourage and retain intrapreneurs than the others.
- 4 **Create** a paragraph response to **communicate** your decision regarding leadership styles and intrapreneurship.

Fiedler's contingency model

Contingency theory or Fiedler's contingency model is a theory of leadership that prescribes what type of leader will be effective in particular situations and how group performance will be affected by the leader and situation combination. Fred Fiedler was a psychologist who studied leaders and leadership theories. In the 1960s he introduced the concept of situational variables and the theory that the effectiveness of the leadership style of a leader or manager is dependent on the situation. The contingency model states there is not one best style of leadership but instead that the situation decides the style of leadership and will influence the behaviours of a leader or manager.



Leadership behaviour

In order to assess the attitudes and style of the leader, Fiedler developed the 'least preferred co-worker' (LPC) scale. This scale identifies whether an individual's leadership behaviour is relationship-oriented or task-oriented. The LPC scale requires a leader to rate the one individual with whom they least like to work – the least preferred co-worker – using a range of bipolar (positive or negative) adjectives on a scale from 1 to 8. The LPC score is determined by totalling all the ratings. A high LPC score indicates a relationship-oriented leader, while a low LPC score suggests a task-oriented leader.

Table 3.2 A sample of an LPC survey, designed to determine whether a leader or manager's style is relationship-oriented or task-oriented

Pleasant	8	7	6	5	4	3	2	1	Unpleasant
Friendly	8	7	6	5	4	3	2	1	Unfriendly
Rejecting	1	2	3	4	5	6	7	8	Accepting
Tense	1	2	3	4	5	6	7	8	Relaxed
Distant	1	2	3	4	5	6	7	8	Close
Cold	1	2	3	4	5	6	7	8	Warm
Supportive	8	7	6	5	4	3	2	1	Hostile
Boring	1	2	3	4	5	6	7	8	Interesting
Quarrelsome	1	2	3	4	5	6	7	8	Harmonious
Gloomy	1	2	3	4	5	6	7	8	Cheerful
Open	8	7	6	5	4	3	2	1	Guarded
Backbiting	1	2	3	4	5	6	7	8	Loyal
Untrustworthy	1	2	3	4	5	6	7	8	Trustworthy
Considerate	8	7	6	5	4	3	2	1	Inconsiderate
Nasty	1	2	3	4	5	6	7	8	Nice
Agreeable	8	7	6	5	4	3	2	1	Disagreeable
Insincere	1	2	3	4	5	6	7	8	Sincere
Kind	8	7	6	5	4	3	2	1	Unkind

Relationship-oriented leaders derived most satisfaction from interpersonal relationships and therefore evaluate their least preferred co-workers in more favourable terms, so will have much higher LPC scores. These leaders think about the task accomplishment after the establishment of interpersonal relationships. Those who have low LPC scores derived satisfaction from performance of the task and attainment of objectives and only after tasks have been accomplished, these leaders work on establishing good social and interpersonal relationships.

Follow the weblink to complete your own LPC survey and determine whether you exhibit a relationship-oriented or task-oriented leadership style.



Situational favourability

The situational variables or the situational favourability (how favourable the situation is for a leader) is the amount of influence or control a leader has over his or her followers supplied by a given situation. There are three elements or variables of situational favourability:

- *leader's position power* – this is the power or authority that a leader derives from the position they hold in the business. A leader or manager with absolute power generally influences the behaviour of others more than those without power
- *task structure* – this is the extent to which the task requirements are clearly defined in terms of the goals, objectives, processes and relationship with other tasks
- *leader-member relations* – this is the degree to which the members have trust, confidence and faith in their leader or manager.

Relationship between styles and situations

The relationship between styles and situations is the ability to look at a manager's or leader's LPC score and the three situational variables to determine what type of leader is best for a given situation, and whether or not a particular individual will be a good leader in that situation.

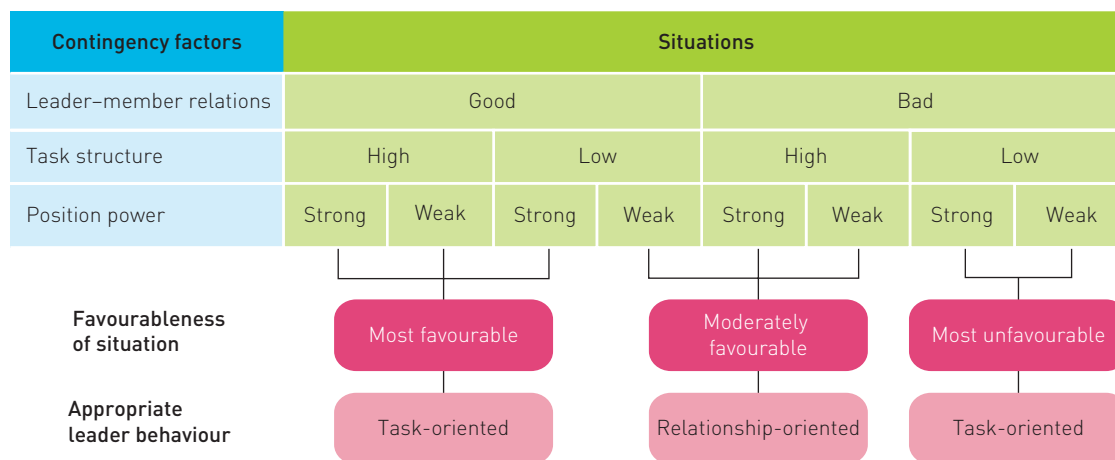


Figure 3.28 Fiedler's contingency model shows the relationship between leadership styles and situations to determine the effectiveness of a leader on a group, team or workplace.

QUESTIONS 3.7



- 1 **Explain** how Fiedler's contingency model can help a leader or manager with employee motivation and effectiveness.
- 2 **Discuss** what types of workplaces or jobs would best suit each type of leadership style. Why?
- 3 **Research** the advantages and disadvantages or limitations of Fiedler's contingency model. **Explain** and **discuss** your findings.

Managing finances in maturity

For businesses in the maturity stage of the business life cycle, expansion is a common plan for continued growth and to remain competitive. An expansion strategy, whether domestic or global, will require **financing** from the business. A business needs to consider the most appropriate option for financing its expanded operations to ensure it can sustain the investment and that the operations don't put a strain on the cash flow or viability of the current business.

Key learnings

You will learn about financial management strategies in a competitive market through examining:

- financial management
- ethical and sustainable financial decisions
- internal and external financial controls
- the triple bottom line.

Financial management

Financial management covers the planning, organising, directing and controlling of business activity and funds. It covers all activities and areas of the business requiring financial transactions. As introduced in *Business for QCE Units 1 & 2*, the Australian Securities and Investments Commission (ASIC) is responsible for regulating and supporting financial services and transactions in Australia. Mature businesses that are seeking to expand into global markets can seek support from ASIC, which works closely with a range of international organisations, foreign regulators and law enforcement agencies to ensure efficient and effective international approaches to regulation and enforcement.

Financial controls in expansion

Financial controls are the strategies and processes that a business adopts to manage finance and the risks associated with meeting goals and objectives. These controls are implemented in the processes, policies and procedures of the business.

When expanding into global markets, a business must have controls in place to help manage the risks of fluctuating international factors such as exchange rates, the cost of processing international transactions and hedging. An exchange rate is the difference in value between two currencies and can impact the cost of expansion when the value of converting one currency to another is analysed. To negate some of the risk of global transactions, businesses sometimes participate in hedging transactions to manage the risk of loss from possible fluctuations. This is a risk management strategy where risk is offset by another investment to minimise the overall loss a transaction could encounter.

QUESTIONS 3.8



- 1 **Explain** the concept of hedging.
- 2 **Create** a table to consider the advantages, disadvantages and practicalities of a universal currency for global trade.
- 3 **Discuss** your findings above to **make a decision** about whether the world should adopt a universal currency for global trade.
- 4 **Create** a short speech or paragraph responses to **communicate** your decision to the Reserve Bank of Australia.

Financing: providing a source of money for a business or project



Making ethical and sustainable financial decisions

Following the global financial crisis (GFC) in 2008, there has been much greater scrutiny of the ethics and sustainability of financial decisions made to increase the profits of a company. With all management decisions, the decisions made in financial management and sourcing of finance need to be ethical and sustainable decisions. It is essential that decisions made by a business are not driven by greed or failure to understand industry ethical standards.

GAINING INSIGHT



Banking royal commission: Lenders accused of misconduct over treatment of farmers



Fairfax Syndication/Eddie Jim

Figure 3.29 Commissioner Kenneth Hayne was invited to find that the big rural lenders were culpable in numerous instances of misconduct in making loans to farmers.

Australia's main rural lenders face numerous findings of misconduct over their treatment of struggling farmers

Key points:

- The counsel assisting the royal commission delivered a damning assessment of banks in their treatment of farmers
- She invited the commissioner to find misconduct among the banks
- The commissioner cautioned banks not to argue 'things have changed'

In a damning assessment of the sector, counsel assisting the banking royal commission Rowena Orr, QC, pointed to numerous failings of banks to act fairly, reasonably and ethically.

The banks under the microscope include ANZ, CBA, NAB, Bendigo Bank's Rural Bank and Rabobank.

The assessment came after two weeks of hearings in Brisbane and Darwin involving case studies of agri-business lending to 13 farming families from Tasmania to the Top End.

The common theme across Ms Orr's invitation to Commissioner Kenneth Hayne to find misconduct among the banks was poor culture, lack of empathy and lax lending practices and systems.

CBA claimed to breach code of conduct

The initial focus of the farm-based hearings was ANZ's acquisition of the specialist rural lender Landmark in 2009.

Ms Orr said up until late 2014 ANZ relied on external law firms to deal with customers in financial difficulty.

'It [ANZ] took a less flexible approach in dealing with these customers and demonstrated a lack of empathy and understanding of farmers' emotional connection to the land and the emotional impact that recoveries and enforcement actions can have on agri-business customers,' Ms Orr said.

Increasing interest rates, as ANZ did, increased the financial burden, she said.

The CBA faces findings of misconduct over its subsidiary Bankwest and at least five breaches of the banking code of conduct over conflicted advice and remuneration practices.

Ms Orr said a key focus was Bankwest's policy of applying 60 per cent of its key performance indicators for staff to profit, and half of that to sales targets.

'Bankwest staff were able to double base salaries through such bonus payments and this created a culture of prioritising sales to [the] detriment of diligent and prudent conduct in relation to loan approvals,' she said.

The findings against Rabobank centre on conflicts of interest through internal appraisals of property values and a sales-driven culture that Ms Orr noted was still in place.

NAB faces findings of misconduct over its use of default interest payments as a 'strategic tool to put pressure' on farmers suffering hardship from natural disasters such as drought and flood.

Questions for the banks

Among the questions Ms Orr asked the banks to answer in written submissions were:

- What does it mean for a bank to act fairly and reasonably to customers in a consistent and ethical manner? (ANZ)
- Does remuneration that rewards bank employees for sales create an unacceptable risk to banks' responsible lending obligations and statutory obligations for efficiency, fairness and honesty and ensure the customer is not disadvantaged? (CBA)
- To what extent does default interest reflect the cost of impaired loans and should a moratorium be placed on such payments during natural disasters? (NAB)
- Is it appropriate to write internal appraisals as opposed to seeking independent valuation and should the banks have a code of conduct covering valuations? (Rabobank)

Mr Hayne cautioned banks not to argue 'things have changed'.

'It occurs to me some may say "times have changed", standards have somehow changed,' he said.

'Well, if someone is going to say that, I will be assisted in knowing how and why.

'If we are dealing in concepts like fairness it is not instantly apparent to me what is fair today is ... different to what was fair yesterday.'

Mr Hayne said the banks also needed to think carefully when answering questions about balancing the interests of the banks and their customers.

'It could be minimising loss to the bank and the loss to the customer may be parallel, rather than competing,' he said.

Source: Stephen Letts, 'Banking royal commission: Lenders accused of misconduct over treatment of farmers', ABC News, 6 July 2018 Reproduced by permission of the Australian Broadcasting Corporation – Library Sales © ABC

Financing strategies

As explained in Chapter 6 of *Business for QCE Units 1 & 2*, a business has a number of options to finance its establishment, either through equity finance or debt finance. In maturity, a business may also seek debt or equity finance to fund the establishment of its expansion and global operations.

Key learnings

You will learn about financial management strategies in a competitive market through examining:

- private equity
- going public
- money in capital markets
- dividends
- accessing government grants and incentives.

Private equity

Private equity is the investment of money into private companies not listed on a public exchange. This capital investment comes primarily from institutional investors and accredited investors. Private equity can also be raised for the buyout of public companies, resulting in the delisting of a business. There are a range of structures and types of private equity funding to suit different applications and the fee structure will vary depending on the agreement.

Generally, to finance global expansion, growth capital investments are sought. These are private equity investments made in mature companies with proven business models that are looking for capital to expand or restructure their operations, enter new markets, or finance an acquisition. Pools of funds are sometimes created by private equity firms to invest in a number of joint ventures and expansions.

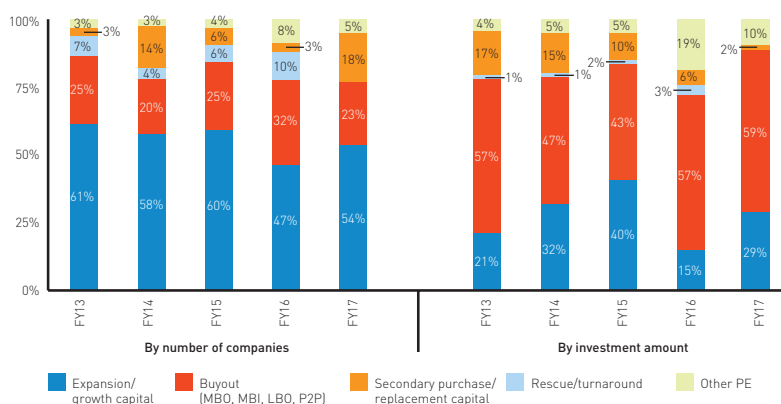


Figure 3.30 Private equity investment by category

Private Equity Investment by Category as reported by AVCAL, 2017 Yearbook, p. 17. <http://bit.ly/ArchiveYearbook2017>. Please note, AVCAL is now the Australian Investment Council.



Advantages

- Capital
- Increased company worth, borrowing capacity and financial strength
- Credibility
- No personal liability
- Expertise from investors
- Accountability

Disadvantages

- Dilutes ownership
- Repayment costs can be more than debt financing
- Loss of control and flexibility
- Investors can be difficult to source

Figure 3.31 Advantages and disadvantages of private equity funding

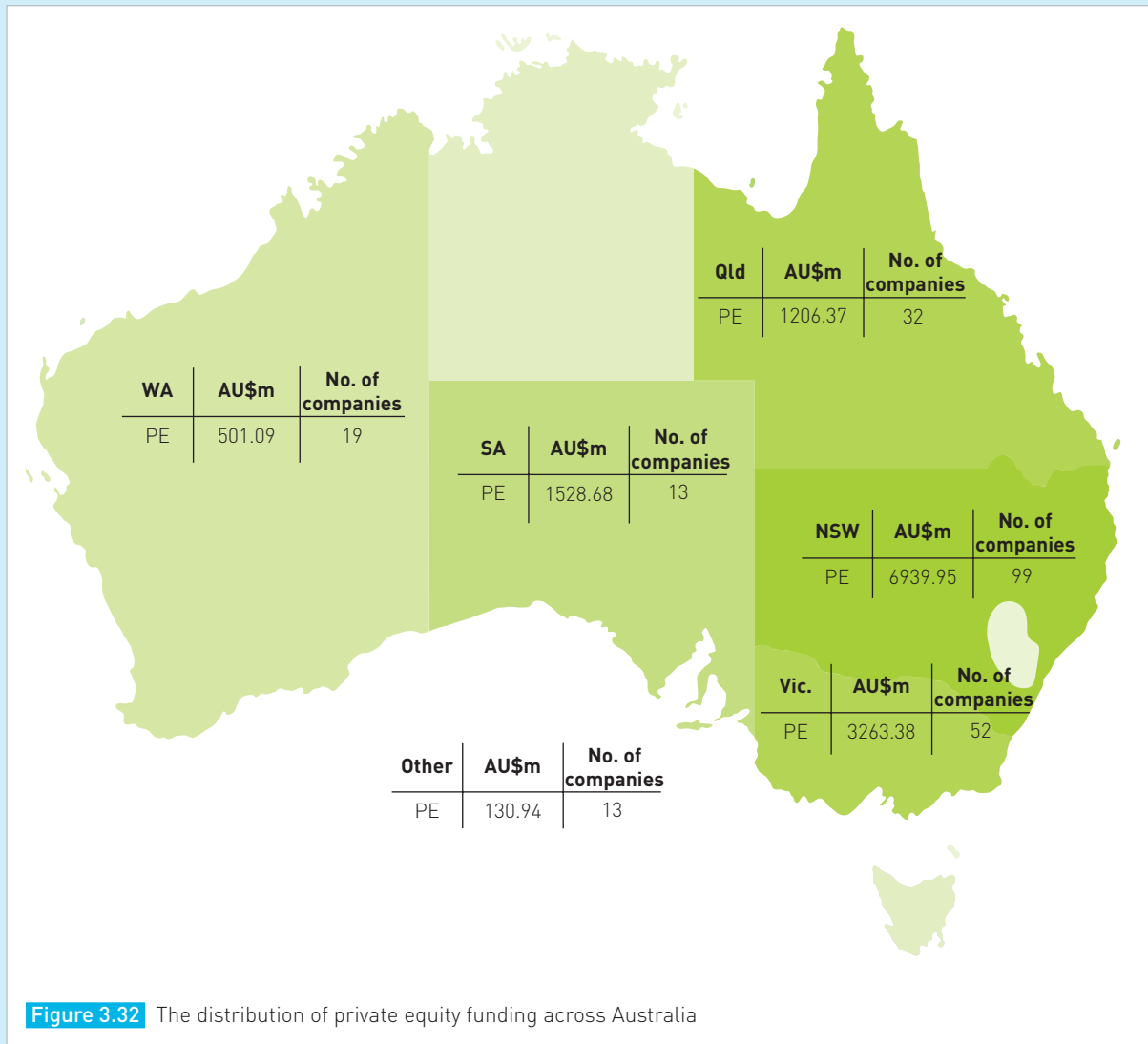
GAINING INSIGHT



Australian Investment Council: Private equity

The Australian Investment Council (formerly the Australian Private Equity and Venture Capital Association Limited) is a national association that represents the private equity and venture capital industries. The majority of its members are venture capital or private equity firms, whose primary interests

are to acquire the maximum returns on business investments and minimise losses in those investments. These firms provide capital for early stage companies, later stage expansion capital, and capital for management buyouts of established companies.



Private Equity Investment by Category as reported by AVCAL, 2017 Yearbook, Figure 21, p. 21, <http://bit.ly/ArchiveYearbook2017>
Please note, AVCAL is now the Australian Investment Council.

Money in capital markets

A **capital market** is a market where buyers and sellers engage in the trade of financial securities like bonds and stocks. The buyers and sellers can be individuals or institutions. Entrepreneurs and larger established businesses invest in capital markets and rely on the growth of capital markets to give them return and increase the capital

Capital market: where buyers and sellers engage in the trade of financial securities such as bonds and stocks to grow investment capital and create wealth

available to them. Investors and individuals use capital markets to increase their personal wealth. The stock market and the bond market are part of capital markets. There is a lot of risk for businesses that expand through the investment in capital markets as it relies on the investments giving positive and timely returns.

Watch the video ‘Understanding capital markets’ to help you understand the role of financial securities in financing expansion and business growth.



Going public

When a privately owned business decides to go public, it sells shares that were formerly privately held to new investors for the first time. Also called an **initial public offering (IPO)**, this is an opportunity for a business to get a large capital injection by offering shares in the business to the general public on the Australian Securities Exchange (ASX). This capital injection is often used for research and development or to cover the growing expenses and debt associated with expansion. IPOs often generate publicity, introducing products to consumers who may not otherwise have heard of them. Eventually, that leads to increases in market share. IPOs can also provide company founders with an exit.

Typically, an IPO takes approximately 5 months once advisers have been appointed

Step 1 Appoint advisers (week 1)

Professional advisers are involved with the preparation of the prospectus (offer document), participate in the due diligence process for the IPO, and price and market the offering to investors.

Step 2 Prepare the prospectus, due diligence (weeks 2–10)

The Australian Corporations Act contains a general disclosure test for prospectuses, which requires a prospectus to contain all the information investors need to make an informed assessment about your offer. This usually includes information about your company's business model, risks, management, financials, and any rights and liabilities attached to the shares. The due diligence process is guided by a committee, comprised of representatives of the company and other parties potentially liable under the prospectus.

Step 3 Commence institutional marketing program (weeks 10–12)

The Corporations Act strictly limits advertising of an IPO prior to lodgement of the prospectus with ASIC. However, certain marketing activities can be undertaken to institutional investors, including IPO roadshows.

Step 4 Lodge prospectus with ASIC (weeks 11–12)

An exposure period of seven days starts from the date of lodgement. During this time the prospectus is made available for public review and comment, and during this period the company cannot accept any applications under the offer. ASIC can extend the exposure period to up to fourteen days after lodgment if it needs more time to review the prospectus. Applications from investors can be processed after the end of the exposure period.

Step 5 Listing application lodged with and reviewed by ASX (weeks 11–16)

The formal listing application is lodged with ASX within seven days of lodgement of the prospectus with ASIC. Typically, the review and approval of the application by ASX is completed within four to six weeks.

Step 6 Marketing and offer period (weeks 13–17)

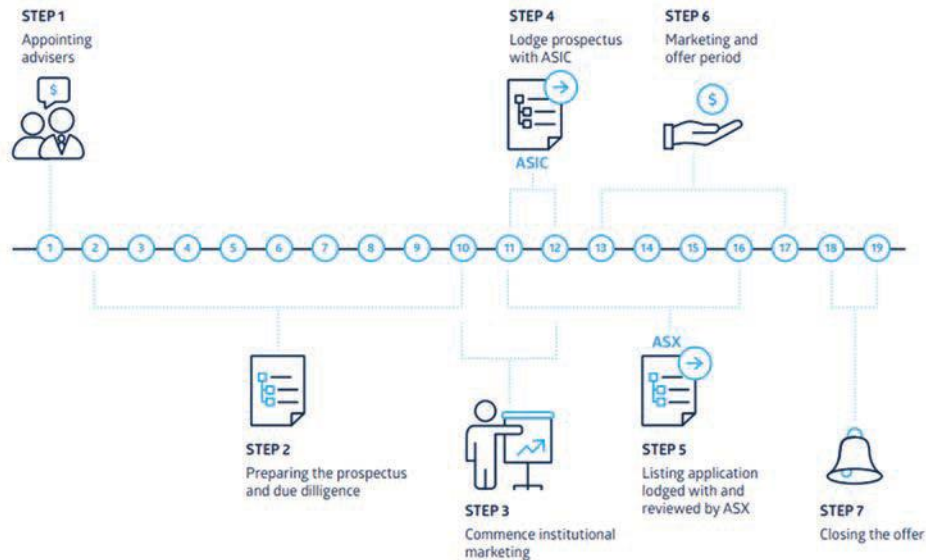
The offer to retail investors starts after the exposure period and usually is open for a period of three to five weeks.

Initial public offering (IPO): the process of selling to new investors for the first time shares that were formerly privately held; also known as floating

Step 7 Offer closes, shares are allocated, trading commences (weeks 18–19)

On listing day, you'll be invited to attend a listing ceremony at ASX to ring the ASX bell and commence trading in your company's shares – and officially join a globally recognised market.

7 steps to IPO



Capital with confidence: A launch pad to accelerate your growth, Australian Securities Exchange © 2018 ASX Limited

Figure 3.33 The steps to listing a business on the Australian Securities Exchange (ASX)

Note: This is a general guide to listing requirements and is not exhaustive, nor a guarantee of a successful listing application. For full details of the ASX Listing Rules please visit asx.com.au/listings.

When going public, companies must make extensive disclosures and submit to stringent regulations and reporting and accountability requirements to ensure compliance. Before going public, a company must weigh up the advantages and disadvantages to determine if it will be a beneficial strategy for reaching the objectives and goals of the business.

GAINING INSIGHT

Going public: Breville

Founded in Sydney in 1932, Breville Group Limited (ASX: BRG) is an Australian-owned company that sells electrical consumer products and home goods. Bill O'Brien and Harry Norville (born Charles Henry Norville) mixed their last names together to create the Breville brand. Their invention, the original electric sandwich toaster, was a huge success on its launch in Australia in 1974 and sold 400 000 units in the first year.

Breville then expanded into New Zealand and the United Kingdom with worldwide demand for its innovations and inventions. Breville's R&D team has over 100 active patents and has been awarded

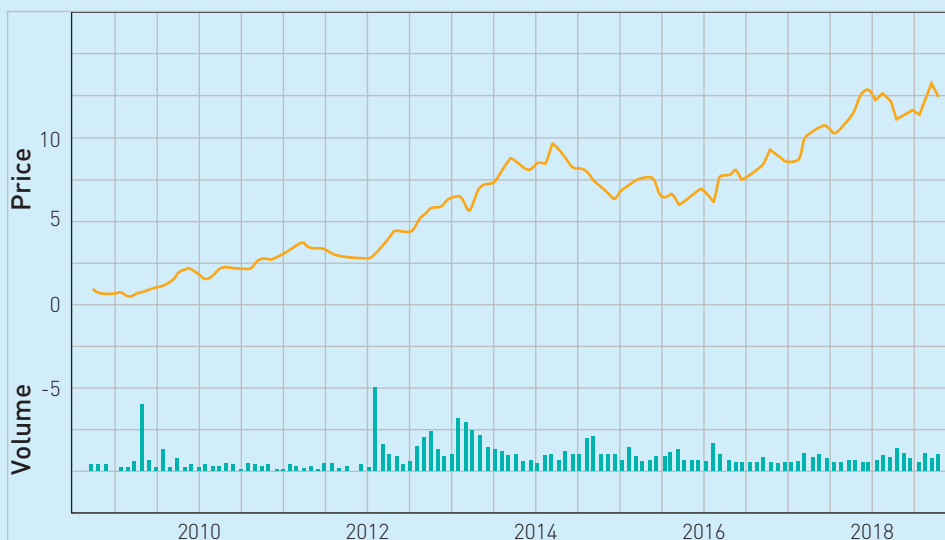


Figure 3.34 Breville Group Ltd is listed on the ASX.

Britta Campion/NewsPix

more than 40 international design awards. In 1974, it completed development of the toastie maker. In 1977, Breville launched Australia's first food processor, the Breville Kitchen Wizz. A capital injection and continued

funding for research and development and continued expansion came with Breville's IPO in 1999. The value of Breville Group shares has continued to grow and pay dividends to shareholders.



Adapted from ASX, <https://www.asx.com.au/asx/share-price-research/company/BRG> © 2018 ASX Limited

Figure 3.35 Breville Group Ltd shares have increased in value since the company's IPO in 1999.

Dividends

A **dividend** is a portion of the profits made by a public company that is distributed to shareholders. Dividends can be issued to shareholders as cash payments, as shares of stock, or other property, though a cash dividend paid at regular intervals, for example quarterly or annually, is the most common. Generally, it is the larger, more established companies with predictable profits that are the best dividend payers, but businesses that are expanding or expecting rapid growth through new strategies may also yield strong returns.

Some start-ups and other high-growth companies, such as technology or biotech start-ups, may not offer regular dividends as they are in the early stages of development and may incur high costs in their research and development, business expansion and operational activities. This means they may run at a loss or may not have sufficient funds to issue dividends.

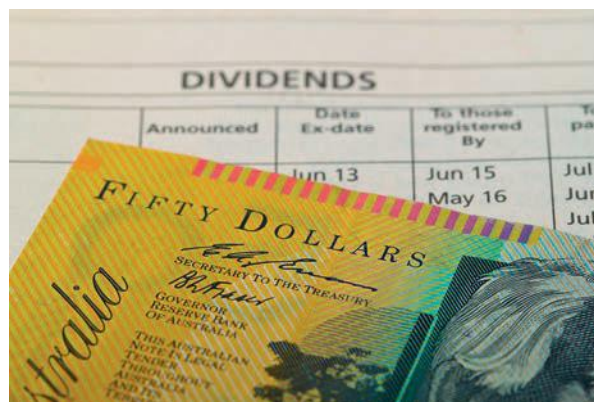


Figure 3.36 Dividends can be paid on the shares in capital markets.

Shutterstock.com/Calvin Chan

Dividend: a portion of the profit of a company that is paid to the shareholders

Companies may also avoid making dividend payments if they are aiming for higher-than-average growth and expansion and want to invest the profits back in the business. However, this can be a challenging strategy when trying to attract investors, as shareholders expect dividends as a reward for their trust and investment in a company. A high value dividend declaration can indicate that the company is doing well and has generated good profits, but it can also be a sign that the company has excess cash that is not being utilised for growth and development.

Accessing government grants and incentives

As introduced in Chapter 4 of *Business for QCE Units 1 & 2*, grants and funding opportunities help to support the growth and development of a business. In maturity, the grants and funding available are designed to foster growth and increase the exporting and global business from Australia. When selecting financing options for expansion, one of the primary benefits of government grants is that the business doesn't have to pay anything back. This can take away some of financial burden and pressure and enable a business to take a risk in expanding to a market that an investor or a bank may not finance. Most government grants are short term and come with strict guidelines and expectations; so, while they are an attractive source of finance, a business must ensure it can comply with the conditions and meet the outcomes of the grant.



© Western Australian Agriculture Authority, 2019

Figure 3.37 Government grants and incentives are designed to foster growth and expansion in Australian businesses.

Evaluating finance options

Key learnings

You will learn about evaluating financial management strategies and financing options in a competitive market through examining:

- the triple bottom line
- cost–benefit analysis.

Triple bottom line

The **triple bottom line** is the idea that a business's focus on its return should extend beyond the purely financial to include social and environmental considerations. First explained by John Elkington in 1997, the triple bottom line is a bottom line that continues to measure profits, but also measures the organisation's impact on people and the planet. The triple bottom line is a way of expressing a company's impact and sustainability on both a local and a global scale. It means that companies are measuring their degree of social responsibility, their economic value and their environmental impact.

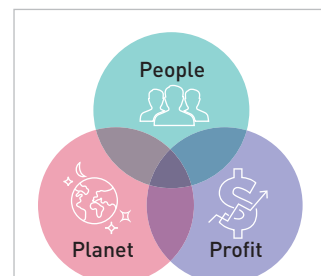


Figure 3.38 Striving for the triple bottom line is a business strategy that can attract further investment and growth.

Triple bottom line: an accounting framework that broadens a business's focus from only the financial bottom line to include social and environmental considerations

GAINING INSIGHT



Sorella organics



Sorella organics

Figure 3.39 Sorella organics, a triple bottom line business

In the world of fashion, which can often go hand in hand with environmental degradation and abuse of human rights, the story behind the clothes matters. Sorella organics is an independent Australian label founded by Anna McGregor and houses a collection of sleepwear and loungewear for men and women, and maternity wear. Anna sources the softest certified organic and fair-trade cotton, ensuring each piece is kind on the skin, kind to the environment and kind to the farmers growing the cotton. The collection is made in both Australia and Fiji.

Given Anna's background in international community development with non-profit organisations including Oxfam and Care Australia, the opportunity to work in Fiji has been hugely rewarding. Anna has spent over three years up-skilling workers at all stages of production – from cutting to sewing and finishing. By committing to building capacity, and being patient with small, slow production runs, the vision has been to not only produce high-quality pieces for sorella, but to increase workers' capacity to partner with other Australian labels – thereby contributing to sustainable employment.

Anna was awarded honorary membership of the Ethical Fashion Forum's Fellowship 500 (an industry



Sorella organics

Figure 3.40 Meet Ilimeleki, who makes Sorella organics garments in Fiji.

body for sustainable fashion), recognising sorella organics' commitment to sustainable and ethical fashion. She is devoted to continuing to learn and improve all elements of sorella's supply chain to reduce environmental impact and become a leader in ethical fashion in Australia.

We all love to wear clothes that make us feel good. As consumers we can also choose clothes that make us feel good about the difference we make to other people's lives, and the environment. You are making a big difference with your purchase with us – so, thank you for choosing our small independent label and organic and fair-trade cotton.

Source: Anna McGregor

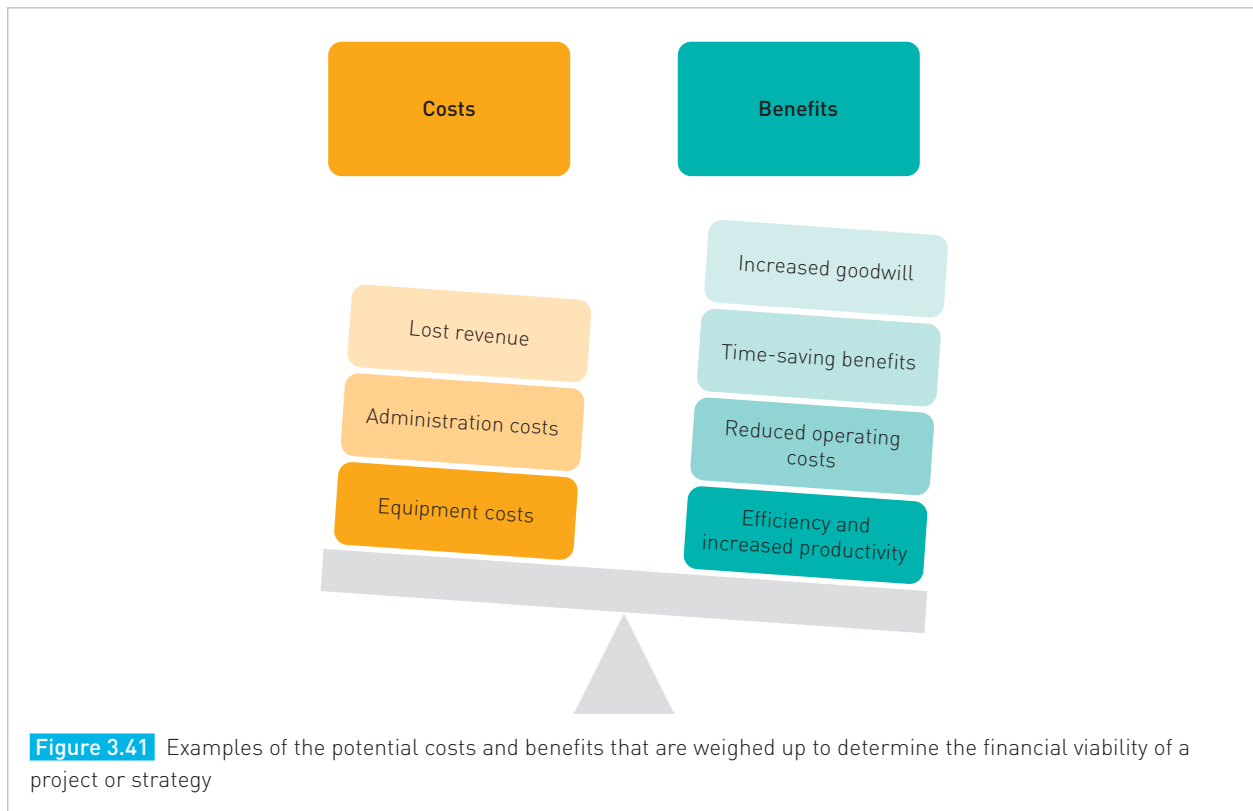
Questions

- 1 **Explain** the concept of a triple bottom line.
- 2 **Explain** how sorella organics leverages this strategy as a competitive advantage.
- 3 Brainstorm a list of triple bottom line businesses. **Discuss** the similarities in their strategies and how this leads to their success in the maturity stage of the business life cycle.

Cost-benefit analysis

In order to make an evaluation and decide on the best course of action during expansion in the maturity stage of the business life cycle, analytical tools such as a **cost-benefit analysis** are useful. This tool helps a business to decide if the strategy or proposed project is financially feasible or not by evaluating all the potential costs and the qualitative and quantitative benefits that could be generated from the strategy.

Cost-benefit analysis: an approach used to determine 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



The tool is originally credited to French engineer Jules Dupuit, who used the basic concepts of what later became known as cost–benefit analysis to determine the value of tolls for a bridge project to calculate the payback period of the bridge. The tool was then further refined and popularised by British economist Alfred Marshall.

ANALYTICAL TOOL



The tool: Cost–benefit analysis

A cost–benefit analysis is an analytical tool used to analyse the predicted financial benefits and anticipated costs of a project or strategy. This tool is designed for non-critical financial decisions and allows the business to determine if the project or strategy is financially viable or not.

How to use the tool

A cost–benefit analysis is completed by looking at all of the impacts of a project or strategy and quantifying these into monetary terms. This means putting a dollar value or estimating a dollar value for every anticipated cost or gain from implementing a strategy. This includes short- and long-term, recurring and one-off impacts. Once all the costs and benefits have been quantified, the value for money and feasibility of a strategy can be determined.

There is not one universally accepted template or model for completing a cost–benefit analysis, but generally the approach will either look at the value of one strategy over a period of time to determine the present value from year to year or will look at the total costs and benefits to determine the time period before the strategy results in a gain for the business.

Table 3.3 A simple cost–benefit analysis to compare the costs and benefits of a number of options to decide on the most appropriate option. This example compares three options to consider for the clearance control of the rhododendron garden shrub species.

	Option 1	Option 2	Option 3
Costs	\$s	\$s	\$s
Inspection costs to government	3 700 000	14 000 000	17 700 000
Rhododendron clearance	4 300 000	0	4 300 000
Diagnostic tests	2 000 000	3 700 000	5 700 000
Inspection costs to industry	500 000	1 700 000	2 200 000
Historic gardens lost visitors	n/a	n/a	n/a
Total costs	10 500 000	19 400 000	29 900 000
Benefits			
Reduced cost of outbreak control to nurseries	1 800 000	–2 200 000	–400 000
Exports	800 000	–800 000	0
Social and environmental benefits of woodlands	9 400 000	–9 900 000	–400 000
Historic gardens clearance and maintenance costs	9 300 000	–13 700 000	–4 400 000
Ecosystems services of heathland	0	0	0
Benefit from rhododendron clearance	3 000 000	0	3 000 000
Total benefits	24 400 000	–26 600 000	–2 300 000
Benefits minus costs	13 900 000	–46 000 000	–32 200 000

Table 3.4 A multi-year cost–benefit analysis shows the yearly position of the proposed strategy or project. This is calculated using the costs and benefits with the discount factoring applied to make allowances for the predicted increase or decrease in cost or benefit from year to year.

Cost–benefit analysis: Financial system (Accounting)						
Cost	Year					
	0	1	2	3	4	5
Operations		(\$75 000.00)	(\$82 500.00)	(\$90 750.00)	(\$99 825.00)	(\$109 808.00)
Development	(\$50 000.00)					
Total costs	(\$50 000.00)	(\$75 000.00)	(\$82 500.00)	(\$90 750.00)	(\$99 825.00)	(\$109 808.00)
Discount factoring @ 15%	1.00	0.87	0.76	0.66	0.57	0.5
Cost value (present value)	(\$50 000.00)	(\$65 217.00)	(\$62 382.00)	(\$59 670.00)	(\$57 075.00)	(\$54 594.00)
Cumulative costs (present value)	(\$50 000.00)	(\$115 217.00)	(\$177 589.00)	(\$237 269.00)	(\$294 344.00)	(\$348 938.00)
Benefits						
Tangible		\$110 000.00	\$121 000.00	\$133 100.00	\$146 410.00	\$161 051.00
Intangible		\$10 000.00	\$10 000.00	\$12 100.00	\$13 310.00	\$14 641.00
Total benefits		\$120 000.00	\$132 000.00	\$145 200.00	\$159 720.00	\$175 692.00
Discount factoring @ 15%	1.00	0.87	0.76	0.66	0.57	0.5
Benefit value (present value)		\$104 328.00	\$99 811.00	\$95 471.00	\$91 320.00	\$87 350.00
Cumulative benefit costs (present value)		\$104 328.00	\$204 159.00	\$299 630.00	\$390 951.00	\$478 301.00
Cumulative costs + benefits (present value)	(\$50 000.00)	(\$10 870.00)	\$26 560.00	\$62 361.00	\$96 606.00	\$129 363.00

Worked example of simple cost-benefit analysis

Costume Cupboard is an Australian business that has been operating for four years. Its online sales are exceeding targets in New Zealand and Singapore, but the cost of shipping costumes from Australia to its overseas customers is quite significant. The owners of Costume Cupboard are considering opening a new store in one of these overseas markets. A cost-benefit analysis is completed to explore the two expansion options.

Cost	New Zealand	Singapore
Rent of new building	\$13 500	\$20 000
Licensing costs	\$10 000	\$15 000
New staff wages	\$55 000	\$75 000
Recruitment costs	\$5 250	\$7 000
Orientation and training	\$3 000	\$3 000
Store fit-outs	\$5 000	\$15 000
Stock for new store	\$10 000	\$20 000
Lost revenue before opening	\$15 000	\$30 000
Two weeks anticipated income		
Exchange rate losses	\$5 000	\$10 000
Total costs	\$121 750.00	\$195 000.00

Benefits	New Zealand	Singapore
Extra sales from new market	\$130 000	\$260 000
Savings in retail postage costs by having product in store	\$10 000	\$5 000
Improved customer service and retention as a result of extra stores	\$15 000	\$10 000
Total benefits	\$155 000.00	\$275 000.00

The costs and benefits of the two markets can be compared by calculating the amount of time it will take to repay the investment of opening in the new market and to begin to generate a profit.

This is done by dividing the total of all costs by the total of all benefits to determine the amount of time in years.

$$\frac{\text{Total of all costs}}{\text{Total of all benefits}} = \text{Payback period in years}$$

To convert the calculated figure to months, multiply by 12.

Therefore, based on the figures above, the payback time for each option can be calculated:

New Zealand

$$\frac{121\,750}{155\,000} = 0.78 \text{ years} = 9.4 \text{ months}$$

Singapore

$$\frac{195\,000}{275\,000} = 0.70 \text{ years} = 8.5 \text{ months}$$

With this information, the business can decide which is its preferred option based on the level of investment, the anticipated return and the payback time of each option.

For more information, visit MindTools.



MindTools

Activity

The Mattress Warehouse is trying to decide whether to outsource the manufacture of its springs to India or continue to produce them in-house. The current cost of production is \$4.40 per spring, but this could be reduced to \$3.50 per spring in India. Currently, the factory makes 5000 springs per year to make 500 mattresses that sell for \$550 each. India could do a run of 100 000 springs, meaning 10 000 mattresses would be made and the price could be dropped to \$500. This price drop would be advertised at a cost of \$3000. The increased sales would require an extra part-time salesperson on a salary of \$18 500. The projected demand for sales is 6000 mattresses sold for \$550 each or 8500 mattresses if sold for \$500 each. The extra mattresses that don't sell will need to be stored in a storage shed that costs \$950 for the year lease.

Questions

- 1 **Select** data and information from the scenario above to **create** a cost–benefit analysis for the Mattress Warehouse.
- 2 **Interpret** the relationships in the cost–benefit analysis and **identify** between three and five implications of the options.
- 3 **Evaluate** your findings and **make a decision** about which option is most feasible and will provide the greatest return for the Mattress Warehouse.
- 4 **Create** a series of paragraphs to **explain** your findings.

Chapter 3 review

This chapter introduced finance and human resources strategies used by mature businesses to ensure they remain competitive. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

3.1 Short items

- 1 **Explain** how leadership styles impact on a business in the maturity stage.
- 2 **Describe** the macro environmental factors that affect human resources management decisions.
- 3 **Describe** the macro environmental factors that affect financing of global expansion.
- 4 **Explain** the importance of intrapreneurship in competitive environments.
- 5 **Explain** the relationship between strategic planning and human resources management.
- 6 **Explain** why some businesses might choose to be employers of choice and what the value of being listed as a great place to work is.
- 7 **Explain** the importance of diversity and inclusion in the workplace.

3.2 Interpretive items

- 1 **Explain** how a cost-benefit analysis could be used by a person wanting to make career decisions.
- 2 Using your knowledge of expansion and business diversification, **explain** why financing options impact on the competitiveness of a business.

GAINING INSIGHT



Sunshine Coast Lightning: Positive culture and retention

A sporting team is a business. It can be owned by individuals or by companies, but like all businesses it has a clear set of goals and objectives and it must employ or attract the right people to meet these objectives. The Sunshine Coast Lightning netball team is a unique joint venture between NRL club Melbourne Storm and the University of the Sunshine Coast (USC).

Founded in 2016, Sunshine Coast Lightning is the most successful start-up sporting team in Australia, having won back-to-back grand finals in 2017 and 2018. The entire original squad, recruited and announced in 2016, remained for both the 2017 and 2018 seasons. Five of these foundation players – Steph Wood, Karla Pretorius, Laura Scherian, Madeline McAuliffe and Cara Koenen – have all recommitted to the Lightning for the 2019 season.



Figure 3.42 The culture at Sunshine Coast Lightning underpins its retention of key players and its success as back-to-back champions.

While Lightning's on-court success is undeniable, attracting the right team and putting the right foundations in place off-court were just as important. Lightning has built its culture on the values of passion, purpose, people and having a point of difference – values which were determined by all club personnel. Two people who were crucial to Lightning's unique club ethos were CEO Danielle Smith and head coach Noeline Taurua. The pair's ability to recruit highly skilled and talented people who were passionate about building the club's ethos is commendable. They believe that:

... when starting a new company or team, it is said your personality becomes your culture. The thought that went into putting together the right personalities is evident in our team and has been a big part in how we have gelled together so quickly.

Culture isn't something you can buy or force; it is created when the right people come together in an environment where people truly lead by example. Without an existing club or culture, however, it was

challenging to make signing attractive for players in the foundation squad.

The first part was Noeline as the coach. She'd have a discussion with each of them and really took the time to understand what they wanted to get out of their netball career. Some were older and so it was maximising the time they have remaining in the sport, what they wanted to do in terms of their international career, what their life was outside of netball, whether it was another job or studying or whatever. She talked through the team she wanted to create, the playing style, and that really appealed to a lot of the players.

It is important to align the individual goals with the objectives of the club to ensure a cohesive team that is working for the same achievements or in the same direction. These values and the work ethic implemented at Sunshine Coast Lightning are behind the team achieving the accolade of most successful start-up in Australia's sporting history and retaining so many of its key sporting stars.

- 3 Read the 'Gaining insight' about Sunshine Coast Lightning and answer the following questions.
 - a **Create** paragraph responses to the case study above to:
 - i **describe** the business idea behind Sunshine Coast Lightning
 - ii **explain** the strategies or situations that would make Sunshine Coast Lightning an employer of choice over another club in the Super Netball League
 - iii **explain** why the culture established by Sunshine Coast Lightning is so important to its success
 - iv **explain** how culture affects a business in the maturity stage of the business life cycle with regard to human resources and staff retention.
 - b **Create** a SWOT analysis to **analyse** the strengths, weaknesses, opportunities and threats of the leadership styles and human resources strategies demonstrated by Sunshine Coast Lightning.
- 4 **Explain** the interrelationship between motivation theories, staff retention and being an employer of choice.
- 5 **Explain** how Fiedler's contingency theory could be utilised during an expansion strategy into a new global market.

3.3 Extended-response items

- 1 **Create** a multimodal response of 3–5 minutes to **explain** three strategies an employer could implement to become an employer of choice.
- 2 Using the inquiry process, **create** a written extended response in the form of a business report to **communicate** the following.
 - a **Describe** a business in your local region that would benefit from capital funds for expansion.
 - b **Explain** the options for financing expansion.
 - c **Create** a cost–benefit analysis to **evaluate** three of the options.
 - d **Evaluate** and **recommend** the most appropriate way for the business to source capital for an expansion strategy.

3.4 Activities

- 1 **Create** a table to compare the advantages and disadvantages of each of the financing options for global expansion.
- 2 Use a technology application to **create** a one-page brochure or flyer to **explain** the strategies a business could implement to become an employer of choice.
- 3 **Create** a short presentation to **explain** to business owners why they need to adopt financial management strategies to remain competitive in each of the four criteria.



Case study 1: Competitive markets – Asian expansion

Ego Pharmaceuticals



Figure C1.1 Ego Pharmaceuticals exists to improve the lives of people through the science of healthy skin.

About Ego Pharmaceuticals

Ego Pharmaceuticals Pty Limited is the largest – Australian pharmaceutical business specialising in the research, manufacture and marketing of high-quality skincare products. The private company is based in Melbourne and currently produces more than 120 innovative products, exports to over 25 nations and is used by over 3 million people every day.

Ego was founded when Gerald Oppenheim, a chemist, and his wife, Rae, a nurse, saw a need in the market for products to restore and maintain healthy skin. In their laundry they developed Ego Pine Tar Bath Solution, later called Pinetarsol, which remains one of Australia's most widely used anti-inflammation skin treatments.

Gerald and Rae's son, Alan Oppenheim, is now the managing director. His leadership solidifies the culture and objectives of Ego. He guides the team as it continues to seek new ways to improve and maintain the company's reputation for innovation in products for skin treatment and healthy skincare. Ego Pharmaceuticals now offers products that include gentle skin washes; insect repellents; creams to treat skin conditions, insect bites and burns; hair products; and sunscreens.

The Ego Pharmaceuticals portfolio of brands includes QV Skincare, SunSense, Moov Head Lice, Aquium, SolvEasy, SOOV, Pinetarsol, Azclear Action, Ego Skin Cream, Elucent, Egoderm, Egozite, EgoPsoryl TA, Sebi, Silic 15, Viraprox and Moov Insect Repellent.

Sold only in pharmacies, Ego products treat and prevent skin diseases and skin conditions, as well as maintaining healthy skin. Hence pharmacists, doctors and nurses need to know the science and the benefits of Ego products and are the best sales advocates for the quality and performance of the products.



Figure C1.2 Ego is an acronym for Erwin and Gerald Oppenheim. Gerald, with his wife Rae (pictured), founded Ego Pharmaceuticals in 1953. Dermatologist Erwin Oppenheim was Gerald's father.



Figure C1.3 Ego now has more than 120 innovative products in its portfolio of brands.

The expansion journey

Ego's exports, which now approach 50 per cent of the company's sales, have come about from the company's strategic global expansion. The expansion journey started in 1960 with its first exports to Papua New Guinea, New Zealand and Singapore. The expansion into Asia continued throughout the 1960s and was done by appointing a local, often family-owned, company as 'distributor' responsible for sales, marketing and physical distribution. Ego then further expanded into Asia, adding more distributors in Malaysia, Taiwan, Indonesia, South Korea and Hong Kong. Managing Director Alan Oppenheim explains that 'using distributors is a lower risk channel to enter new markets for (mainly smaller) companies; it also comes with lower control for companies. It can lead to a "set and forget" mentality if done badly.'

In 2005, Ego began replacing some distributors with Ego's own people and now has established subsidiaries in Malaysia, Singapore, Hong Kong, Taiwan and the United Kingdom. The company has its own staff in Bahrain, Kuwait, Qatar, United Arab Emirates, Oman and Saudi Arabia.

In China, all of Ego's business is done online with cross-border e-commerce. This allows businesses keen to access new global markets simply, safely and without needing to set up distribution through bricks-and-mortar stores. Selling online also means that the company doesn't have to submit to China's testing requirements, which it considers to be excessive and not based on good, current science.

While Australian products have a great reputation and are in high demand in Asian markets, it is a highly competitive environment and, in the retail environment, is primarily driven by profit goals. This means that Ego must not only know each of its markets and their cultural differences, but also make its products accessible in different formats to suit each market. Alan Oppenheim explains further: '... especially in Asia, our customers are all very technology savvy and have included online forums in their everyday lives. The use of a cross e-commerce strategy is one we have paid much attention to in recent years, from e-shop selling to advertising to our interactive and advice-driven sites.'

The size and growth of a market's middle-class consumers is a key factor when deciding which markets to expand into for Ego Pharmaceuticals, as is looking at economic indicators, per capita GDP, purchasing power, pharmaceutical regulations and the business environment for setting up a business.

Strategic planning and the values of Ego

To ensure the values of Ego are upheld and consistently embedded in everything Ego does, the company engages in strategic planning and extensive staff training. The strategic planning occurs in levels or stages. The Scientific and Production Operations team runs a suite of expansion plans at any one time. These include building expansions, production equipment purchases, scientific equipment additions and more. To support this, the Demand Forecasting Team gets forecasts for sales demand by product, by nation, every month. This data feeds into the Supply Team, where engineers compare current production capacity for each pack type (bottle, jar or tube, for example) to the future forecast sales demand. Each region (Asia, Australia, Middle East, UK) then develops its plans for sales and marketing annually with all functional departments (all the above plus ICT, finance, HR ...) developing plans that feed into annual budgets.

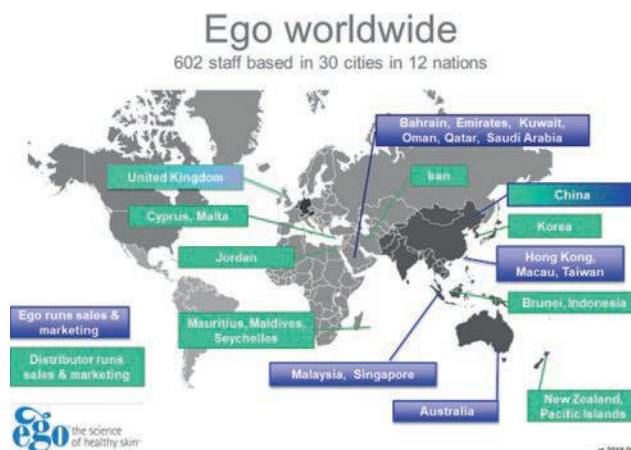


Figure C1.4 Ego now exports to more than 25 nations with a combination of subsidiaries, Ego staff and distributors.



Figure C1.5 The mobile phone is the fastest growing utility in China to access the Internet, so cross-border e-commerce strategies are essential in Asian markets.



Figure C1.6 The values of Ego

Regardless of the budgets, market and the sales targets, the values of Ego are an essential part of the culture and business and underpin the quality of the products and drive the integrity, commitment to science and innovation, and focus on helping people restore and maintain Skin Health. There may be slight cultural adjustments made to interactions and operations to align with cultural difference in each Asian market, but the values of Ego must always be lived and nurtured by every employee.

People and performance strategies

Ego believes that its people make the difference and with its own people, the company can better ensure the Ego values are nurtured. Treating staff as family, Alan Oppenheim believes, means they are significantly more committed to the whole Ego team and Ego values, and 'regular training programs and professional development keep Egozites (that's what we call ourselves) trained in the latest developments and techniques in their respective fields of expertise'.

Historically, Ego has always been a pioneer in adopting progressive human resources strategies as a reflection of its core values. It ensured equal pay for its female staff in Australia in 1960, and in 1974 introduced superannuation. The company also encourages good practices for the health of its staff, providing regular health checks, flu vaccinations and, in conjunction with its SunSense message, skin cancer checks to employees who have an interest.

Our people make the difference

We value every employee. Each employee is critical to our success. Our employees provide excellent quality service to our staff. No job at Ego is so important or so urgent that the time cannot be taken to perform it in a safe manner. All employees recognise the importance of each others' personal and family life.

Ego culture inspires success. Our culture means our employees look forward to coming to work. Our atmosphere is open, encouraging. We are informal to encourage communication. We inspire each other to achieve our best. We provide challenge to continuously improve. We invest in training and develop our people so they can continuously improve.

Our people live the Values. We select the staff who will live the Values and have the best skills in an open, fair and careful process. We are respectful and proud of the diversity of our people. We respect and embrace the culture of the people of each nation in which we operate.

Source: www.egopharm.com/company/our-values/

Figure C1.7 Ego believes its employees are critical to the success of the company.

Generally, Ego hires local staff in each of its locations with the levels of management feeding back to a manager for each region in Australia. Hiring its own staff is supported by its own training managers, whose task is to enable Ego staff to develop and to improve their knowledge and skills. This is an important strategy as distributors tend not to invest in staff, instead tending to run a short-term strategy and with views focused on making profits.

Alan Oppenheim explains that the culture of Ego and consistency in its values is what keeps staff; the rewards are simply a by-product of the culture, which in turn becomes part of the retention strategy. Having a global network of subsidiaries and locations provides opportunities to grow and develop staff in different cultures and locations, and this is an appealing benefit; however, the current legal complexities around residency and visas make it challenging to permanently relocate staff from one location to another.

Quality assurance

The first Value of Ego Pharmaceuticals is Quality in everything the company does. Making its products in its own plant enables Ego to ensure the product quality is consistently the best possible. The world-class pharmaceutical plant in Melbourne (Braeside) has a licence to manufacture therapeutic goods from the Australian Government Therapeutic Goods Administration (TGA). TGA inspects Ego's plant regularly.

Many companies outsource manufacturing, Mr Oppenheim explains. 'They either don't care or don't understand the issues that this causes. Or maybe they don't have the money to invest in their own plant. For Ego, most of the profits are re-invested in continually expanding its plant.'

The \$35 million headquarters, with a 9000-pallet storage and distribution centre, was built on a second site in Melbourne (in Dandenong), while at its Braeside site in 2018 Ego started its 28th extension and planned the 29th.



Figure C1.8 Export growth enables an increase in efficiency as the plant grows.

Challenges of expansion in the Asian market

Being adaptable and choosing products that suit local tastes is important while remaining true to the Ego brand values can be a challenge with any global expansion. In addition, there are some obstacles that can arise when expanding into the Asian market. Other than multiple language barriers, there are individual cultural values and traditions to be aware of; for example, the gentle diplomacy and clear hierarchy of people are important to acknowledge, especially in business meetings.

In Asia, relationships or 'guanxi' are also very important. Companies are reluctant to buy or engage with businesses they don't know. Government entities, such as Austrade, which already have a presence in the market and have the same connections, can be a useful support.

For all pharmaceutical and cosmetic products, Ego must file a registration application with the government health authority, which often demands changes to a label, meaning a new SKU (Stock Keeping Unit) unique to that nation. For each Asian market, Ego must also consider the differences from country to country, as a one-size-fits-all approach will not work across the Asian region. For example, employment law in Taiwan is unique, as are the trademark laws in China.

Australian products have a great reputation with most Asian consumers, being considered authentic and of high quality. As a 100 per cent Australian-made and Australian-owned skincare brand, Ego Pharmaceuticals' commitment to the highest level of manufacturing excellence and proximity to the region are strengths for an Asian expansion strategy.

Sustainability

Ego does its best to minimise and continually improve processes that may impact on the environment. It promotes sustainable practices, chooses environmentally sound packaging for its products, minimises packaging and has recycling procedures in place in the manufacturing plant and offices. Rainwater tanks supplement almost a fifth of the company's water needs. Ego is a signatory (and award winner) of the Australian Packaging Covenant, a voluntary initiative by the Australian Government and industry to reduce packaging going to landfill.

Continuing growth and the future of Ego

Export and international trade is complex and challenges every organisation involved in it. It raises the bar that an organisation must clear to compete, let alone to succeed. It also adds opportunities to learn and to use existing skills with a wider audience – and hence for increased efficiency and growth. Six years ago, the total Ego business was smaller than its international business is today. This rapid growth is a result of the company's strategic planning, well-executed strategies and staying true to its core values.

As Alan Oppenheim explains, to evaluate how different investments have performed over time, many companies track their CAAGR (compound average annual growth rate). This is the average rate at which some investment grows over a certain period of time, assuming the value has been compounding over that time period. Currently, the 30-year CAAGR of Ego Pharmaceuticals is 12 per cent. This is considered to be quite high and is a testament to the company's values, strategic planning, committed people and operational model. Its exports continue to grow much faster than domestic business, with Ego Pharmaceuticals awarded Australian Exporter of the Year in 2017.

Despite a number of offers to buy Ego Pharmaceuticals, the family owners believe that 'the best thing they could do for the Australian community is to grow a high-technology manufacturer in Australia, and in so doing to drive the economy and to drive growth in good jobs. And the products help to improve millions of lives of people across 20+ nations. You can't get much better than that.'



Image courtesy of Austrade - Australian Export Awards

Figure C1.9 Ego Pharmaceuticals was awarded Australian Exporter of the Year in 2017.

Questions

- 1 **Describe** the facts and characteristics of Ego Pharmaceuticals and its stage in the business life cycle.
- 2 Use a technology application to **create** a timeline to **describe** the expansion journey of Ego Pharmaceuticals.
- 3 **Explain** why Ego Pharmaceuticals believes its 'people' are so important.
- 4 **Explain** the strategies used by Ego Pharmaceuticals to attract and retain quality staff, both here in Australia and in global locations.
- 5 **Explain** the point of difference or competitive advantage of Ego Pharmaceuticals in the Asian market.
- 6 **Identify** and **explain** three reasons why Australian businesses expand into the Asian market.
- 7 **Select** information from the case study above to complete a STEEPLE analysis to **identify** and **analyse** the macro environmental factors that affect Ego's Asian expansions.
- 8 **Interpret** the relationships, patterns and trends in the STEEPLE analysis to **draw conclusions** about the implications of expanding into Asian markets. **Create** a paragraph response to **explain** these implications.
- 9 **Select** information from the case study above to complete a SWOT analysis to **identify** and **analyse** the strengths, weaknesses, opportunities and threats of the human resources strategies and leadership styles used by Ego in the maturity stage of the business life cycle.
- 10 **Interpret** the relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of leadership styles and human resources strategies on employees of businesses in the maturity stage. **Create** a paragraph response to **explain** these implications.
- 11 Use the criteria of competitiveness and efficiency to **evaluate** the human resources strategies and **recommend** three alternative strategies that Ego could adopt.
- 12 **Create** an extended response in the form of a feasibility report to **explain** and **justify** to the Board of Directors which of the alternative human resources strategies you would implement.

Unit

3

Business
diversification

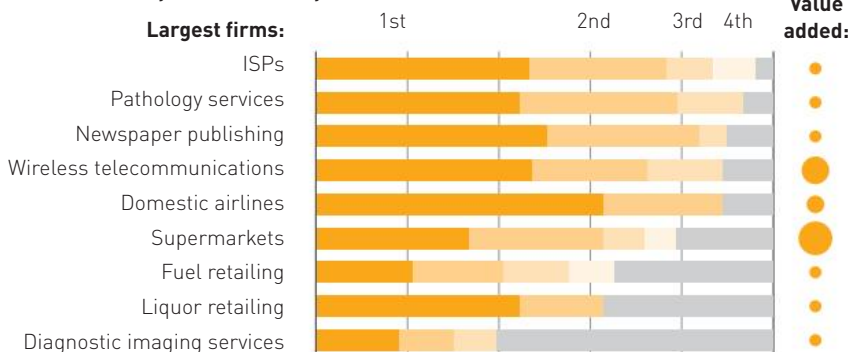
Topic 2

Strategic development

HOSTILE COMPETITIVE ENVIRONMENTS

A Grattan Institute report shows that highly concentrated sectors, including wireless telecoms, airlines and liquor retailing, have lower costs than small firms and benefit from economies of scale.

Barriers to entry: scale-economy sectors



OUTSOURCING

BUSINESS PROCESS OUTSOURCING

Australian business process outsourcing industry revenue for 2017-18 was

\$32.1 billion

80%

of Australian businesses outsource some activities

Business process outsourcing is forecast to grow by 2.6% annually until at least 2022

2.6%

The Philippines is one of the top call centre locations in the world and the top destination for customer relations management

The top 6 globally accepted locations for business process outsourcing are India, China, the Philippines, Malaysia, Brazil and Indonesia

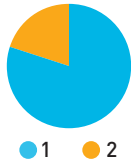
65%
of business owners use outsourcing to access specific knowledge and skills

STAGES OF BRAND AWARENESS

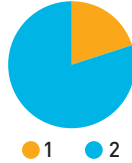


PARETO PRINCIPLE

Sales to revenue



Outputs to inputs



- 80 per cent of sales revenue comes from 20 per cent of customers
- 80 per cent of outputs are created by 20 per cent of inputs

AUSTRALIAN ADVERTISING SPEND

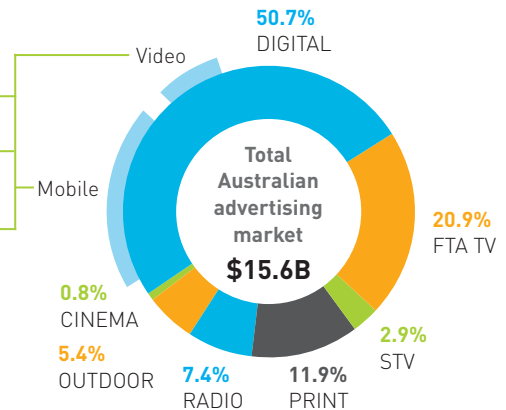
AD REVENUE CY 2017

\$7.9B Digital ad market
50.7% of total paid ad market

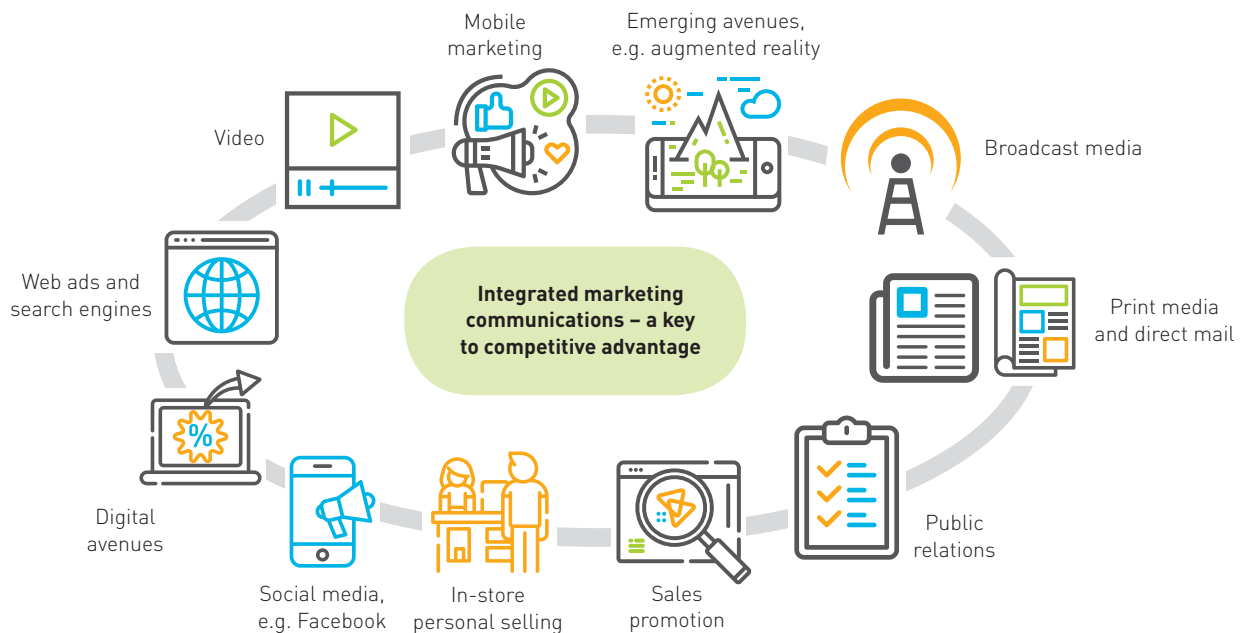
Video
Fastest growing – 7% of total ad market – up 43% vs. CY16

Mobile
18% of total ad market – up 35% FY17 vs. F16

Source: IAB Australia/PwC Online Ad Expenditure Report; CEASA



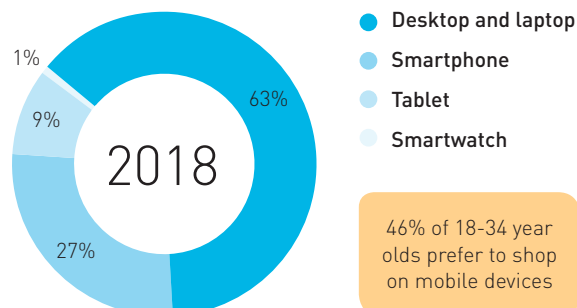
INTEGRATED MARKETING COMMUNICATIONS



MOBILE (M) COMMERCE

With almost 75 per cent of Australians now shopping on mobile devices, businesses must be ready to meet consumer expectations or risk losing sales.

Consumer device preferences



QUALITY MANAGEMENT

Performance-focused

Process-focused

Product-focused





HOSTILE ENVIRONMENTS

What you will learn

Competition exists wherever multiple businesses operate in the same market, with similar offerings and target markets. As seen in *Business for QCE Units 1 & 2* (Figure 9.7, page 322), the Australian supermarket industry has faced an intensified competitive battle for market share since 2001, when Aldi first opened in Sydney. Aldi has since achieved around 12 per cent market share in what is a hotly contested market, dominated by Coles and Woolworths.

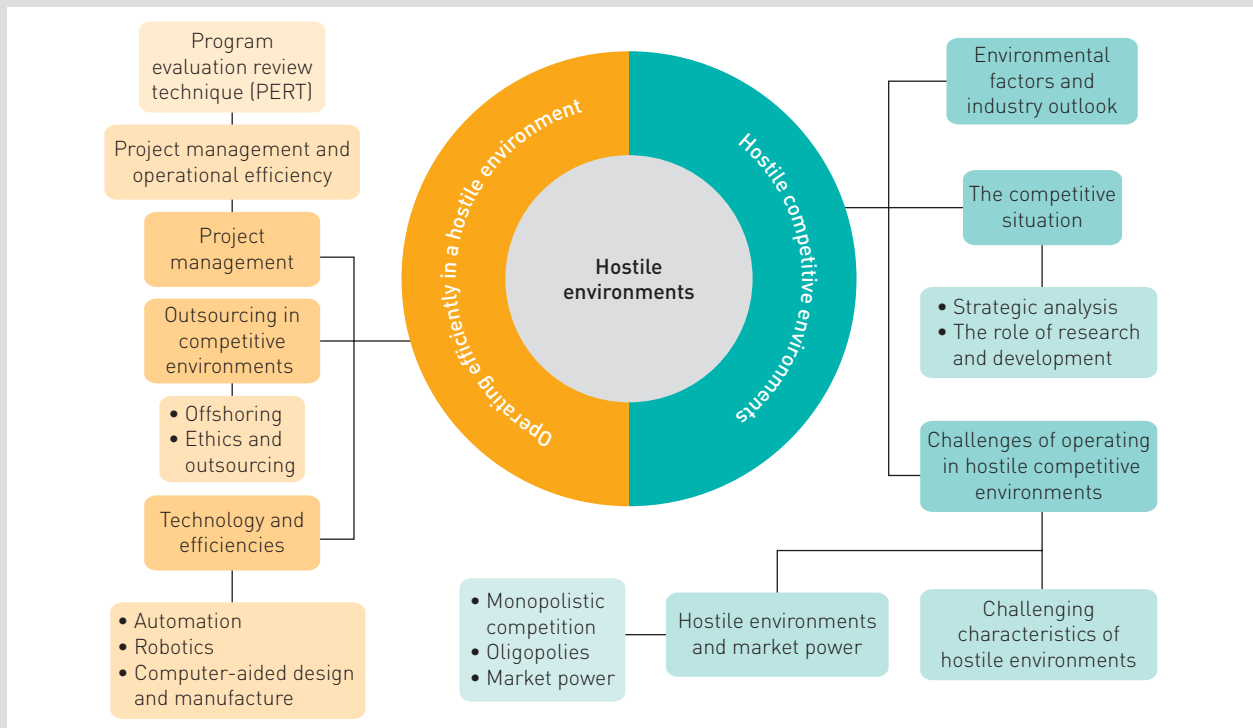
Competitive rivalry, or competitive actions and responses between competitors, exists in every profitable, mature market and businesses must operate strategically to maintain their position in the marketplace. In Australia, hostile environments are becoming more commonplace due to the increasingly globalised nature of markets, the intensification of market structures and the role of technology. In a hostile business environment, companies compete against each other to achieve competitive advantage using strategies such as differentiation, outsourcing and the pursuit of marketing and operational economies of scale. Such competitive pressure drives innovation, research and the development of new products and services to meet the needs of consumers.

This chapter will provide you with the opportunity to:

- **describe** the internal, operating and macro environmental factors relating to businesses in the maturity stage of the business life cycle that impact on marketing and operations, especially in a hostile, competitive market
- **explain** the challenges of operating in hostile competitive environments
- **explain** the role of research and development and strategic analysis in competitive situations
- **explain** project management, including the relationship between project management technology and operational efficiency
- **explain** outsourcing, including the challenges faced by management in the outsourcing of marketing and operational activities
- **select** data and information relating to marketing and operational functions for a mature business to **analyse** outsourcing power interest (power interest grid)
- **select** data and information relating to a business's current situation in a competitive hostile environment to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis)
- **select** data and information relating to competitors in a hostile environment to **analyse** the unique selling proposition (USP analysis)
- **interpret** the relationships, patterns and trends in the SWOT analysis and USP analysis to **draw conclusions** about the competitive situation and implications for strategic development
- **interpret** the relationships, patterns and trends in the outsourcing power interest grid to **draw conclusions** about the implications of outsourcing
- **evaluate** marketing and operating strategies for a business operating in a hostile competitive environment to **make a decision** and **propose** a recommendation using criteria
- **create** responses to **communicate** findings to suit the intended purposes and audiences, including use of visual representations (graphs, tables, infographics or analytical tools).

The analytical tools used in this chapter are:

- power interest grid
- USP analysis
- SWOT 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
- creative thinking:
 - innovation
 - 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)
- ethical (and moral) understanding
- 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



TerryWhite Chemmart



FOCUS QUESTION: How does TerryWhite Chemmart remain competitive and achieve its strategic objectives while operating in a hostile environment?



© TerryWhite Chemmart

TerryWhite Chemmart is a Brisbane-based group operating in the community pharmacy sector. This industry is in the maturity stage of the business life cycle, with 5700 community pharmacies in Australia as at May 2018 and the average Australian visiting a pharmacy 14 times a year. The pharmacy industry is highly regulated and plays an important role in community health care, with a focus on prescription medicines and scheduled over-the-counter (OTC) medicines. Over the past decade, the traditional community pharmacy market has experienced intensifying competition from internal and external operators, including large-scale discount pharmacies and supermarkets. This has changed the operating landscape and created two distinct business models, warehouse-style pharmacies, with aggressive pricing strategies, and smaller full-service, community pharmacies. The 'big-box discounters' with large physical stores, wide product variety and a focus on sales volume have boomed, sparking a growing reliance on franchising by smaller retailers as a business model to remain competitive.

Externally, competitive pressure from the supermarkets has intensified, along with niche health and beauty retailers and some department stores. This resulted from items once scheduled as 'pharmacy only' becoming open sellers, putting pressure on front-of-store sales, while certain products remain 'chemist only'. Pharmacies have typically competed based on service, advice, location, product range and quality; however,

discounters are competing based on price, with Chemist Warehouse referred to as 'the Bunnings of pharmacy'.

TerryWhite Chemists merged with Chemmart in 2016, creating a network of approximately 500 pharmacies nationally, with the aim to become Australia's largest retail pharmacy network, potentially capturing 25 per cent market share. This has allowed the business to combat competitive pressures from price-driven models and to build the scale necessary to compete with the My Chemist Group. CEO, Anthony White, states that:

... a key focus has been to increase efficiency and profitability in our pharmacies through simplified operations, reduced cost of goods, by delivering a more productive product range and by promoting a differentiated customer proposition.

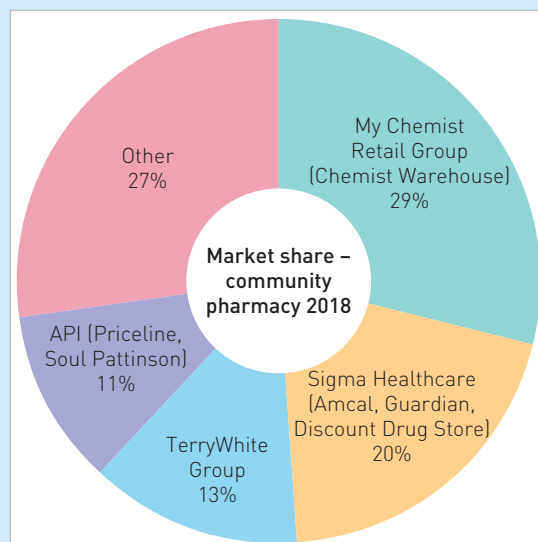


Figure 4.1 Market share of community pharmacies in Australia, including the TerryWhite Group

The TerryWhite Group's strategic position is as leaders in the delivery of accessible frontline health care, with strong customer service. The group has sought to differentiate itself in the market and create a unique selling proposition, with Mr White stating that 'our vision is to be Australia's favourite pharmacy, with our purpose being to deliver Better Health for all Australians'. TerryWhite Chemmart launched the 'Alive and Well'

campaign to communicate its branding commitment to provide the most qualified, accessible pharmacists with the best health programs, supported by a price match guarantee storewide. Mr White affirms that:

... the strategy was to focus on providing our customers with a professional, quality experience by supporting pharmacists with ongoing professional development via our Masterclass events and increasing our competitive edge through new innovations.

TerryWhite Chemmart's strategic direction remains focused on the instore customer experience, with online

purchases only accounting for around 8 per cent of sales. Trends such as an ageing population, changing community attitudes to health and skin care and a focus on wellness translate to a personalised instore experience. Accordingly, rather than grow online sales, TerryWhite Chemmart is leveraging digital tools to help improve customer interactions via a virtual pharmacist app that offers advance prescription orders to reduce instore wait times, reminders to take specific medicines, access to exclusive health programs and benefits from TerryWhite Chemmart's loyalty program.

Source: © TerryWhite Chemmart

Figure 4.2 TerryWhite Chemmart has embraced technology to enhance customer interaction and build loyalty.

Questions

- 1 Describe the environmental factors that led to the formation of TerryWhite Chemmart.
- 2 Explain how TerryWhite Chemmart has achieved operational and marketing efficiencies and how this influences its strategic position in the marketplace.
- 3 Explain the role of branding for TerryWhite Chemmart.
- 4 Research the concept of 'big box discounters' and use a double bubble map to distinguish between this model and the more traditional retail model. Interpret how each model aims to achieve a competitive advantage.
- 5 Select data and information relating to TerryWhite Chemmart's current situation in a hostile competitive

environment to analyse strengths, weaknesses, opportunities and threats using a SWOT analysis.

- 6 Select data and information relating to TerryWhite Chemmart's current situation to analyse the unique selling proposition (USP) of the business compared to two key competitors.
- 7 Interpret the relationships, patterns and trends in the SWOT analysis and USP analysis to draw conclusions about the implications for marketing strategies and strategic planning.
- 8 Create a response to communicate your findings to the management of TerryWhite Chemmart, including the use of the analytical tools as visual representations.



Hostile competitive environments

In mature **industries**, businesses produce products or services that are close substitutes. These businesses influence one another through a mixture of competitive strategies designed to achieve an advantage over other businesses and gain the attention of customers. When each business has a ‘fair share’ of the market, competition may be moderate; however, an equitable balance is uncommon and most mature industries experience aggressive strategies that create a hostile environment.

In **hostile environments**, businesses actively compete against one another and this competitive rivalry can intensify when a business is challenged by a competitor’s actions or recognises an opportunity to improve its position in the market. A business must think strategically about its competitive environment and will often seek advantage in the form of **economies of scale**, which are cost savings or advantages that can be created as a result of an increase in the scale of business operations, resulting in lower per unit input costs. These advantages can occur across the business functions, as a successful brand can achieve economies of scale by satisfying customer demand at the lowest possible unit cost, spreading promotion costs across a portfolio of products or by creating barriers to entry that deter competitors from entering the market.

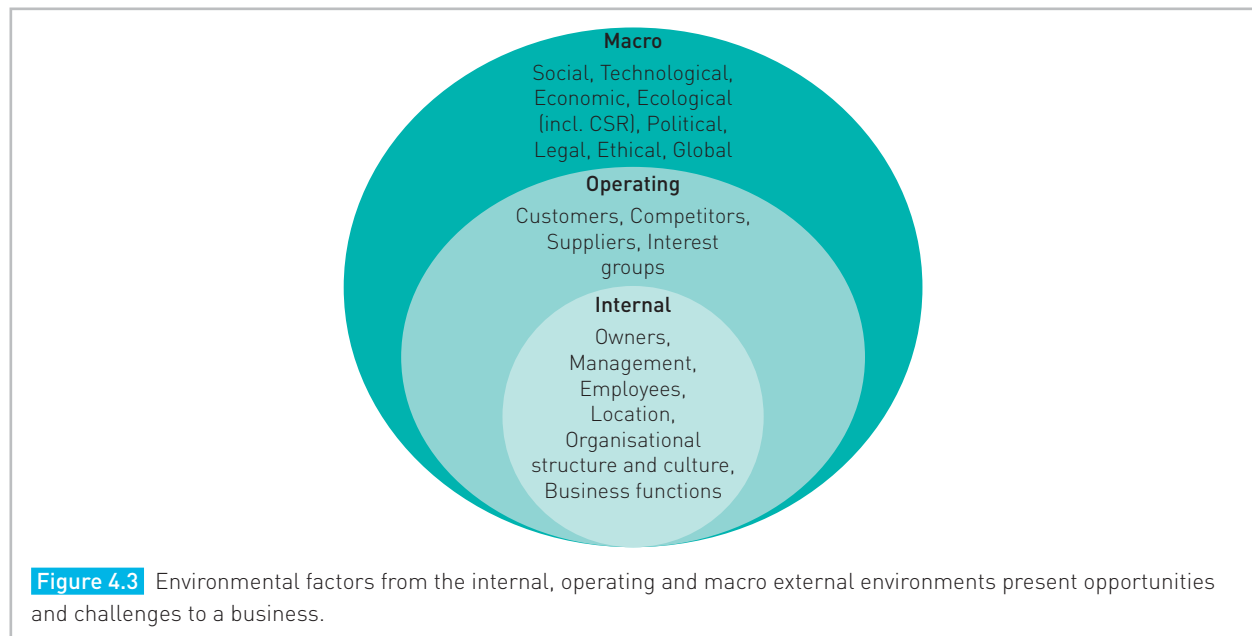
Key learnings

You will learn the following about hostile competitive environments through examining:

- market structures in competitive environments
- the influence of market power.

Environmental factors and industry outlook

Businesses in the maturity stage of the business life cycle face opportunities and challenges from the external environment, regardless of the industry they compete in. Understanding the prevailing conditions in the external (operating and macro) environment, alongside insight into the internal situation, is critical as businesses seek **strategic direction**.



Strategic planning: a long-term view of where the business is going and how it will get there, typically over two to five years

Industry: a group of businesses producing products or services that are close substitutes

Hostile environment: a situation in which businesses actively compete against one another for customer attention and market share

Economies of scale: cost savings or advantages that can be created as a result of an increase in the scale of business operations, resulting in lower per unit input costs

Strategic direction: specifying the vision and strategy the business seeks to develop over time, framed within the context of environmental factors

The current business climate is considerably more prone to rapid changes than were historical business conditions. Most businesses, regardless of size, are in some capacity operating in a global context, which brings its own complexities and competitive pressures, while the rate of technological advancement has changed the way businesses operate and communicate with customers. In a few sectors, such as print and broadcast media, once dominant firms have been disrupted by new, online competitors. Such access to information technologies has also brought about changes in the socio-cultural environment with consumers able to access vast amounts of information and engage with businesses in a '24/7' environment. Changes in government policies and laws can have a considerable impact on industries, including where and how businesses compete and regulations around competitive practices, such as misuse of market power, and business regulations, which can vary between states and countries.

GAINING INSIGHT



News Corp and Fairfax in printing deal



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Figure 4.4 The traditional newspaper is produced on broadsheet in hard copy and contains print advertising. The technological environment presents challenges for this business model.

News Corp Australia publishes many of our major city newspapers including the *Courier-Mail*, the

Daily Telegraph, the *Gold Coast Bulletin* and *Townsville Bulletin* and the *Cairns Post*, along with *The Australian*. Fairfax Media is the publisher of *The Age*, the *Sydney Morning Herald* and the *Australian Financial Review*. These two companies, which historically dominated print media in Australia as major rivals, have been disrupted by digital technologies. In July 2018 they announced a commercial printing arrangement to manage costs by sharing facilities. The objectives of this agreement are to make more efficient and effective use of existing print facilities and to increase competitiveness and viability of their key newspaper brands against major digital rivals, including Facebook and Google, which operate a digital advertising duopoly.

Refer to the News Corp press announcement to answer the questions that follow.



Questions

- 1 **Describe** the hostile business environment present, including facts and characteristics of the businesses involved.
- 2 **Explain** the challenges presented by both a hostile business environment and a dynamic macro environment. **Identify** opportunities and threats present in this business situation.
- 3 **Explain** how News Corp and Fairfax Media are seeking to achieve increased efficiency and effectiveness, and their reasons for cooperating.

Socio-cultural trends can influence consumer buying behaviour and thereby market share in mature industries. An example is businesses in the chocolate and confectionery manufacturing industry; this industry has experienced changes in customer preferences in recent years based on rising concerns about the amount of fat and sugar being consumed and the perceived link with health concerns such as diabetes and obesity. The consumer trend towards being more health conscious is a significant threat to this industry, while posing an opportunity for others.

To successfully operate in a dynamic, often hostile environment, all businesses must be aware of environmental conditions and trends and alter their strategic direction accordingly. This involves scanning the macro environment and building knowledge about customers, competitors and other relevant stakeholders. This will enable strategic actions to pursue opportunities, while safeguarding against threats.

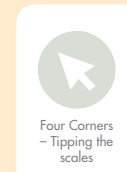
INQUIRY



Socio-cultural trends and the impact on strategic planning

Context

According to an ABC *Four Corners* investigation titled 'Tipping the scales' (30 April 2018), Australia is experiencing an obesity and diabetes epidemic, with 60 per cent of Australian adults classified as overweight or obese. By 2025 that figure is expected to rise to 80 per cent. Sugar consumption has been linked to this trend. Australians consume large amounts of sugar in their food and drinks. It has been claimed that the food and drink industries have an undue influence on public health policy and a sugar tax has been proposed.



Task

You are to conduct an inquiry into business operations in the sugar industry, focusing on a segment, such as carbonated beverages, confectionery, snack bars or cereal, to answer the questions below.

- 1 Research and **select** a competitive business – for example, Coca-Cola or PepsiCo, Nestlé or Kellogg's – operating in the food and beverage industry, whose products have been identified as high in sugar content, and **identify** the key stakeholders in the business situation. **Interpret** the perspectives and objectives of the key stakeholders. (Tip: use a power interest grid.)
- 2 Conduct research to **select** business data and information that **identifies** the business product range, who the business's key competitors are and other environmental information relevant to the context.
- 3 **Examine** the similarities and differences between its product range and that of the leading competitor. You may **create** a Venn diagram to illustrate this relationship.
- 4 **Select** data and information to complete a SWOT analysis, from the perspective of the selected business, to **analyse** the business's situation.
- 5 **Interpret** the likely effects of the environment on the business outlook to **draw conclusions** about the competitive situation and implications of strategic planning.
- 6 **Create** a persuasive communication about the proposed changes to laws and how these changes could impact on business operations – be mindful of audience and purpose.



Shutterstock.com/photoka



Figure 4.5 Socio-cultural trends, such as an increased focus on the effects of over-consumption of sugar in food and drinks, can influence strategic direction in hostile competitive environments. The health star rating allows consumers to make informed choices based on nutritional value.

Challenges of operating in hostile competitive environments

Hostile environments and market power

As seen in *Business for QCE Units 1 & 2*, there are four broad market structures. These range from perfect competition, where there are many sellers producing identical goods and price cannot be controlled by an individual business, through to a pure monopoly with only one producer or seller, which is typically able to set the market price and is protected by barriers preventing the entry of new businesses. Between these extremes are monopolistic competition, where an industry has a large number of businesses that employ differentiation strategies, and oligopolies, where a few large businesses dominate the industry.

Monopolistic competition

Monopolistic competition is characterised as having a large number of businesses that offer similar, but slightly different, products to the market. Each business seeks to differentiate itself from competitors based on its **unique selling proposition (USP)**, to achieve some power in the market. Without a clear USP, the business will be forced to compete based on price. Examples of industries that often have many small operators are restaurants and hotels, which differentiate based on factors such as location, range of products offered and personalised service. The strong growth in Australia's cafe culture and the trend towards independent coffee shops and boutique coffee roasters is an example of strong competition in a monopolistic market.

GAINING INSIGHT



Independent coffee shops

Dominance of the independent coffee shop

The coffee shop industry in Australia, unlike that in many other countries, is not dominated by large global coffee shop chains, but instead remains highly fragmented, with a high proportion of single-store independent coffee shops – although chains such as McCafé, Starbucks and Gloria Jean's do have a presence.



iStock.com/ArisSu

Figure 4.6 Cafe culture has become firmly entrenched in urban Australia, with many independent businesses competing for a share of the lucrative market.

While Starbucks has been successful in many countries, Australia proved quite a challenge. Starbucks opened its first stores in Australia in 2000, and within a few years it had over 80 stores nationwide, but it had to close a large number of them as they were not as successful as hoped. There are now just 23 Starbucks coffee shops across Australia. Global chains have failed to take hold of the Australian market because independent shops already had

a well-established position offering the type of experience that Australian customers have grown to expect: familiarity, intimacy and personal service.

Specialty coffee

Coffee drinking is, in fact, a diehard national habit with real estate sold on its proximity to cafe strips; local baristas, roasters and an increasing number of growers have world class qualifications.

Source: Donna Wheeler, www.lonelyplanet.com, 2010

For many people, Australia is synonymous with specialty coffee, and indeed, the specialty coffee industry has seen significant developments in the last 10 years, with higher quality coffee available, more independent roasters emerging and travelling to countries of origin, and consumers expecting more diversity in coffee taste. As with other markets for specialty coffee, the issue of traceability in global production chains has been brought to the fore, and is something many consumers are now interested in.

What is it that coffee shops in Australia are doing so well? Apart from having well-trained baristas and high-quality coffee, many have developed a reputation for high-quality food offerings, as well as a relaxed and welcoming atmosphere. There are plenty of blog posts and webpages with tips about the best coffee shops to visit, including '10 best cafes for coffee lovers in Melbourne' from Culture Trip and 'A coffee shop tour of Brisbane' from PerfectDailyGrind – even BuzzFeed has its own suggestions for the Australian coffee shops you need to visit. Australia is home to many independent coffee shops that are attached to roasteries, too, from

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

Ona Coffee in Canberra to Single O in Sydney and Market Lane in Melbourne. While these roasters are well known to many in the Australian coffee scene, there are a whole host of other roasters – those that produce enough to sell wholesale to other coffee shops, as well as micro-roasters producing just enough beans to supply their own shop.

Australian coffee shop culture has reached beyond national borders, with its influences stretching across the globe. Beyond the 'flat white' that has come to feature on so many coffee menus, Australian coffee culture is now being transferred to cities across the

globe – in part due to baristas travelling and taking their ideas and skills with them, and partly due to growing awareness of Australian coffee shop culture. Bluestone Lane in New York City in the USA has a series of coffee shops that are modelled on the coffee culture of Melbourne, and has to compete with a range of other coffee shops that imitate the Australian coffee shop style, with high-quality coffee, food and often table service. Clearly, the Australian approach to coffee, coffee shops and coffee culture is one that appeals not only to its national audience but across the globe, too.

Questions

- 1 **Explain** why the specialty coffee industry is considered to be monopolistic.
- 2 **Select** data and information about the Australian coffee industry to **determine** why large corporate chains such as Starbucks and Gloria Jean's have failed to dominate this market.
- 3 **Interpret** your research to **draw a conclusion** regarding the influences on consumer buying behaviour in this market and how this impacts on marketing strategies.
- 4 **Create** a short survey to research coffee habits and behaviours in your community. Present your findings in graphs and tables.

Oligopolies

Industries that reflect an oligopoly market structure are highly competitive and often hostile. As there are fewer businesses in the market, any action or strategy initiated by one business will be noticed and reacted to by the others. This means that each business will carefully monitor its rivals as it fights to maintain its share of the market. **Strategic interaction** is utilised so that each business can perform in a way that considers the anticipated behaviours and strategies of its rivals. This will include use of analytical tools such as SWOT analysis and competitor profiling.

For a true oligopoly to occur, the leading four businesses in the industry should account for between 60 and 80 per cent of the market. A report by the Grattan Institute (December 2017) titled 'Competition in Australia: Too little of a good thing?' highlighted that a few major sectors, including banks and insurers, have seen competition become more concentrated, while the supermarkets have become slightly less concentrated, losing market share to international arrivals Aldi and Costco.

Where only two businesses dominate a market, with significant market share and barriers to entry due to economies of scale and strong brand loyalty, this is deemed a duopoly.



Strategic interaction: found in highly concentrated markets, it involves acting in a way that accounts for the anticipated behaviour and strategies of rival businesses

GAINING INSIGHT



The power of sports drinks

According to a Roy Morgan Research study (August 2015), 1.5 million Australians aged 14 years and over consume sports drinks such as Powerade, Gatorade and Staminade in any given seven days. Men are twice as likely as women to drink these beverages, and people under the age of 25 are more likely to consume them than any other age group. Powerade, part of the Coca-Cola product portfolio, is the market leader, with 58 per cent market share, and its rival Gatorade, owned by PepsiCo, holds 33 per cent. Australasian brand Maximus, currently in third place, holds only 7 per cent market share.



Figure 4.7 Powerade and Gatorade dominate the sports drink market in Australia, while the third-placed brand is hotly contested.

Questions

Select either Powerade or Gatorade and answer the following questions.

- 1 Using market segmentation (refer to *Business for QCE Units 1 & 2*), define the target market of Powerade or Gatorade in Australia.
- 2 **Explain** the differentiation strategy used by Powerade or Gatorade to achieve a competitive advantage. You may use a positioning map, as seen in Units 1 & 2, to illustrate the relative positioning of competitors.
- 3 **Select** data and information to complete a SWOT analysis.
- 4 **Interpret** the SWOT analysis to **draw a conclusion** about the level of competition in the market.
- 5 **Explain** the challenges faced by businesses with much smaller market share, such as Maximus and Staminade, as they operate in this environment.

Market power

Businesses that hold strong market power, such as supermarkets and those in banking and domestic air travel, must be aware of laws around how they use that market power, or risk finding themselves in breach of the ‘misuse of market powers’ laws in the *Competition and Consumer Act 2001* (Cwlth). Section 46 of the Act says that a business with a ‘substantial degree’ of market power must not engage in conduct that could substantially lessen competition in the market. This means that businesses that have power in their market must be aware of marketing and operations strategies and whether they could lessen competition – for example:

- pricing strategies such as penetration and loss leader pricing, which, if used to aggressively undercut competitors, can reduce competition and be viewed as misusing market power
- strategies related to the introduction of new product lines and expansion into new markets, where the purpose may be to lessen competition
- restricting access to essential inputs, which could impact rivals or deter them from competing in the market
- loyalty rebates, whereby a business offers customers long-term supply terms that are tied to very large quantity requirements, limiting them from making purchases elsewhere.

INQUIRY



Market power: Winners and losers

The board game 'Monopoly' is a game of strategy, where the eventual winner plots to bankrupt competitors and come out on top. How different is the modern-day market to this game?

Conduct an inquiry using the overarching question above, in which you:

- form small groups of two or three students to research an industry that operates as a hostile competitive market in Australia
- develop a viewpoint on the merits of a market without any intervention, and one in which the government and other bodies impose regulations on competition and business conduct
- **select** data and information relating to the competitive hostile environment to complete a power interest grid
- **interpret** the relationships, patterns and trends present to **draw a conclusion** about the market power present and any need for regulation.

A starting point is to visit the Australian Competition and Consumer Commission website and the site of consumer advocacy group Choice.



Figure 4.8 Competing in a hostile environment is a game of strategy.

Challenging characteristics of hostile environments

A mature industry, with hostile market conditions, is often associated with a cost-competitive environment and declining profit margins. This was seen in the case of TerryWhite Chemmart (page 104), where the arrival of discount pharmacies intensified competition and has driven profit margins down. To combat this, TerryWhite Chemmart has adopted a competitive differentiation strategy from its rivals, as discussed in *Business for QCE Units 1 & 2*, and value-added services to build its brand based on professional healthcare advice, rather than focusing on price.

Hostile environments often result in low profit margins. This means, the difference between a product's selling price and the cost of acquiring or producing the product ready for sale is low or has reduced due to competitive pressure. Without a reasonable profit margin, a business cannot meet its expenses and may have difficulty achieving acceptable financial outcomes. This draws into question the efficiency of the business model and the effectiveness of how the business operates. In a low-margin environment, businesses need to maintain competitive pricing strategies and aim to have a high turnover of stock. A low-margin, low-turnover business will struggle to generate enough profits to survive the maturity stage of the life cycle. Low-margin, high-turnover businesses, such as Kmart and Bunnings, have created a competitive position based on price competition and the careful management of cost structures.

Not all successful businesses in a hostile environment operate a low-margin, high-turnover business model. Strategies designed to improve profit margins include adopting a niche marketing strategy. This means knowing your unique selling proposition (USP) and building on it as a competitive point of difference. Having a well-communicated USP can reduce direct competition and help engage customers, to build a positive customer relationship and long-term loyalty.

Symptomatic of a hostile environment is the decision to increase product line width and depth to stem lost sales and to attract customers through a wider product offering. Product variations, including different packaging sizes and types, can appeal to a wider market. Businesses must balance this strategy against creating over capacity, which will put pressure on profit margins, potentially creating a vicious cycle of low margins.

GAINING INSIGHT



Brooks: We make running happy!

Brooks embraces a running-as-lifestyle philosophy and produces gear essential for runners, not consumers – gear that's designed to be put to hard use – high-end shoes for people who love to run. This philosophy has seen Brooks become the top selling brand at US specialty running stores and the shoe most worn by runners in the prestigious Boston Marathon for the past four years. That said, Brooks competes in a market characterised by intense competition against sporting goods giants such as Nike, with \$5.2 billion (US) in annual revenue and a third of the market. Brooks is so specific to running that consumers who participate in other sports often don't know the brand.



Our Story

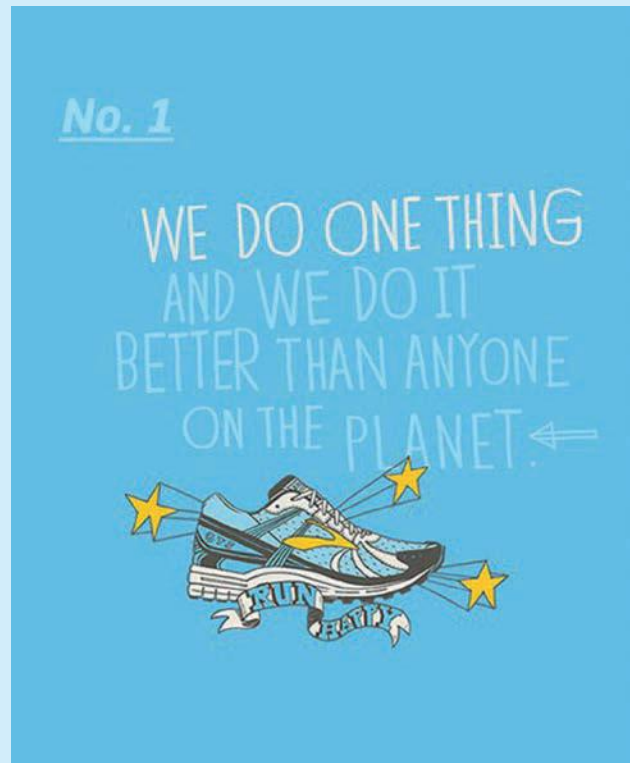
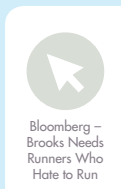
BROOKS RUNNING WEDNESDAY, DECEMBER 13, 2017

Brooks Sports is a leading running company that designs and markets a line of high performance running shoes, clothing and accessories. Entirely focused on the run, Brooks is recognised as the brand of choice among runners of all abilities. #RunHappy

Brooks Sports

Questions

- 1 **Describe** business facts and characteristics to establish if the athletics market is a hostile competitive market.
- 2 Using marketing segmentation, **define** the target market of Brooks and **determine** its positioning strategy in relation to this.
- 3 Visit the Brooks site to **explain** what it means by the phrase 'run happy'. How does this relate to the target market, positioning and branding strategy?
- 4 **Explain** the role of research and development in operational and marketing strategies at Brooks and how this has created a competitive advantage in its market.
- 5 **Analyse** the unique selling proposition (USP) of Brooks compared to two key competitors.
- 6 **Interpret** the relationships and patterns present in the USP analysis to **draw conclusions** about the marketing strategies of Brooks.



Brooks Sports

Figure 4.9 Brooks believes that 'a run can flat out change a day, a life, the world'.

QUESTIONS 4.1



- 1 **Describe** the characteristics of a hostile competitive environment and provide an example of a hostile industry.
- 2 **Explain** the role of having a strong unique selling proposition (USP) when operating in a market characterised as hostile.
- 3 Using an example, **explain** the role of strategic interaction in a hostile competitive environment.
- 4 **Define** market power and outline strategies a business may use to achieve or maintain this power. **Examine** the challenges of sustaining market power while operating within the limits of the *Competition and Consumer Act 2001* (Cwlth).
- 5 Select a mature business operating in a competitive market and **interpret** its USP. **Examine** how this USP supports its position in the market.

Key learnings

You will learn the following about the influences on the competitive situation through examining:

- competitive rivalry
- strategic analysis
- the role of research and development.

The competitive situation

The competitive rivalry in some industries is renowned, such as that between Woolworths and Coles, Qantas and Virgin, Coca-Cola and PepsiCo, Telstra and Optus. In hostile competitive industries, businesses are eager to understand their rivals' objectives, strategies and capabilities. A competitor analysis can be employed to help understand the following:

- what drives the competitor, as seen by its objectives
- how the competitor is positioning itself, as seen through marketing messages
- what the competitor is doing and can do, as seen by its existing strategies
- what the competitor's strengths and weaknesses are, or its capabilities.

Profiling competitors involves gathering data and information about their business strategies and interpreting the information to form **competitor intelligence**. This may include information such as what prices they charge,



Figure 4.10 Competitor analysis

Competitor intelligence: data and information gathered by a business to understand its competitors and their objectives, strategies and capabilities

their distribution network, who their target market is and how they communicate to potential customers. Conducting a competitor profile will allow the business to analyse its competitive situation and identify any gaps in the market. Such insight can be used to interpret the degree of threat posed by each rival and to make effective strategic decisions on how to compete with rivals.

See the Business Queensland website for a competitor profile chart.



Steps to create a competitor profile

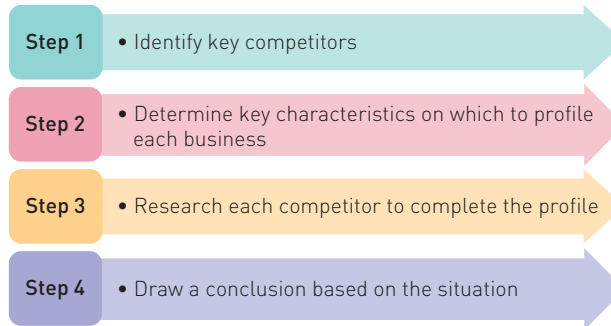


Figure 4.11 How to create a competitor profile

GAINING INSIGHT



The competitive position of Optus: Is No. 2 enough?

Mobile telecommunications is a concentrated and highly profitable sector, dominated by three main players – Telstra, Optus and Vodafone – that jointly hold approximately 78 per cent of the mobile phone market. A number of smaller service providers, including Virgin and Aldi Mobile, are also seeking market share in the industry and creating competitive rivalry. Optus has historically been the ‘number two telco’ in the Australian market, holding market share of between 20 and 25 per cent for its mobile service.



Figure 4.12 Optus is the second-largest telecommunications company in Australia.

Questions

- 1 **Select** data and information to complete a competitor profile of the three main businesses, based on market share, in the mobile telecommunications industry. **Draw a conclusion** as to the competitive advantage of the dominant company in the industry.
- 2 **Explain** the role of competitor intelligence in strategic planning.
- 3 **Explain** the key success factors in this industry and outline where Optus has a competitive advantage.
- 4 **Interpret** the relationships, patterns and trends in the competitor profile to **draw conclusions** about how Optus should aim to compete against its rivals.
- 5 **Create** a business email to the chief executive officer of Optus to **communicate** your findings.

Tip: you can use the customer profile chart developed by Business Queensland.

Strategic analysis

Having gathered and interpreted information about key competitors, using the competitor profile, a business should engage in detailed strategic analysis of its current situation. This includes understanding:

- where the business is currently
- what the business might be influenced by in its environment
- how the business could respond to likely changes
- what the likely timing and importance of such changes or trends is.

As seen in *Business for QCE Units 1 & 2*, a SWOT analysis is a key strategic analysis tool. This will enable managers to examine the most likely successful future strategies, and possible constraints. A key consideration in creating a competitive advantage is ensuring the business's strengths and potential opportunities align. This also helps the business strategise about overcoming any perceived weaknesses.

Conducting both a competitor profile and a SWOT analysis will provide managers with considerable insight into the competitive situation. Applying this information when devising strategy and potential organisational change should boost the long-term plan of action across all business functions and support achievement of business goals.

QUESTIONS 4.2



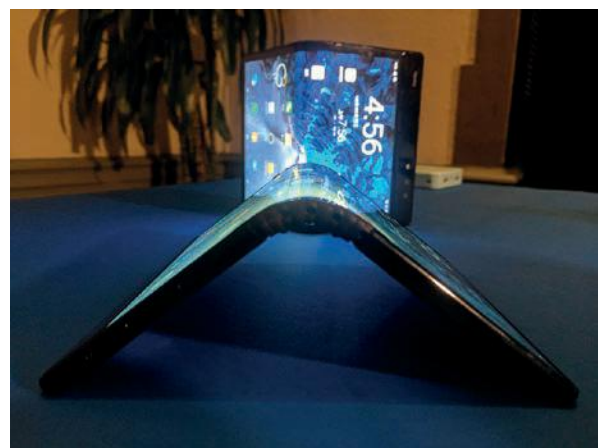
- 1 **Explain** the role of competitor intelligence in a hostile competitive market.
- 2 **Explain** why it is important to analyse the current strengths and weaknesses of a business before making strategic decisions.
- 3 Using either Optus or Brooks from the previous 'Gaining insight' case studies, complete a SWOT analysis of the company's current business situation.
- 4 **Interpret** the SWOT analysis for Optus or Brooks to **draw conclusions** about the competitive situation and implications for strategic planning.
- 5 **Identify** another business that has a clear positioning strategy and a strong USP that distinguishes it from the competition. **Explain** how it achieves its point of difference and critique whether you believe it is sustainable.

The role of research and development

Research and development (R&D) is a valuable strategic development tool for mature businesses seeking to remain competitive. Many large companies have departments devoted to R&D, investigating potential new products or services, looking to strengthen and diversify existing products or services or uncovering more productive business technologies or systems. This aligns R&D with both the marketing and operations functions.

Mature businesses may invest in R&D when their product lines become outdated or competitors launch similar products. Research and development is vital for the continued success of all businesses, especially those in hostile environments. Benefits of R&D investment to business include:

- *competitive advantage* – Apple's launch of the iPhone in 2007 catapulted it ahead of competitors such as Nokia, Motorola and BlackBerry. Consumers still queue when a new model of iPhone is released
- *customer loyalty* – Netflix has been a pioneer in its industry, which has enabled it to establish its brand and relationship with customers and retain loyalty through innovating and original productions
- *reputation* – engaging in R&D can strengthen a brand and its reputation. In the automotive industry, Volkswagen leads the way in R&D, spending €13.67 billion during the 2016–17 financial year
- *publicity* – the anticipation of a new product launch, or the release of a new model, can generate a frenzy



AP Photo/Michael Liedtke via AAP Photos

Figure 4.13 Samsung demonstrated the Infinity Flex foldable phone at its Samsung Developers Conference in November 2018.

of media interest. Samsung displayed its innovative smartphone–tablet hybrid, which folds down to the size of a normal mobile phone, at the Samsung Developers Conference in San Francisco, demonstrating the folding features on stage and generating global interest (Figure 4.13)

- *intellectual property* – this can set a business apart from the competition, encourage increased sales and allow a business to command a premium price. The Dyson brand is synonymous with household technology invention, with the company filing patents since the early 1980s and vigorously defending them when necessary to maintain its market position
- *new markets* – both domestically and globally. The launch of a new product line can appeal to a new market segment
- *lower costs* – Volvo has communicated that all cars manufactured after 2019 will be powered with an electric or hybrid engine. With the cost of components, including electric batteries, constantly declining, the cost of producing and marketing such vehicles is feasible
- *efficiencies in manufacturing* – uncovering improved ways to manufacture existing products can allow a business to reduce its costs of getting a product to market and achieve economies of scale. This should also lead to greater profit per item.



Figure 4.14 Dyson's focus on research and development, supported with intellectual property protection, provides a competitive advantage.

GAINING INSIGHT



Apricot taste test will determine if there is still an appetite for an Australian apricot industry



Figure 4.15 Researchers have spent over 35 years creating apricot varieties with new improved tastes they believe will boost the competitiveness of local produce.

The future of the Australian apricot industry is likely to rest on the success of new varieties designed with improved flavour and ability to grow in the Australian climate. The 17 apricot types were developed by the South Australian Research and Development Institute (SARDI) at the Loxton Research Centre over 35 years with million of dollars of government and industry funding.

Leader of fruit tree breeding at SARDI Darren Graetz said the program was in the works for so long because it took five to seven years for just one generation of crops to be grown and picked. Previously growers were selecting seeds from overseas countries that were not suited to local climates, hampering the success of the Australian market.

Mr Graetz explained researchers had to grow one variety, continually cross breed it with others, until a variety with the best qualities was produced. The final 17 varieties unveiled have a supposed competitive advantage with cropping reliability, better dry ratio and more diverse taste options.

Mr Graetz said this would mean growers would see better return from their produce which could be grown more reliably and at a better quality. 'The quality of the product you're looking at is generally spectacular,' he said. 'It's highly flavoured and of an impressive quality. We've done a lot of consumer blind-panel testing. We've actually got the scientifically proven numbers showing these things are a lot better tasting and a lot better consumer experienced.'

Opportunity to open new export market

Mr Graetz said there were high hopes Australian apricot growers could open up new markets for dried apricots in the Middle East. 'There's a few industries we can actually develop out of this,' he said. 'We haven't really had an export industry for dried fruit. A lot of this sort of material could go into Middle Eastern-type markets where it's used as flavourings and things like that.'

Stone-fruit grower Jason Size has been trialling the new apricot varieties for more than five years so he can decide whether to recommend them to other growers. Mr Size said he was impressed with the flavour and predictability of the new crops. 'The consumer is always asking and demanding better-eating fruit, and these varieties certainly give that,' he said. From a marketing point of view, the consumer is certainly going to be wowed by just eating one piece of this fruit.

Last-ditch effort for the industry

Over the last few years Australia's dried fruit market has been struggling to compete on the market with better quality imports selling at cheaper prices. Dried Tree Fruits Australia Chairman and grower Kris Werner has trialled all of the new strains of apricots



iStock.com/seven75

Figure 4.16 Research into new apricot varieties aims to support struggling stone fruit growers and the dried fruit industry in Australia.

that have been released, and some that haven't. He has encouraged other growers to do the same, labelling it a last effort to get the dried fruit industry back on track.

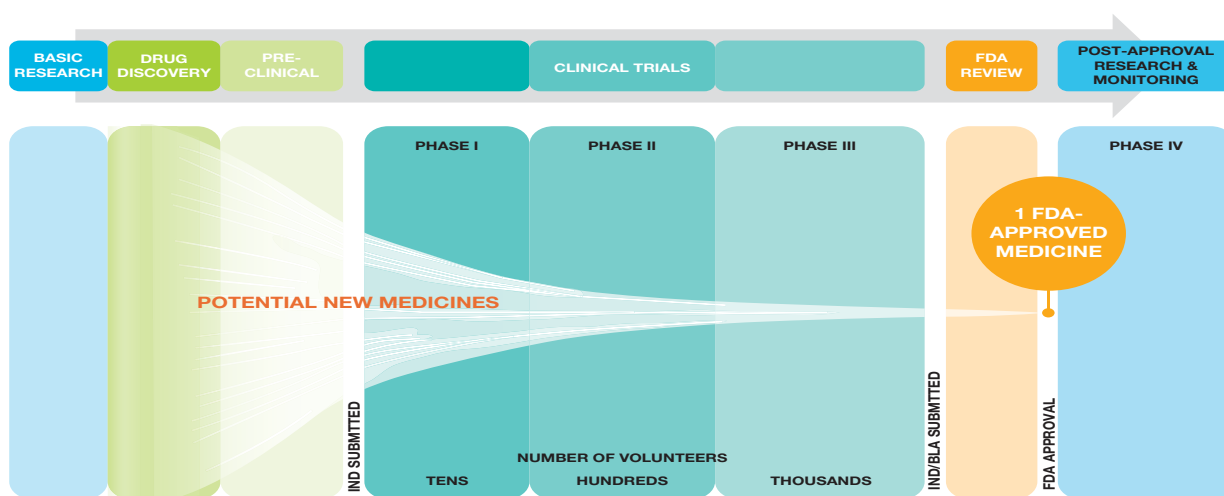
'This is [the] last roll of the dice, if this doesn't work I think the industry's going to fall in a heap,' Mr Werner said. But he was confident the new varieties would deliver on promise. 'From what I've seen they produce nice, big, meaty fruit; the drying ratio's nearly half as much as the other varieties that we've currently got which then translates to the bottom line,' he said.

Source: Nadia Isa and Sowaibah Hanif, ABC News, 25 September 2018

Questions

- 1 **Describe** the business situation and **identify** the key stakeholders present.
- 2 **Determine** the benefits to be gained by investing in research and development for the key stakeholders identified.

- 3 **Explain** the role of research and development, in terms of operations and marketing, in this business situation and **draw a conclusion** about the consequences of failing to engage in this process for the industry.



Pharma, 26 February 2015. <https://www.pharma.org/graphic/the-biopharmaceutical-research-and-development-process>

Figure 4.17 From drug discovery to US Food and Drug Administration (FDA) approval, developing a new medicine takes at least 10 years on average and costs approximately \$2.6 billion.

Research and development can also present challenges to businesses:

- It can be a very expensive exercise and has an opportunity cost – could the finances invested in R&D have been better allocated to marketing existing products?
- R&D does not guarantee an invention or a breakthrough in processes.
- Invention of new products does not guarantee market acceptance – Coca-Cola faced consumer backlash in Australia as it phased out Coke Zero in favour of Coke No Sugar.
- Leading competitors will also be investing in R&D, which may result in them launching successful new products or devising more efficient processes.

INQUIRY



R&D: Weighing the costs and benefits

You are to conduct an inquiry into a business, product or process that has had extensive research and development. You will examine the role of R&D, the associated costs and benefits, and interpret how it relates to strategic planning and a sustainable competitive advantage. Some examples to consider are the Gardasil 9 vaccine, the Tesla Powerwall and self-driving cars.

- 1 **Select** data and information relating to your context to **create** a SWOT analysis, focusing on the role of R&D in the example situation.
- 2 **Analyse** the strengths, weaknesses, opportunities and threats identified to **draw conclusions** about the implications of investing in R&D.
- 3 **Evaluate** the R&D strategy for the business, to **make a decision** and **propose** a recommendation, using criteria, about continued investment in R&D.
- 4 **Create** a one-page business report extract to **communicate** your findings. Use the SWOT analysis to support your explanations.

Operating efficiently in a hostile environment

Operations management requires a strategic focus as it impacts on the functional areas of marketing, finance and human resources and on the levels of business competitiveness. The operations system establishes the costs of production and quality standards and directly impacts on provision of a quality product within the scope of financial resources of the business. Operations managers oversee the production system (as seen in Units 1 & 2) and make strategic decisions around systems, facilities, processes and technology that aim to achieve a competitive advantage.

Key learnings

You will learn the following about operating efficiently in hostile competitive environments:

- project management
- outsourcing
- technologies in operations.

Project management

Projects are separate from day-to-day business activities. They are unique one-time operations designed to achieve a specific set of objectives. Projects bring people and resources together temporarily for activities that vary in their degree of complexity, such as:

- relocating office spaces
- building or road construction
- an event
- introducing a new product to the market
- setting up a new IT system
- designing a new operations facility (plant).

Project: a unique, one-time operation, designed to achieve a specific set of objectives



As a project is temporary, it will have a defined beginning and end date, and therefore defined scope and resources. A **project team** will usually be created, comprising people with the skills necessary to complete the project. Team members will often be from different parts of the organisation, both functionally and geographically, and may include people external to the business. Members of the project team will be chosen based on their background and experiences as they relate to the project's purpose. The team is disbanded once the project is completed.

Project management methodology has traditionally followed what is known as the **waterfall method**. This method is linear, having phases that move sequentially from project conception through to closing. Considerable development and documentation of the process occurs during the initial phases to minimise risk. Each stage is completed before the next one can commence. This methodology is suitable when the scope is clearly definable in advance or when contract terms limit changes. It is typically used in manufacturing and construction.

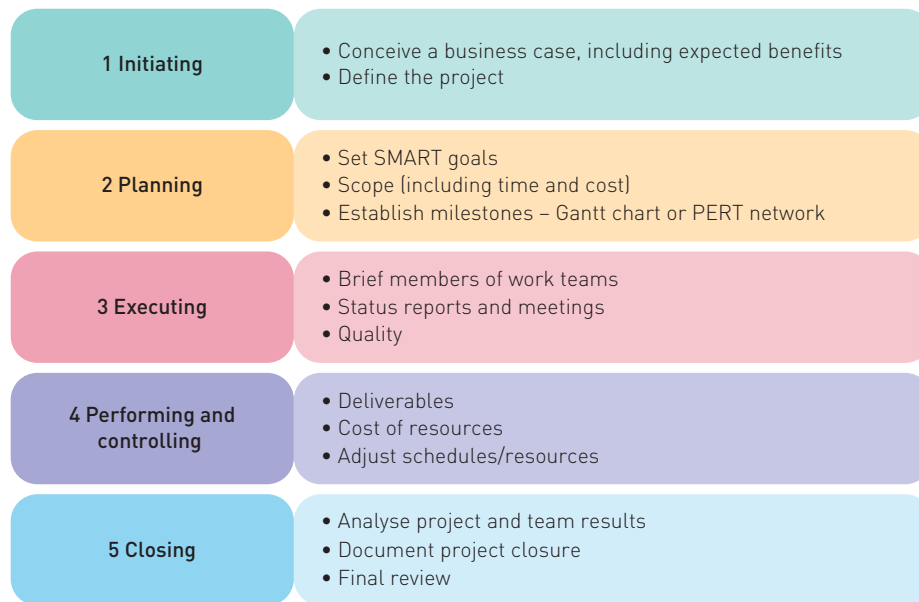


Figure 4.18 The five phases of traditional project management

To be successful, a project must be carefully planned and managed, typically using five phases, as seen in Figure 4.18. This involves managing resources including

- *time* – scheduling activities to show what tasks will be completed and when work will be performed
- *money* – setting and managing the budget, along with the expected profit or cost savings to be achieved
- *resources* – people, equipment and materials
- *scope* – defining the objectives, size and scale of the project, quality or range of functionality, along with key deliverables – the tangible outcomes to be achieved.

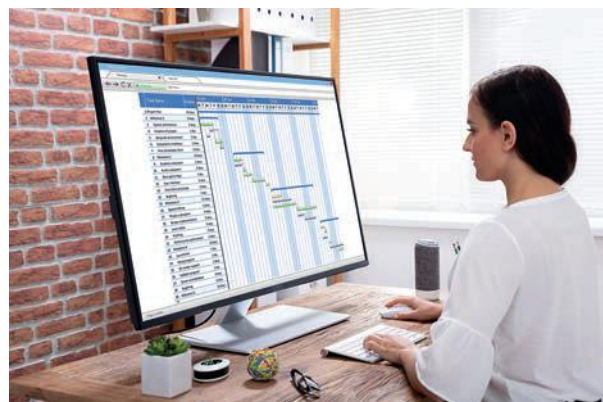


Figure 4.19 Project management software can help plan and control activities and resources for efficient operations.

Project team: a work team, created for a particular task or project, whose members are chosen based on their background and experiences being directly useful to the team's purpose

Waterfall method: a traditional, linear approach to project management, with phases that move sequentially from project conception through to closing

Project management and operational efficiency

Time management is a key to success with project management, especially when the delivery date is a key performance indicator (KPI). To achieve operational efficiency, it is vital that members of the project team make productive use of their time. Some businesses, notably in construction and mining, utilise mobile apps to accurately track hours worked and tasks achieved by employees. With project team members often geographically dispersed, instant communication through apps and teleconferencing can save time and money, eliminating the need for on-site visits and face-to-face meetings. Making more productive use of employee time and reducing the need for unnecessary travel will optimise the project budget.

Regardless of its size, all projects have milestones at the beginning, during the process and at the end. This creates a path from initiation (phase 1) through to closure (phase 5), as shown in Figure 4.18. There are many project management technology systems, ranging from software such as Microsoft Project, to web and mobile applications such as Asana and Jira to track technical development. In Chapter 10 of *Business for QCE Units 1 & 2*, the role of Gantt charts in scheduling was introduced. The Gantt chart is a tool used in traditional project management to show the relationship between tasks and allow monitoring and control of a project. Using the right tools and technologies for the project will enhance the operational efficiency, helping the project manager keep activities within scope and on time.

The **agile method** of project management is a more contemporary methodology, typically used in innovative, fast-paced environments such as software development or for complex situations where project requirements are subject to change. Rather than being sequential, it is a flexible approach that seeks to deliver projects more quickly, with successive iterations, rather than one huge release at the end of the project. Agile management aims to make frequent releases, with incremental improvements in each iteration. This involves constant collaboration with the customer, feedback loops and the capacity to respond quickly to change. Rather than using tasks and schedules, the project team assembles for a fixed duration, known as a 'sprint', to achieve key deliverables, based on established priorities. A series of sprints may be required to deliver all aspects of the project at the level of functional quality intended. An example of an iteration is seen in Figure 4.20.

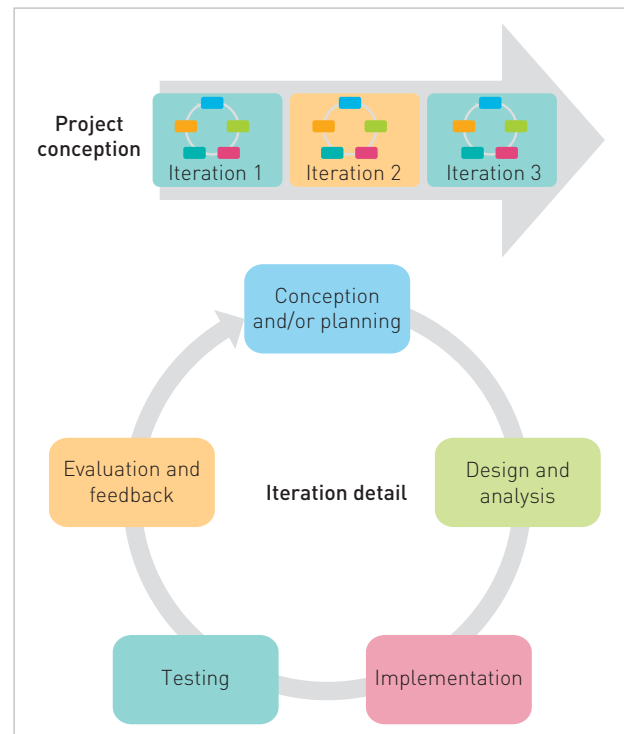
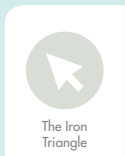


Figure 4.20 An agile methodology sees a project completed in iterations, often referred to as sprints.

QUESTIONS 4.3



The Iron Triangle

View the clip titled 'The Iron Triangle'.

- 1 **Explain** the relationship between time, cost and quality (scope) and how a change to one of these variables will influence the nature of the project.
- 2 **Research** the concept of the iron triangle to **distinguish** between its application using the waterfall and agile methodologies.

Agile method: a flexible approach to project management that seeks to deliver projects more quickly, with successive iterations, rather than one huge release at the end of the project

Program evaluation review technique (PERT)

The **program evaluation review technique (PERT)** is a visual tool used for scheduling projects, developed by the US Navy in the 1950s, much like the Gantt chart introduced in Units 1 & 2. However, while the Gantt chart is a bar chart, PERT is a network or flow plan for completing a project that focuses on meeting deadlines to improve operational efficiency. PERT shows the interrelationship between activities, and focuses on important dates, called milestones, with:

- the most important milestone as the final date for project delivery
- managers using **backward incremental planning (BIP)** from the project delivery date
- the project manager identifying tasks that must occur in sequence, based on predecessors, and those that can be done at the same time, which are known as concurrent tasks.

Developed along with the PERT network was the **critical path method (CPM)**, which also utilises a flowchart of activities and milestones. The critical path method focuses on the sequence of activities that requires the longest time to complete. These activities are assigned priority in terms of resources to ensure the project operates as efficiently as possible and is delivered on time. CPM seeks to achieve efficiency by identifying and eliminating unproductive time in projects and classifying activities in terms of priority. To calculate the critical path, the activities that form the longest path are added together to determine the shortest time possible, without delays, in which the project can be completed.

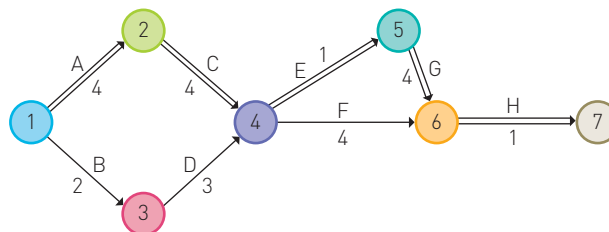


Figure 4.21 A PERT network showing the critical path of the project. The critical path is illustrated with the double-lined arrow and is projected as 14 weeks.

ANALYTICAL TOOL



How to create a PERT network

- Step 1** Identify the tasks or activities for the project – this may involve a brainstorming session to ensure all essential activities are listed. Determine whether any activities are predecessors (i.e. they 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 network. Various symbols are used to draw a network. Examples of these are:
 - a circle, which represents an event or milestone, typically the start or finish of an activity
 - an arrow, which represents the activity (noting that the length of the line does not indicate the length of the activity). A letter is written above the line to specify the activity and a number is written below the line to indicate the time required for the activity.
- Step 4** Join the arrows in the network and highlight the critical path using a double-lined arrow.
- Step 5** Once the project has commenced, use the PERT network to monitor and control the project.

Program evaluation review technique (PERT): a visual tool for scheduling projects in a network or flow plan that focuses on meeting deadlines to improve operational efficiency

Backward incremental planning (BIP): looks at the requirements from the due date backwards and schedules the process accordingly

Critical path method (CPM): a scheduling technique that focuses on the sequence of activities that requires the longest time to complete. These activities are assigned priority in terms of resources to ensure the project operates as efficiently as possible and is delivered on time

Create a PERT network

You work for Sunny Builders, a business specialising in commercial buildings. You have been given the following information related to a project to build an office block:

	Activity	Predecessor	Weeks
A	Approve design	--	2
B	Dig underground garage	A	6
C	Erect frame	B	8
D	Construct floors	B	7
E	Install windows	B	6
F	Install roofing	C	3
G	Install internal wiring and technology	D, F	3
H	Install lifts	E	5
I	Floor coverings	G, H	3
J	Interior trim and doors	G, H	2
K	Finalise arrangements	J	1

- 1 **Create** a PERT network, assuming the project starts on 1 July of the current year.
- 2 **Identify** the critical path for the project and estimate the duration of the project.
- 3 If work on activity F – Install roofing – was delayed, **explain** what impact this might have on the project and **propose** a solution to the situation.

GAINING INSIGHT



The Ausenco Business Systems (ABS) project



About Ausenco

Ausenco began in Brisbane in 1991, with a small team of talented engineers offering innovative solutions to the mining industry. Today it is a global company providing consulting, engineering, project delivery and asset operations, management and optimisation solutions to the minerals and metals, oil and gas and industrial sectors. With a global team based across 26 offices in 14 countries, Ausenco has a commitment to innovation and ingenious solutions that create value for clients.

The project: Ausenco Business Systems

2009: Request for proposal (RFP)

Ausenco had grown rapidly, both organically and through acquisition, which resulted in parts of the business across the globe using disparate systems and processes. This presented a significant opportunity to standardise systems and enhance operational efficiencies with an Ausenco Business System (ABS). A decision was made to implement a global Enterprise Resource Planning (ERP) tool,

for example Oracle e-business, Microsoft Dynamics and SAP, which all have finance, human resources and project capabilities. The RFP process reviewed a number of Tier 1 and Tier 2 ERP systems and eventually settled on Oracle e-business as the best-fit for Ausenco's needs.

The scope of the project was to fully integrate key areas of the business (below) on a global level, with a 'single instance', meaning out of one application / database:

- core finance – accounts receivable, accounts payable, cash management, general ledger
- projects – management, billing and costing
- core human resources and recruitment – a HR management system
- procurement and expense management
- corporate budgeting and forecasting
- time and labour.

2009–2011: Planning for implementation occurred. This involved refining the scope and rollout strategy, with the rollout determined to be by region. Ten key areas were 'white papered' to reach agreement on key decisions prior to project commencement. This agreement was critical to reducing costs and risk before the mobilisation of the project team rolled into the execution phase. This phase involved project

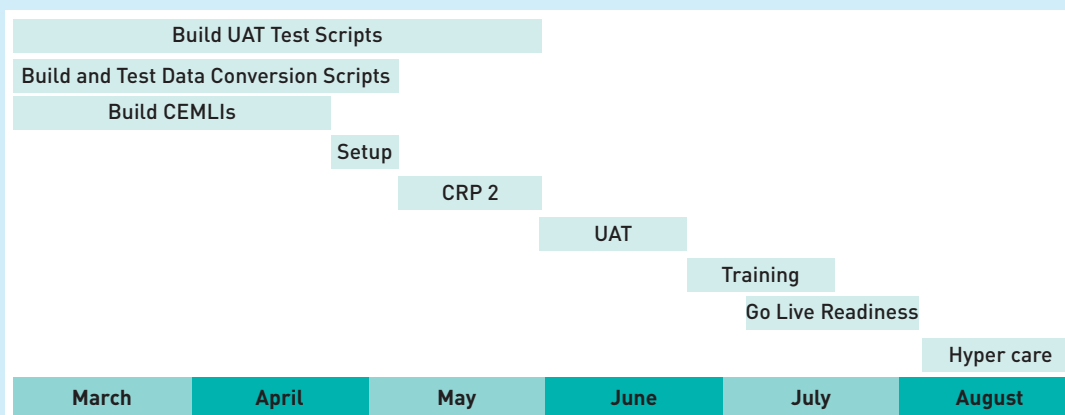


Figure 4.22 A sample of the project plan, using a Gantt chart

plans, an organisational chart, a scope of work, costings, a project Gantt chart and the creation of the project charter, which encompassed all key planning documents, notably the scope.

2011: The project formally commenced with the formation of a team which peaked at 30 people during the key phases and reduced over the course of the project as deliverables were met. This team comprised external contractors with specialist skills and internal people, sourced globally and led from Brisbane. Some internal team members were required to relocate to Brisbane for the project. Due to the specialised nature of the project, not all people resources needed were available in Australia, meaning external contractors were sourced from the USA and Europe.

2012: In September of 2012, Phase 1 of the project went live. This was Asia-Pacific and Africa. The focus then moved to Canada and the USA for Phase 2, with this phase going live in 2013.

2013: Phase 3, Peru and Chile, went live in November. This completed the formal roll out of the project and the ABS project team was formally disbanded with ongoing enhancement support and maintenance handed over to an internal team comprising a mixture of new staff and resources from the project. This team travelled globally to support the 'hyper-care' period which involved supporting the business in the products' use and application, with a focus on business improvement.

2014: A reporting tool was created as a follow-up to the project launch to leverage having a single source of data globally. A shared service centre was

also created in Malaysia for efficiency gains. Malaysia was selected as a cost-effective location for an offshore shared services office, rather than outsourcing transactional services as some other businesses elect to do. Malaysia provided a lower-cost operational model, with cheaper labour costs and government incentives for international corporations.

Project management methodology

The ABS project was conducted as a typical 'waterfall project' which reflects a traditional Gantt Chart system. Ausenco used Oracle Application Implementation Methodology (AIM) which has distinct phases staging the project. This is a traditional project management approach. The internal team has recently moved to an agile project management approach to lower costs, lower risks and better align deliverables with internal resources capabilities. The Jira software supports an agile process.

Outcomes

The ABS project was delivered on time and on budget. The project 'go-live' in each country

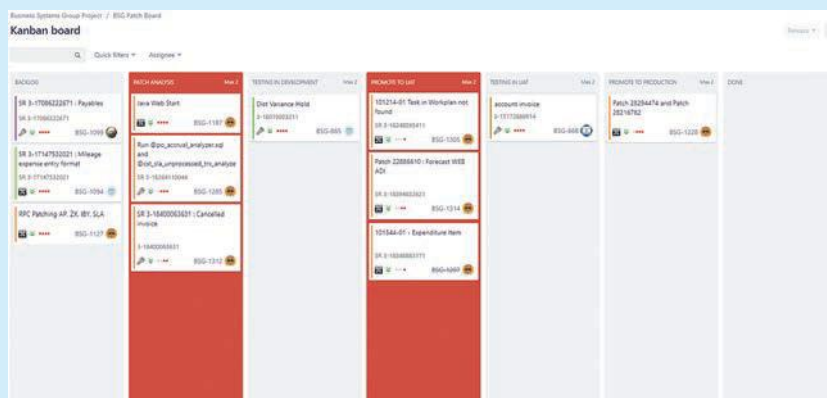


Figure 4.23 Jira software is an example of project management technology that supports a flexible methodology.

was so successful that standard month-end reporting deadlines were met in the first month of go-live and were able to be reduced for subsequent periods. The project created global system processes which directly enabled the creation of a shared services model for transactional processing. This reduced labour costs through increased automation and overcame duplication of effort that occurred globally. Data integrity has been significantly

improved by having consistent global work structures. This has led to improved reporting, allowing management to make more timely and informed decisions. This robust technological solution provided a scalable system that supports business growth and aligns with Ausenco's Business and Information Technology Strategic Plans.

Source: Courtesy Ausenco

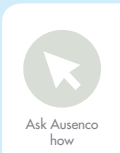


Courtesy Ausenco

Figure 4.24 Constancia Copper Project in Peru and Phu Kham Copper–Gold Project in Laos are examples of Ausenco's global projects.

Questions

- 1 View the 'Ask Ausenco how' clip on the Ausenco home page to **describe** facts and characteristics related to the business and its stage in the business life cycle.
- 2 **Explain** the methodology used for the Ausenco Business Systems project at its conception in 2009. **Identify** any changes to the methodology during the project and **interpret** the reasons



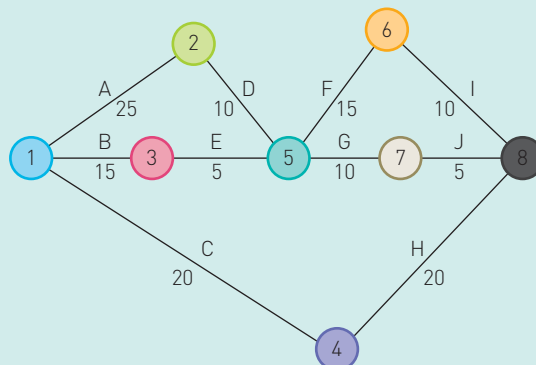
for a changed approach based on the business situation.

- 3 **Explain** how this project led to enhanced operational efficiency at Ausenco and how the project related to strategic development of the business in a competitive market.
- 4 **Explain** the relationship between project management technology and operational efficiency for Ausenco.

QUESTIONS 4.4



- 1 **Create** a table to **explain** the differences between a project manager and an operations manager.
- 2 **Explain** the role and importance of having a well-configured project team.
- 3 Use a Venn diagram to illustrate the relationship between the waterfall and agile project management methodologies. **Explain** to which business situations each method is most suited.
- 4 **Interpret** the PERT network shown to **identify** the critical path and **determine** the projected length of the project.



Outsourcing in competitive environments

Businesses at the maturity stage of the business life cycle are increasingly exposed to intense rivalry and international competition. A key way to remain competitive in often hostile environments is to achieve advantages through strategies such as outsourcing and the use of process technology. To realise an advantage, many businesses look to downsizing or eliminating non-core operations through outsourcing, either domestically or globally.

Outsourcing is a strategic decision to transfer certain activities in the business operations to external specialists. It is an increasing trend, with mature businesses seeking to maintain competitiveness by operating more efficient and lean business models. This can be achieved by outsourcing non-core activities to external providers who perform them more efficiently and effectively than if the task had been performed in-house.

According to Outsourcing Angels, a division of Red and Black Solutions that provides outsourcing solutions for business, around 80 per cent of Australian businesses outsource some activities. Together with cost-cutting, 65 per cent of business owners use outsourcing to access specific knowledge and skills, and for growing businesses, access the capacity to scale the business.

Outsourced businesses are typically specialists who perform tasks more efficiently and with greater effectiveness than could be achieved by keeping the tasks 'in-house'. Outsourcing is often referred to as business process outsourcing (BPO). Examples of outsourced activities include:

- operations activities, including all stages in the supply chain such as manufacturing, sourcing and logistics
- marketing activities, including website development, social media management and market research
- customer support, including call centres and technical support
- human resources tasks, including recruitment and training (refer to Chapter 3)
- accounting and finance activities, including payroll and preparation of financial statements (refer to Chapter 3)
- technology, including access to IT networks and software development
- administrative and legal services, including data entry, back office work and specialist legal advice.

The decision to outsource is a strategic one and requires businesses to assess the viability of the strategy in terms of whether it will be more efficient and achieve cost savings, where to outsource (locally or globally), the nature of the agreement such as length of time and KPIs and reliability. While outsourcing can present competitive advantages, there are also challenges to consider, such as:

- locating a suitable outsourcing partner, including drawing up complex contracts and service agreements
- that outsourcing too many, or the wrong types of, activities can undermine capabilities and cause a business to lose touch with knowledge, skills and expertise that are key to its long-term success.

Table 4.1 Advantages and disadvantages of outsourcing

ADVANTAGES	DISADVANTAGES
Ability to focus on core business functions by outsourcing secondary activities. This can increase productivity by managing time, money and other resources.	Potential quality issues, as control for outsourced tasks has been transferred. This includes less control over the production process.
Reduction in operating costs, including access to cheaper labour	Loss of jobs within the business, which can impact staff morale and result in negative publicity from redundancies
Access to skills and expertise not available within the business, especially for small to medium-sized enterprises that cannot afford permanent staff in such roles	Ethical questions arising from lack of transparency and traceability if outsourcing to very low-wage countries
Increased flexibility to utilise outsourced expertise only when needed, or access additional capacity if manufacturing	Customer resistance, such as to overseas call centres (see 'Inquiry' on Commonwealth Bank)
Strategic benefits including outsourcing to countries in different time zones to allow 24-hour operations, such as with call centres operating from India	Security of business systems and data (privacy) and protection of intellectual property as outsourced providers have access to confidential information
Access to the latest technologies by outsourcing to specialists	Communication considerations, including language, culture and time zones when operating global outsourcing

Outsourcing: a strategic decision to transfer certain activities in the business operations to external specialists

Offshoring

When looking to achieve operational advantages in a hostile environment, some businesses will use an **offshoring** strategy. This involves relocation of a business process, function or activity to another country. Businesses may use an in-house strategy, as seen in the Ausenco 'Gaining insight' (page 123), where the company established a shared service centre in Malaysia, or a business may offshore to another company. Nike has for decades used an outsourced offshoring strategy and attracted considerable negative publicity for the practice. During the 1990s, Nike was accused of using sweatshops and engaging in unethical contract manufacturing. Since then, Nike has sought to improve its efforts to monitor outsourced manufacturing, including increasing factory audits and releasing the names and locations of its factories.



Bloomberg via Getty Images

Figure 4.25 Nike is a truly global business, with manufacturing outsourced to 529 factories across 41 countries, including this factory in Pakistan, which makes socks for Nike.

INQUIRY



Does outsourcing overseas achieve efficiency and effectiveness objectives?

Read the following source material and then complete the inquiry that follows.

Source one: Commonwealth Bank of Australia

In December 2017, the Commonwealth Bank of Australia (CBA) launched a national advertising campaign to promote the fact that its call centres remain in Australia, while leading competitors have outsourced to overseas call centres. The CBA used a mix of traditional advertising platforms including television, radio, print media and billboards, as well as digital and social media, to communicate its commitment to local operations.

In June 2018, CBA released a public relations article titled 'Our call centres are as Australian as our customers'. In this article CBA asserts that:

Nine out of ten customers told us they like dealing with staff who live and work in the same communities as they do. That's why all of our customer call centres have always been in Australia – so you know you're speaking with a local.

Source: 'Our call centres are as Australian as our customers', CBA, 12 June 2018. © Commonwealth Bank of Australia



Shutterstock.com/bbernard

Offshoring: the relocation of a business process or activity performed in one country to another country, with either the same or another business

Source two: Qantas Frequent Flyer call centre to be outsourced overseas

Fury with Qantas sending call centre overseas

The Australian Services Union (ASU) is reporting that Qantas will be shifting its Melbourne-based Frequent Flyer program to Manila and New Zealand in an effort to save costs. In a press release, the ASU claims that over 100 call centre workers in Melbourne will be losing their jobs by June this year (2018).

A Qantas spokesman confirmed that Qantas recently changed its outsourced provider with global call centre outsourcer TeleTech recently securing the Frequent Flyer call centre work. Whilst not addressing the job losses in Melbourne, the Qantas spokesman confirmed that whilst the majority of calls in Australia to Qantas or Qantas Frequent Flyer are answered in Australia or New Zealand, some other tasks – including emails and some back office functions – are performed offshore through outsourcing partners.

Justin Tippet, Managing Director of Contact Centre Central, a website supporting the Australian Contact Centre industry, said that with the high cost of Australian labour, organisations continue to explore the benefits of sending their call centre overseas. 'Sadly the customer experience often leaves a lot to be desired and this can result in higher customer attrition, ultimately costing the organisation substantially more in the longer term', Tippet said.

With self-service and automation becoming increasingly popular, Tippet says the impact is that call volumes to contact centres are reducing. This comes with a caution though, as 'what we are seeing in the industry is that the complexity of the calls that come in are increasing, as it's normally a result of things going wrong with the automation that has prompted the customer to call'. This 'moment of truth' is when the customer wants to speak to someone who is knowledgeable and empowered to resolve the issue and this conversation is often the deciding factor in a customer's overall satisfaction and loyalty with a company.

Sadly when organisations outsource this component overseas that's often far from what they receive. Difficulties with language, an inability to access full internal systems and often having to repeat information that's already been provided are typically high on the list of frustrations for consumers.

Source: PRWire.com.au. © Contact Centre Central



Business process outsourcing and offshoring: An efficient and effective strategy?

Investigate the trend to business process outsourcing and offshoring for two businesses with differing strategies – one that outsources offshore such as Qantas or Westpac, and a business maintaining operations locally, such as Commonwealth Bank of Australia, to complete an inquiry on the merits of outsourcing and offshoring in a hostile competitive environment. A starting point is to visit the following websites:

- Commonwealth Bank of Australia – 'Australia calling' article
 - CX Central – why Australian call centres are going offshore
 - PRWire – Qantas call centres.
- 1 **Describe** the business situation, including facts and characteristics, as they relate to the inquiry.
 - 2 **Explain** the benefits and challenges faced by a business outsourcing its marketing and/or operational activities as compared to one that chooses to retain control of these activities.
 - 3 **Select** data and information relating to marketing and/or operational activities to **analyse** outsourcing power interest, using a power interest grid (see pages 310–11 of *Business for QCE Units 1 & 2*).
 - 4 **Interpret** the relationships, patterns and trends in the outsourcing power interest grid to **draw conclusions** about the implications of outsourcing.
 - 5 **Evaluate** marketing and/or operational activities to outsource as an alternative business strategy for the inquiry businesses to **make a decision** and **propose** a recommendation, using two criteria.
 - 6 **Create** a response to **communicate** your findings on the inquiry, including the power interest grid in your findings.

Ethics and outsourcing

The current trend towards specialisation and offshore production in the pursuit of cost savings means the need for supply chain management and auditing of operations is more pronounced than ever. Outsourcing of production, often to overseas companies, presents opportunities and challenges for smaller businesses entering the market and mature businesses looking to remain competitive. This includes access to manufacturing at favourable prices, with fast production times and issues of traceability within the supply chain. The Australian fashion industry has come under scrutiny for the transparency of its supply chain management as the trend to offshore production continues.

INQUIRY



Who makes our clothes?



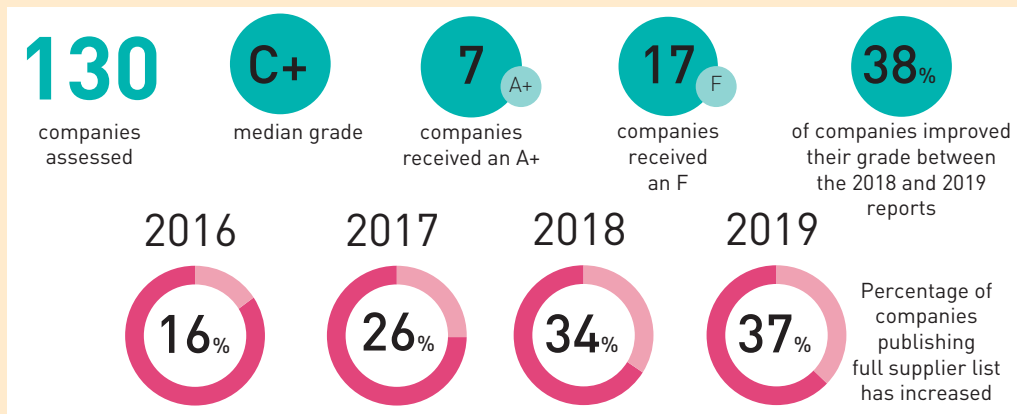
Figure 4.26 Outsourced manufacturing in a Vietnamese garment factory specialising in linen, silk, bamboo and fine cotton clothing

Inquiry issue: Ethical supply chain management – ethical operations and outsourcing

The 2013 Rana Plaza factory collapse in Bangladesh claimed the lives of 1134 garment workers and brought world attention to the working conditions that existed among some outsourced operations of multinational clothing companies, including use of sweatshops and cheap labour. Businesses producing offshore have since been challenged to look at where their garments are being produced and to ensure ethical conduct in the supply chain.

The '2019 Ethical fashion report: The truth behind the barcode' is a project by Baptist World Aid Australia.

When Baptist World Aid began research in 2013, most companies argued that tracing back to the farm was outside their scope of control and responsibility. At the time, raw materials tracing was largely restricted to Fairtrade companies. Now, 48 per cent of companies are seeking to trace their raw material suppliers, with many working collaboratively through the Better Cotton Initiative (BCI) to do so.



Source: 'Ethical fashion report: The truth behind the barcode', Baptist World Aid Australia, 2016, 2017, 2018, 2019

Traceability remains a challenge in the fashion industry, but there have been improvements. In 2016, only 16 per cent of companies published their full supplier lists, improving to 37 per cent in 2019.

You are to conduct an inquiry into ethical operations in the Australian fashion industry:

- 1 Research and **select** an example of an Australian business that has received the median grade or lower in the current report. You can download a copy of the report by following the weblink. Please note, you will need to enter your name and email address to order a free copy.
- 2 Research to **identify** the supply chain, or any information related to traceability of suppliers and operations processes.
- 3 Visit the Ethical Clothing Australia (ECA) website and select a similar business that has been accredited by ECA to use as a comparison.
- 4 **Select** and **analyse** business data and information to **identify** patterns and trends for both businesses and the industry. **Interpret** how these impact on businesses and consumers. Using this data and information, **analyse** the unique selling proposition (USP) of the chosen businesses.
- 5 **Interpret** the USP analysis to **draw conclusions** about the USP of selected businesses and **determine** whether being ECA accredited is a point of difference or a competitive advantage.
- 6 **Create** a table to **explain** the advantages and disadvantages of accreditation and supply chain management when outsourcing. **Draw a conclusion** about the impact of ethical operations, global outsourcing and business success.
- 7 **Create** a one-page business report extract for the business selected from the Baptist World Aid report that presents the findings of your inquiry, including a **recommendation** about ethical conduct in operations.



2019 Ethical Fashion Report



Ethical Clothing Australia

Technology and efficiencies

Technological change, including the role of equipment and information technologies, is affecting all businesses and all functions within a business. In terms of the operations or production system, technology is a major driver of productivity growth and optimisation of resources. While all businesses will uptake technology in some way, not all businesses have the financial resources or need to utilise the latest technological innovations. That said, in a highly competitive market, embracing technology may be key to a competitive advantage; failure to advance technology could see a business left behind. When deciding about technology, a business will consider factors such as:

- the speed of change taking place in that area of technology
- uptake of technology by competitors and the industry
- the financial resources available to invest
- the time it will take to introduce the technology, including potential downtime of the facility
- the nature of the work – whether a product is hand-made and customised or standardised and mass-produced
- impacts on staffing, including the need for training and possibility of job losses through redundancy
- global pressures.

GAINING INSIGHT



Fisher & Paykel

View the clip of Fisher & Paykel's history, '80 years of innovation', and read its history to see the transformation in products and processes due to innovation and technology.

Questions

- 1 **Describe** the business situation that saw Fisher & Paykel commence as a manufacturer and outline how the business has evolved through the life cycle to its mature position today.
- 2 **Explain** the role of technology in both innovation and operational efficiency for Fisher & Paykel. Illustrate the role of intellectual property in this area.
- 3 **Examine** the strategic direction around the concept of the 'Social Kitchen' philosophy and the

relationship between marketing, operations and achievement of a competitive advantage.

- 4 **Explain** the relationship between efficient technologies and sustainability at Fisher & Paykel. Give examples of how the company measures sustainable practices.
- 5 The Fisher & Paykel brand vision is: 'We aim to be the most human-centred appliance brand in the world.' **Examine** this statement, including how it relates to the role of technology and creation of a unique selling point for consumers in a highly competitive market.



Fisher & Paykel's history, '80 years of innovation'

Changing technology generally leads to more efficient operations processes, meaning that businesses increasingly must stay abreast of technological trends. Mechanisation and automation, or the replacement of human physical and mental effort with machinery and technology, has been significant over the past century. This includes the substantial rise in information technology and data services. In developed countries such as Australia, high labour costs mean businesses increasingly replace human effort with technology or transfer production or service provision to lower labour cost nations through outsourcing.

Investment in technologies is a strategic decision as it requires a long-term perspective. Establishment of new technology comes with many costs, including purchase and implementation costs, as well as staff training and the possibility of redundancy payouts if there are associated job losses. However, long-term benefits such as maximising productivity through the removal of repetitive tasks and processes, reducing waste, upgraded quality and safety systems and achieving economies of scale usually justify the investment. A business can achieve a substantial competitive advantage through the implementation of the right technology.

Automation

Automation is the replacement of human effort with machinery and technology. Most modern manufacturing systems integrate degrees of automation and the services sector has adopted automated processes as an opportunity to expand and meet consumer demand. Examples of automation include:

- **automated production lines** – used in the manufacturing industry, particularly those that mass-produce, such as the motor vehicle industry. They encompass a series of workstations linked by a transfer system and an electrical control system. Each station performs a specific operation and the product is processed step by step as it moves along the line in a predefined production sequence. A fully automated system significantly reduces labour needs; all or part of the process is completed by mechanical equipment and automated systems. In the automated environment, the tasks of staff involve system design, adjustment, supervision and monitoring the operation of the system, rather than controlling it directly



Figure 4.27 Detergent being bottled on an automated production line

Automation: the replacement of human effort with machinery and technology

Automated production line: a series of workstations linked by a transfer system and an electrical control system, where

each station performs a specific operation and the product is processed step by step as it moves along the line in a pre-defined production sequence

- *self-service and automation* – the services industry has embraced automation since the advent of the automatic teller machine (ATM) for withdrawal of money. In 2009, Qantas launched automated check-in kiosks in Australian capital city airports, citing that the self-service system enabled customers to check in within 30 seconds, avoiding queues and delays associated with traditional airport check-in counters. More recently, Uber and Netflix have automated the service experience, allowing selection, booking and ordering and automated payments via an app



Shutterstock.com/Kaspars Grinvalds

Figure 4.28 Netflix has automated the service experience.

- *robotic process automation* – an emerging form of business process automation technology based on the use of software with artificial intelligence (AI) that handles high-volume, repetitive tasks such as documentation collection and data processing in areas such as insurance, banking and finance.

Robotics

Robots are programmable machines that undertake a variety of repetitive tasks, especially where the task is difficult or dangerous for a human or takes place in a hostile environment. Robotics is transforming the manufacturing process as robots can generally perform tasks quicker and more consistently than people.

Robots are used in manufacturing to create efficiencies throughout the production system, from raw material handling to finished product packaging and palletising. Robotic technology has become sophisticated, being customisable to perform complex functions, such as in the mining sector. As robots are increasingly adopted in an industry, it may become necessary to invest in this technology to remain competitive.

Investing in robotics comes with a substantial upfront cost that many small to medium-sized businesses, and those in the early stages of the business life cycle, may not be able to fund. There are also maintenance requirements, which will add ongoing costs to the investment.

Computer-aided design and manufacture

Computer-aided design (CAD) is technology that streamlines the design and technical documentation of products; it replaces manual drafting with an automated process and has become standard in most manufacturing and design businesses. This enables designers, drafters, architects or engineers to use software programs to explore design ideas, visualise concepts and simulate how a design performs in the real world. CAD focuses on the

Robots: programmable machines that undertake a variety of repetitive tasks, especially where the task is difficult or dangerous for a human, or takes place in a hostile environment

Computer-aided design (CAD): technology that streamlines the design and technical documentation of products; it replaces manual drafting with an automated process

GAINING INSIGHT



Driverless technology and robots in the mining sector

BDO's energy 2020 vision: The near future of mining

Driverless technology, robots replacing miners, deep-sea excavations, and mining expeditions on the moon were once just the ideas of sci-fi movies. Today, they're realities or just around the corner. And by 2020, we expect (most of) them to be the norm.

As low commodity prices persist, mining companies are under pressure to reimagine their business models. Those that have incorporated technology into their operations have seen their revenue streams live on, while those that haven't have fallen short.

The value of harnessing technology is clear. Driverless technology increases mining output by 15 to 20 per cent while cutting fuel and maintenance costs by 10 to 15 per cent and 8 per cent, respectively. It also improves mining safety exponentially. At the same time, though, these Internet-connected technologies open the mining industry up to new cyberattack vectors that they must hedge against through proper internal controls. If not, they risk seeing their entire operation crippled by a single attack.

By 2020, robots will replace more than 50 per cent of miners, and mining accidents will be cut by 75 per cent. Half of the miners will

themselves be retrained to run the technology controlling the robots.

Reflecting on this period of turmoil and transition, the BDO Australia Natural Resources team is looking towards the future to help mining companies anticipate and plan for the challenges and opportunities ahead. We believe that to prepare for success in 2020 and beyond, mining companies must strive to become 'lean, green, digital' machines.

Source: <https://www.bdo.com.au/en-au/insights/natural-resources/publications/bdos-energy-2020-vision-the-near-future-of-mining>, 1 February 2018, © BDO Australia Ltd.



Ian Walde/Bloomberg via Getty Images

Figure 4.29 An autonomous haul truck drives through a pit at Rio Tinto Group's West Angelas iron ore mine in the Pilbara, Western Australia.

Questions

Based on the publication by BDO, above, complete the following.

- 1 **Explain** the relationship between technology and operational efficiency evident in the article.
- 2 **Create** a table to list the advantages and disadvantages of using robotic technology.
- 3 Complete a simple SWOT analysis about robotics in the mining industry.
- 4 **Interpret** the SWOT analysis to **draw conclusions** about the implications of robotics uptake and its impact on strategic development.
- 5 **Evaluate** the uptake of robotic technology in a hostile environment to **make a decision** and **propose** a recommendation using criteria.
- 6 **Create** a short feature article to appear in a future BDO publication **communicating** your findings.

design of a product or part, including how it looks and how it functions. When a design is complete in CAD, it can then be loaded into CAM.

Computer-aided manufacturing (CAM) is the use of software and computer-controlled machinery to automate a manufacturing process. Programs are used to operate robotic equipment, replacing labour-intensive systems with technology and increasing productivity. Use of a centralised computer improves accuracy and reduces the scope for human error.

Computer-aided manufacturing (CAM): the use of software and computer-controlled machinery to automate a manufacturing process



Computer-integrated manufacturing (CIM) combines various technologies including CAD and CAM to deliver an error-free manufacturing process controlled from the start to the finish of the production system. It is widely used in the automotive, aviation, space and ship-building industries.



Shutterstock.com/Monkey Business Images

Figure 4.30 Engineers make use of CAD software when designing a product.

GAINING INSIGHT



Iveco Australia: Investing in the future



© IVECO Australia

Figure 4.31 Iveco Australia remains committed to domestic manufacturing of its heavy vehicle range.

Follow the weblink to watch 'Iveco Australia manufacturing insights', a video about the new Euro 6-rated Stralis X-Way range, launched in October 2018.

Follow the weblink to read 'Proudly manufacturing in Australia'.

Iveco markets its range of trucks as made in Australia, for Australia. Iveco manufactures 'bespoke vehicles', tailored to the customers' requirements.



Iveco
Australia
video



Proudly
manufacturing
in Australia

Questions

- 1 **Explain** the role of technology in the development and manufacturing of the Iveco truck range.
- 2 **Explain** why the new X-Way range was described as a project that started in 2015, given the product was launched in October 2018. Tip: include the role of research and development in your explanation.
- 3 At a time when car manufacturing in Australia has ceased, **explain** the benefits of local manufacturing for the heavy vehicle market from the perspectives of the business and the customer.

Computer-integrated manufacturing (CIM): combines various technologies including CAD and CAM to deliver an error-free manufacturing process controlled from the start to the finish of the production system

Chapter 4 review

This chapter introduced strategies used by businesses in the maturity stage of the business life cycle that operate in hostile competitive environments. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

4.1 Short items

- 1 **Describe** the operating and macro environmental factors that characterise a hostile competitive environment. Use an example to illustrate how these factors make a business situation hostile.
- 2 **Define** economies of scale and provide an example of how a business can achieve economies of scale in a hostile competitive environment.
- 3 **Define** an oligopoly and **explain** the role of strategic interaction in this market structure.
- 4 **Explain** the challenges of operating in a hostile, low-profit-margin environment and give examples of businesses that have successfully embraced this model.
- 5 **Explain** the purpose of a niche marketing strategy in a hostile competitive environment. Use an example to illustrate the benefits and challenges of this strategy.
- 6 **Explain** why research and development (R&D) is a valuable strategic development tool for mature businesses, and **examine** the challenges present.
- 7 **Explain** why the composition of a project team is important to the success of a project.
- 8 **Outline** the benefits and challenges of outsourcing for a business in a competitive market.
- 9 Complete a table to **explain** the advantages and disadvantages of automation.

Advantages of automation	Disadvantages of automation

4.2 Interpretive items

Using the 'Gaining insight' case study below, answer the following questions.

- 1 Write a one-paragraph response to **describe** the business situation that led Cadbury to replace workers with machines.
- 2 Write a one-paragraph response to **explain** the relationship between automation and economies of scale.
- 3 **Create** a power interest grid based on the business situation at the Cadbury plant in Claremont. **Interpret** the grid to **draw conclusions** about the implications of operations strategies.
- 4 Using two relevant criteria, write a two-paragraph response to **evaluate** the strategy of replacing workers with robotics.

GAINING INSIGHT



Blow to Cadbury workforce as humans lose out to robots in pursuit of 'significant efficiencies'

Chocolate-maker Cadbury's decision to shed 40 jobs from its Tasmanian factory, replacing workers with machines, has been met with anger, disappointment and despair.

Management announced on Thursday that the jobs are to go from its Claremont facility over the next four months, in the third round of job cuts at the factory since 2015. Cadbury's US parent company

Mondelez said it was spending \$20 million on new machinery to wrap Flake and Twirl bars, meaning the workers who did the job manually would no longer be needed.

Staff were told the news on Thursday evening.

Independent Denison MP Andrew Wilkie said the Cadbury factory was a bedrock of the local community, and the loss of 40 jobs would hurt. 'That's not just a number', Mr Wilkie said. 'That's 40 workers, all of whom have bills to pay, many of whom have families and so on to care for. There's a real human side to this and it's very disappointing.' It's especially disappointing when Cadbury have promised so much. 'Yes, the factory survives while other factories in other countries have closed, and yes they are investing in more plant and we can get a little bit of comfort out of that, but really it's promised so much more.'

Mr Wilkie said he would lobby the company to ensure the factory, which was founded in 1922, remained at the Claremont site into the future. State Secretary of the Australian Manufacturing Workers Union John Short said he was 'bitterly disappointed' at the news.

'It's really concerning we're losing another raft of permanent full-time jobs – we can't afford to lose these jobs in Tasmania', he said.

'We understand that automation means you will need less people, but this has been an important factory for Hobart, but also Tasmania and Australia.' Mr Short said the company was offering voluntary redundancies, but the job cuts would put significant pressure on workers who remained.

The decision to introduce machines has been criticised by the public but many said the job losses due to automation were inevitable. Claremont-based factory site manager Ross Coleman said efficiencies had to be made for those products to remain price-competitive.

'Certain product lines such as Flake and Twirl require significant efficiencies to ensure we can compete globally and overcome some of the challenges associated with Australian production,



Kim Eiszele/NewsPix

Figure 4.32 170 jobs have been cut at the Cadbury factory in Tasmania since 2015.



Tasmanian Archives: Cadbury factory, Claremont, near Hobart - interior of wrapping room, PH30/1/3935

Figure 4.33 The wrapping room of Cadbury's Tasmanian factory, as it was in 1925

such as our distant location, low domestic growth, and rising costs of freight and other inputs', he said.

The 40 jobs represent 10 per cent of the current workforce and will raise the total number of cuts to 170 since 2015. Cadbury shed 80 jobs in 2015 after a drop in sales in a more internationally competitive market and another 50 in 2017 as part of a \$75 million upgrade.

Source: Alexandra Humphries, ABC News, 28 September 2018.
Reproduced by permission of the Australian Broadcasting Corporation – Library Sales. © ABC

4.3 Extended-response items

Select a mature business you are interested in that is operating in a hostile competitive environment. Using the inquiry approach, complete the following tasks by referring to the topic.

- 1 **Describe** the current situation for the business operating in a hostile competitive market.
- 2 **Explain** the strategic development strategies the business has employed to remain competitive.
- 3 **Select** information relating to the business's internal and external business environment to **produce** a SWOT analysis.
- 4 **Interpret** the situational SWOT analysis to **draw conclusions** about strategic planning.
- 5 **Evaluate** the operations strategies used, using two relevant criteria, to **make a decision** and **propose** recommendations.
- 6 **Create** a business report extract to **communicate** findings on strategic operations to the chief executive officer of the business.

4.4 Activities

- 1 **Create** an outsourcing power interest grid to **analyse** the marketing and/or operational functions for a mature business of your choice. **Interpret** the power interest grid to **draw conclusions** about the implications of outsourcing.
- 2 For Maven Pool Builders (see table), complete the following tasks.
 - a **Create** a GANTT Chart and/or a PERT diagram and **identify** the critical path.
 - b **Determine** how long the project will take.

Maven Pool Builders

	Activity	Predecessor	Weeks
A	Obtain approval	--	3
B	Soil testing & dig hole	A	15
C	Order materials	--	2
D	Build reinforcing	C	5
E	Insert pipes	B, D	3
F	Pour concrete	B, D	1
G	Tile pool	F	5
H	Install electrical	E	1
I	Landscape	G, H	2

- 3 For Virtuoso Builders (see table), complete the following tasks.
 - a **Create** a PERT network.
 - b **Identify** the critical path and **determine** how long the project will take.

Virtuoso Builders

	Activity	Predecessor	Weeks
A	Foundation	--	4
B	Frame	A	6
C	Plumbing	A	3
D	Roof supports	A	2
E	Wiring	B	2
F	Plaster	D	3
G	Interior finishing	C, F	3
H	Painting	D, F	1
I	Clean-up and landscape	E, G	2



COMPETITIVE STRATEGIES: MARKETING AND OPERATIONS

What you will learn

To remain competitive, a mature business must embrace strategic development and have a clear vision in terms of marketing and operational strategies. Brand strength will be particularly important in comparison to other brands as successful marketing communications will rely on the power of the brand. All key communications must be consistent with the brand's unique selling proposition (USP) and build long-term value or brand equity. Integrated marketing communications strategies (IMCs) can positively influence the behaviour of the target market and stimulate sales and loyalty through a cohesive, relevant message that builds lasting relationships with key customers.

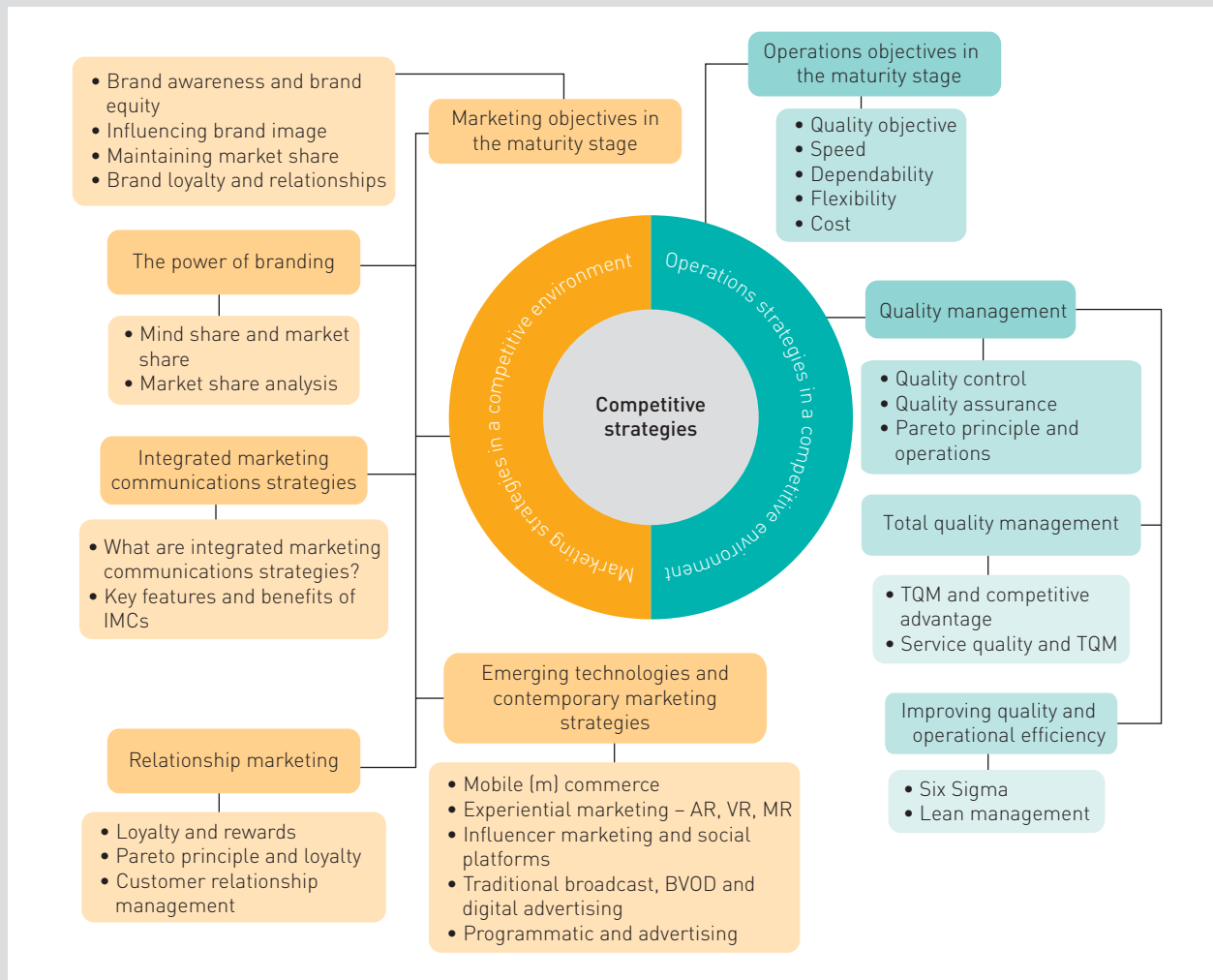
Operational strategies help support a business's strategic goals as it seeks out a sustainable competitive advantage. This may be through performance objectives such as providing consumers with a high-quality product, speed or reliability of service, or achieving cost advantages through economies of scale. Such strategies focus on the role of quality as it relates to efficiency of operations and meeting or exceeding customer expectations.

This chapter will provide you with the opportunity to:

- **describe** the internal, operating and macro environmental factors relating to businesses in the maturity stage of the business life cycle that impact on marketing and operations in competitive environments
- **explain** integrated marketing communications strategies, including recognition, relevance, reward, receptivity and relationship
- **explain** marketing and operations objectives in the maturity stage of the life cycle
- **explain** the roles of branding and relationship marketing in maintaining market share
- **explain** the role of emerging technologies in contemporary marketing strategies
- **explain** the interrelationships between contemporary marketing strategies, branding and loyalty
- **explain** the interrelationship between customer loyalty, continuous improvement and the Pareto principle as it applies to marketing and operations strategies
- **explain** total quality management, including quality control and quality assurance
- **explain** the relationship between total quality management and long-term achievements through customer satisfaction
- **select** data and information relating to traditional, digital and emerging marketing platforms to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis)
- **select** data and information relating to marketing and operational functions for a mature business to **analyse** outsourcing power interest (power interest grid)
- **select** data and information relating to competitors in a hostile environment to **analyse** the unique selling proposition (USP analysis)
- **interpret** the relationships, patterns and trends in the marketing platforms SWOT analysis to **draw conclusions** about the implications of marketing strategies
- **interpret** the relationships, patterns and trends in the situational SWOT and USP analyses to **draw conclusions** about the implications of strategic planning
- **evaluate** marketing and operating strategies for a business operating in a hostile competitive environment to **make a decision** and **propose** a recommendation using criteria
- **create** responses to **communicate** findings to suit the intended purposes and audiences, including use of visual representations (graphs, tables, infographics or analytical tools).

The analytical tools used in this chapter are:

- USP analysis
- SWOT analysis
- power interest grid.



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:
 - innovation
 - 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)
 - ethical understanding
- 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



Allen's Lollies

FOCUS QUESTION: How does Allen's communicate its brand story across multiple channels in a creative, consistent and coordinated way?

The Allen's brand, a division of Nestlé Australia Ltd, enjoys a dominant position as market leader of sugar confectionery in Australia, ahead of the Natural Confectionery Company, owned by Mondelez Australia Pty Ltd, and Starburst, owned by Mars Australia Pty Ltd. This mature industry is highly competitive and faces threats from an increasingly health-conscious consumer concerned about the amount of fat and sugar in foods. Consumers are less responsive to sugar confectionery, opting for healthier products and chocolate confectionery as an indulgence. This industry is also facing pressure from other snack categories, with research indicating millennials often show preference for savoury over sweet snacks in Australia. Adding to this pressure, in May 2018 Coles announced that it will cease stocking Starburst due to poor sales – a move Woolworths had made in December 2015. With such external pressure, and a highly regulated advertising market for sugar, Allen's has had to be strategic and innovative with its marketing communications.



Figure 5.1 A typical supermarket aisle shows the brand dominance of Allen's relative to the Natural Confectionery Company and private labels.

Allen's has embraced integrated marketing communications (IMCs) strategies to achieve maximum impact without the need for television advertising. Allen's has not run a traditional television advertisement since mid-2016, when it featured actor Hugh Sheridan as a 'wellness ambassador' in a 15-second advertisement promoting Allen's Sea Stretchies lollies with the tagline 'Choose wellness, choose Nestlé'. This was widely criticised for attempting to link an unhealthy product with the 'wellness' category and had multiple complaints before

the Australian Association of National Advertisers (AANA) for being in breach of the Food & Beverages Advertising & Marketing Communications Code.



The AANA noted that the on-package messaging read '1 piece = 1 portion', which is suggestive of the product being consumed as an occasional treat, and the complaints were dismissed. Such complaints create adverse publicity and businesses aim to avoid them.

Allen's has been consistent in its message about serving sizes over the past five years, with the iconic Killer Python 'cut down to size' in the name of portion control. The original Python was a sizeable 47 grams, while the revised version weighs in at 24 grams. Nestlé's message focuses on helping Australians better manage their health by revising the portion size of treats, including on-package portion education and using resealable packaging.

Deserting traditional mass-market advertising in recent years, Allen's has still made its way onto our televisions as a 'brand in the news' rather than in a 15- or 30-second advertisement. Allen's has embraced product placement and publicity by creating news stories in the mass media that reinforce brand awareness and positively influence consumer attitudes. Allen's has enjoyed feature news items of around two minutes on morning shows *Today*, *Sunrise* and *Studio 10*, including live segments from the Allen's factory and items on research

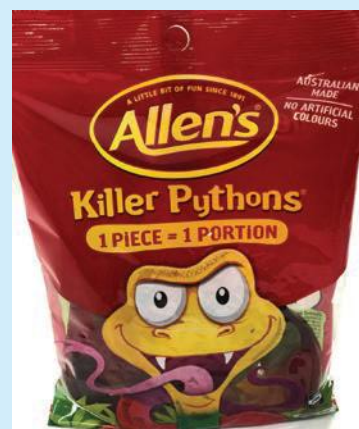


Figure 5.2 The prominent portion size label on the downsized Killer Pythons pack is an example of Nestlé's message about portion size and wellness, which extends across the product range.



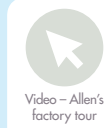
The Sydney Morning Herald and The Age
Photos/Eddie Jims

Figure 5.3 'News' stories at the Allen's factory create human interest.

such as the 'Lolly lovers index'. Channel 7 News, Melbourne, has featured interviews with the factory manager at the Broadford factory, creating a human-interest story around the history of Allen's and its manufacturing processes. Such 'news' segments are typically awash with scientific data, such as:

- each year Allen's produces enough of its party mix to fill an entire Olympic swimming pool
- when it comes to snakes, head-to-tail they could wrap around the moon three times each year.

Media personality and advertising executive Russel Howcroft reported on the ABC's *Gruen* that such strategies are 'worth three times the value of a piece of advertising' because these segments do not feel like advertising to



the consumer and are perceived as more credible.

The use of public relations to engage viewers during breakfast television creates brand recognition and influences consumer buying behaviour as the target audience is typically mums with younger children in the house getting ready for school. As identified in *Business for QCE Units 1 & 2* (page 301), 42 per cent of 6- to 9-year-olds decide which brand of lollies go in the shopping trolley, and seeing Allen's while getting ready for school reinforces brand awareness and creates 'pester power'.

Allen's has also stimulated publicity through newspaper reports, with headlines that appear as news and research. When Allen's removed its slow-selling green frogs in 2015 to rationalise the product line, it created consumer interest that Allen's was able to use to generate interest and energise the market. In 2017 the green frog was reintroduced as 'new product development', which secured critical supermarket shelf space, and 'rainbow frogs' were created to extend the product line. A series of news headlines demonstrates the power of positive news as a credible, reliable source of marketing communications designed to build brand loyalty.

Lolly makers cave to social media campaign, again

If there's one thing social media has taught us in recent times, it's that if you whinge about something persistently enough, someone else might just do something about it. And nowhere has this been more true than in the confectionery industry.

Source: News.com.au, © News Pty Limited

Allen's launches new ice cream-infused lollies

THE 3PM sugar craving has just reached a whole new level, with Allen's launching a new variety tasting like Drumstick ice cream and Frosty Fruit ice blocks.

Source: News.com.au, © News Pty Limited

Allen's Lollies announces the new flavour combination after analysing results from online survey

SWEET tooths across the nation have voted on the classic Allen's Lolly mix-up they want to see on supermarket shelves.

Confectionery fans were given three new flavour combinations to vote on ... the Choc & Cream combination, which is a twist on the old school favourite Strawberries & Cream, proved the most popular, securing 46 per cent of the votes.

Source: *Courier Mail*, © News Pty Limited

New Allen's lolly on its way

After 35 000 public votes were cast, Allen's has decided to bring in a new flavour to its collection. Blackberry & Cream will join the iconic brand after Australians were asked to vote for their favourite flavour.

Source: News Corp Australia. © Gladstone Newspaper Company Pty Ltd

Allen's pop-up lolly store comes to Sydney, Melbourne in time for Christmas

AFTER sparking a frenzy, Allen's is bringing back all-time favourite sweets with another pop-up lolly store. And this year, it's coming to three locations.

Source: News.com.au, © News Pty Limited

Allen's uses pop-up shops and limited-edition lollies to appeal to adults, relying on their sense of nostalgia for childhood favourites, such as by bringing back spearmint leaves. The limited-edition offerings directly aim to stimulate sales. These special product offerings feature at pop-up stores called 'Lollysmiths boutiques'. Allen's has 'lolly experts' available at the boutiques to assist customers in creating their own customised lolly jar with a personalised label. Such boutiques, pitched as the ultimate shopping experience, created a frenzy in 2017 and will be 'sweeter than ever' in future years.



John Applebyard/NewsPix

Figure 5.4 A Lollysmiths boutique pop-up store is an example of sales promotion.

Allen's also uses digital avenues, with more than 393 000 followers on Facebook and an active community of posts and feedback. Online competitions create relevance for consumers, such as 'Vote for

ALLEN'S Fruit & Cream of the Crop! – Australia, you decide', and surveys about how you eat your favourite Allen's lollies engage the audience and reward consumers for repeat visits. Their aim is to build a lasting relationship between consumers and the brand and to maintain brand equity.



John Applebyard/NewsPix

Figure 5.5 Allen's engages with customers through social media.

Promotional avenues used by Allen's contain a mix of new media, traditional avenues and brand storytelling that reflect the legacy and iconic status of the core product mix, while innovating that mix for the future. This is done to retain brand loyalty in older customers and build loyalty for future generations. Allen's genuinely seeks to engage, energise and excite by stirring emotion and connecting with customers.

Questions

- 1 **Describe** the business situation faced by Allen's and give an account of the current business environment. **Explain** how this impacts on the strategic direction of the business.
- 2 **Explain** the power of brand for Allen's and how it seeks to stand out in comparison to its major rivals.
- 3 **Identify** the elements of product and promotion (from the 4Ps of marketing) being used by Allen's and **explain** whether these work in harmony.
- 4 **Identify** the message(s) being communicated by Allen's through its promotion mix.
- 5 **Select** data and information relating to competitors in this competitive environment to **analyse** the unique selling proposition (USP analysis) communicated by Allen's.
- 6 **Select** data and information relating to the business situation to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis).
- 7 **Interpret** the relationships, patterns and trends in the USP and SWOT analysis to **draw conclusions** about the marketing strategies employed by Allen's.
- 8 **Evaluate** marketing strategies for Allen's to **make a decision** and **propose** a recommendation using criteria.
- 9 **Create** a visual representation of your findings to present to the director of marketing at Allen's.

Marketing strategies in a competitive environment

Mature markets experience slower growth and are characterised by competition between a few large businesses that have attained considerable market share. In this context, businesses can still grow, but they typically do so by acquiring market share from competitors or by entering new markets. Retaining customers through brand loyalty and relationship-building will be critical to ongoing success in a mature industry.

Key learnings

You will learn about strategies for a mature business to remain competitive in the marketplace through examining:

- marketing objectives in the maturity stage of the life cycle
- the role of branding
- market share.

Marketing objectives in the maturity stage

During the initial stages of the business life cycle, marketing objectives of generating sales, capturing some market share and generating brand awareness were established. Businesses will typically compete more directly for market share in the maturity stage of the business life cycle, with aggressive promotion tactics and bursts of price cutting. Customers also have greater knowledge of the market, are familiar with competing brands and are better able to evaluate alternatives. During this stage, having objectives and strategies that align with the brand and its competitive situation is key to continued success.

Brand awareness and brand equity

Retaining **brand** awareness beyond the growth phase of the business life cycle and converting this to **brand equity** requires positive brand associations over an extended period and relates to increased brand loyalty. From a consumer perspective, brand equity equates to brand awareness and having positive associations or images with the brand.

Advertising is primarily used to build brand awareness and reinforce the brand message over time. Advertising should not be viewed as a one-off activity, but as a long-term strategy for maintaining brand equity: stop advertising, and the brand may lose some equity and market share too.

Brand awareness is demonstrated when a particular brand comes to mind whenever consumers think of a certain product category. When you think of soft drink or sports shoes, which brand springs to mind? A brand has no equity unless consumers are aware of it; thus, recognition is essential. Brand recognition has been achieved when consumers have at least a surface level of awareness of the brand and could identify it from a list of alternatives. Brand recall involves a deeper level of awareness, where consumers know the brand at a conscious level. The goal is to move beyond recognition and recall to top-of-mind awareness; this is achieved when a brand is the first one consumers recall.

Brand: the name, term, symbol, design or a combination of these that uniquely identifies a product and distinguishes it from the competition

Brand equity: the brand knowledge, structures and goodwill that a mature brand develops over an extended period of time



GAINING INSIGHT



Coca-Cola and the power of branding



Alamy Stock Photo/The Advertising Archives

Coca-Cola was at the forefront of reinforcing brand when in 1922 it commenced a series of brand-focused slogans that have spanned generations, including 'Thirst knows no season', 'Thirst asks nothing more', 'Sign of good taste', 'Be really refreshed', 'Things go better with Coke', 'It's the real thing', 'Coke is it!', 'You can't beat the feeling!', 'Can't beat the real thing!', 'Always cool' and 'Open happiness'. The purpose of these slogans, and the accompanying advertisements, is to associate the slogan with the brand, build a connection to the consumers' lifestyle and maintain top-of-mind brand awareness. Coca-Cola's positioning strategy resonates globally, projecting an image of fun, good times and enjoyment, and serves to reinforce the brand message that there is only one Coke.



Alamy Stock Photo/Neil Baylis

Questions

Brand associations

- For each of the following products or services, name the first brand that comes to mind and write this down – ensure you write down the first one!
 - mobile phone
 - cereal
 - car
 - airline
 - Internet provider
 - milk
 - bank
 - sporting shoe
 - hairdresser
 - toothpaste
- Compare your findings with the students nearest to you to **identify** if there is a strong brand recall for some products or services compared to others. **Interpret** why there are differences in brand awareness and recall.

Influencing brand image

Building on brand awareness, a business will seek to establish a powerful and sustainable connection between the consumer and the brand, along with a favourable image. This image is cultivated through associations, thoughts and feelings that a consumer has about the brand. This may be achieved by evoking a strong emotional reaction to the brand, as seen in the Allen's Lollies case, where the brand has evoked a sense of nostalgia for childhood favourites. This can lead to brand loyalty.

Maintaining market share

A key objective of marketing communications will be to maintain existing customers through brand equity and encouragement of repeat purchasing. Attracting new customers, which often means attracting them away from competitors, will also be important for maintaining market share. Sales promotions, in conjunction with advertising, can build sales volume and enhance brand equity.

Brand loyalty and relationships

Brand loyalty is the pinnacle of branding; while strong brand loyalty can develop, there are many products for which the consumer may never develop a strong brand preference or may oscillate between a few key brands. Stimulating brand loyalty requires both a brand that fulfils a consumer's needs and continuous marketing communication that reinforces the key attributes of the brand.

The objective of brand loyalty reflects the Pareto principle, discussed on pages 157–8, which states that 20 per cent of customers typically account for 80 per cent of total sales. This builds the case for knowing who loyal customers are and developing lasting relationships with them.

QUESTIONS 5.1

- 1 **Distinguish** between brand recognition and brand recall.
- 2 **Explain** how marketing objectives differ between the growth and maturity stages of the business life cycle.
- 3 **Explain** the connection between brand loyalty and customer relationships.
- 4 **Create** a mind map to illustrate the role of various promotion avenues in maintaining brand awareness and market share.
- 5 **Identify** a mature business, operating in a competitive environment, to **determine** how it aims to achieve brand loyalty.

Coles Little Shop promotion boosts sales for all

Coles Little Shop boosts sales of White King, Daily Juice and Messy Monkeys



Figure 5.6 Sales promotion of 30 miniature collectables has been a huge success for all brands involved.

Coles Little Shop has sent the sales of featured products including White King toilet cleaner, Daily Juice and Messy Monkeys snacks soaring by up to 50 per cent.

When it launched in mid-July, Coles marketed the purpose of the campaign as: 'We are aiming to give our customers something fun – a miniature to collect and enjoy'.

But there is a reason why these brands paid to be featured in the Coles promotion. While consumers have been busy collecting Little Shop miniature items, they have also been buying more of the



Figure 5.7 The mini collectables promotion impacted consumer buying behaviour by increasing the average sales transaction at Coles and generating brand awareness for the 30 collectable branded products.

products themselves off supermarket shelves and the brands behind the sponsored collectables are raking in the resulting boost in revenue.

It also gave Coles a competitive advantage in the supermarket wars, with its rival Woolworths blaming a 'competitor's program' in part for hurting its sales.

White King confirmed to *The New Daily* it recorded a massive 50 per cent jump in sales compared to this time last year, while The Daily Juice Company's

orange juice sales rose by 15 per cent. Freedom Foods also confirmed an increase in purchases of Messy Monkeys but would not specify a percentage.

Nestlé – which owns brands Milo, Purina Supercoat, Maggi chicken noodle cup and Nescafé, all of which feature in Little Shop – did not deny it had seen an increase in sales. But a spokeswoman said its sales were in line with the company's forecast. 'We've had a wide range of marketing and promotional activity for brands across our range,' she said.

Procter & Gamble would not disclose Vicks VapoRub's sales data, saying it was 'commercially sensitive'. Dettol, Lipton and Cold Power also declined to comment.

The Little Shop campaign – which launched in mid-July and ended on September 11 after an extension due to the promotion's success – appears to be far from over as enthused customers continue to advertise and swap various miniature branded collectables online. Within two weeks of the campaign's launch, some consumers were selling the complete set of 30 collectables in a display case on eBay for up to \$1000.

When contacted by *The New Daily*, Coles did not rule out the chance of re-launching Little Shop in the future, potentially with a different range of brands.

Leading retail expert Dr Gary Mortimer said that given the promotion's success, it was not

unreasonable to expect the supermarket will run the campaign again, potentially on an annual basis using different brands. 'It has been a huge success,' he said. 'While Coles received backlash in relation to the timing of the campaign with the removal of plastic bags, it has created significant media attention and social media attention. It's been two months since the campaign launched and we're still talking about it. It was absolutely a worthy investment.'

Dr Mortimer said a 50 per cent increase in sales is a challenging objective to meet without reducing the price of your product. 'To achieve this without having to drop your prices is significant for both Coles and the brand,' he said.

'One of the challenges with grocery products is that they're habitual purchases, especially things like toilet cleaner.

'We're all familiar with the brands in Little Shop and now when we go to the supermarket where all of these brands are competing for our attention, it makes these brands salient.

'It's like when we're looking to buy a particular model of a car. We suddenly start seeing it on the road more because it's at the top of our mind.'

Source: Alana Mitchelson, 'Coles Little Shop boosts sales of White King, Daily Juice and Messy Monkeys', *The Daily Mail*, 13 September 2018.
First published on and reprinted with permission from The New Daily www.thenewdaily.com.au.

Questions

- 1 **Describe** the business situation created by the Coles Little Shop promotion, including facts about the initiative.
- 2 **Explain** how the Little Shop promotion gave Coles a competitive advantage over its competitors and **identify** a variety of positive outcomes for Coles from the promotion.
- 3 **Explain** how Coles influenced consumer buying behaviour with this promotion. **Interpret** whether you believe this will have short- and/or long-term benefits for Coles and the brands involved.
- 4 Select one of the brands – for example, White King or Daily Juice – to **explain** the interrelationships between marketing strategies, branding and potential for customer loyalty. Noting that these brands paid for the opportunity to be featured in the promotion, **examine** the merits of this strategy in a competitive environment.
- 5 **Identify** examples of similar 'collectable' promotions used by other major businesses and **examine** the strengths and weaknesses of these types of promotions.

The power of branding

Branding is a critical strategic tool as it strongly influences business outcomes, including sales and market share. Branding is an important source of information for consumers as it communicates what they can expect from the product, allows an evaluation of the quality of products and reduces the perceived risk of purchasing. Branding can also confer psychological rewards on consumers, as seen in the discussion in *Business for QCE Units 1 & 2* about Maslow's hierarchy of needs and the role of motivation on consumer buying behaviour.

A strong brand is beneficial to a business as it:

- promotes immediate recognition of the business and product, using the brand name and brand mark
- makes a business less vulnerable to its competitors' marketing initiatives due to the greater loyalty present

- drives repeat sales and gives the business a firm base on which to recover marketing and product development outlays
- allows for premium and prestige pricing strategies, as consumers are less price sensitive; it also reduces the need for frequent price discounting to drive sales
- creates greater business-to-business cooperation, such as access to shelf space in retailer outlets – for example, Coles stocking Allen's lollies, but discontinuing the Starburst product range
- supports the launch of new products under the brand name as consumers are already familiar with the business offerings
- aids product differentiation
- creates a synergetic effect for promotional activities for products under the one brand, with the promotion of one product indirectly promoting others.

Branded products typically command a higher price than 'generic' or 'home brand' products, even for items that have low levels of value-adding, such as flour and sugar. The power of branding is usually the reason for a price differential, although packaging may also contribute to this.

GAINING INSIGHT



The launch of luxury brand Genesis

Genesis, the luxury brand started by car maker Hyundai just over two years ago, is expected to launch in Australia, after some delays, sometime in 2019. The brand will commence with just two vehicles, the large G80 limousine and a smaller G70 sedan that



Alamy Stock Photo/ Newscom

Figure 5.8 Genesis G70 sedan has been designed as a rival for BMW's 3 Series and the Mercedes-Benz C-Class.

will compete with the BMW 3 Series and Mercedes-Benz C-Class. Hyundai is utilising a global strategy of building standalone sites for its Genesis brand, reflecting the approach of Toyota with its Lexus brand and Nissan with its luxury Infiniti brand.

Questions

- 1 **Describe** business facts and characteristics relating to this highly competitive, mature industry and outline the challenges that the Genesis brand will face.
- 2 **Identify** the key competitors for Hyundai and its Genesis brand and **interpret** the reasoning for the launch of the Genesis brand into the luxury market.
- 3 **Define** the likely target market for the Genesis brand and **explain** what factors may influence consumer buying behaviour.

Mind share and market share

A key to brand equity is to capture **mind share**, which means establishing a brand firmly in place as the first brand consumers in a market think of when they need what the brand offers. This type of marketing requires connecting to customers emotionally to build loyalty. Mind share reflects the degrees of influence of competing brands in the mind of the consumer and there can be a competitive advantage for the business that is top of mind.

Mind share: the degrees of influence of competing brands in the mind of the consumer; there can be a competitive advantage for the business that is top of mind

Effective mind share marketing requires a brand to stand as a symbol of something with emotional appeal to customers. Perceptive positioning can make a brand represent values such as prestige, beauty, intelligence, happiness or independence. Adding the emotional connection enables businesses to connect with consumers. Airbnb is a business that has built this connection by focusing on the emotional connection – travellers wanting more personal experiences, aligned with the principles of mutual trust and respect. Emotionally connected customers are more loyal than highly satisfied customers, and when a brand is top of mind, it has a better chance of capturing more long-term mind share and thereby market share.

Market share is defined as the percentage of sales in the total market sold by one business, measured either in units (volume) or sales revenue. It is therefore a relative concept, and a rise in the market share of one business typically represents a decline in the market share of another. This makes it a competitiveness indicator. The product with the highest market share is known as the brand leader. Becoming the brand or market leader is a strategic goal for many businesses, and rivalries are noteworthy on a domestic and global scale, such as Woolworths versus Coles, Mercedes-Benz versus BMW or Apple versus Microsoft. Brands with the highest market share generally enjoy:

- a more loyal customer base
- higher sales than competing businesses, which could lead to higher profits
- lower advertising and production costs due to economies of scale
- the brand equity to offset their competitors' strategies
- access to retail space, as retailers are keen to stock the best-selling brands, and a stronger bargaining position with both suppliers and retailers.

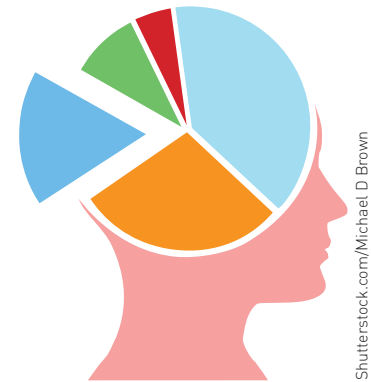


Figure 5.9 Mind share reflects the degrees of influence of competing brands in the mind of the consumer.

Market share analysis

Tracking market share allows a business to measure consumers' preference for a brand compared to similar brands. A higher market share generally translates to greater sales, less effort being required to sell more, and a barrier to entry for other competitors. A higher market share also means that, if the market expands, the top-of-mind leader gains more than the others. Market share analysis examines the sales performance of a business and compares it against its direct competitors. It allows comparison across reporting periods, showing percentage gains or losses.

Market share analysis enables a business to evaluate its marketing strategies compared with those of competitors. This can show whether strategies have increased the number of customers and, if so, the extent to which those customers have come from competitors. Businesses in competitive markets place great value on analysing market share as a drop of as little as 1 per cent in market share can represent a sizeable loss in the dollar value of sales.

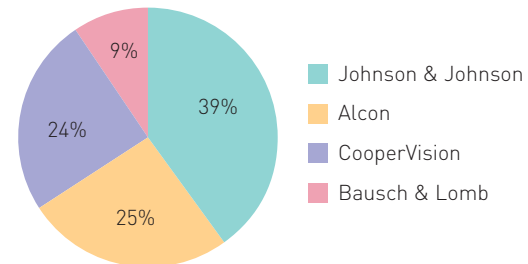


Figure 5.10 Global soft contact lenses, market share, 2017. The contact lens market is a highly concentrated oligopoly in which the top four brands account for about 97 per cent of global soft contact lens sales.

Market share: a competitiveness indicator that measures the percentage of sales in the total market sold by one business, either in units (volume) or sales revenue. A rise in the market share of one business typically represents a decline in the market share of another

Market share analysis: examines the sales performance of a business and compares it against its direct competitors

GAINING INSIGHT



Private labels

The rise of the supermarket phantom brand: Secret private label products

Working out what was a private label product and what was a real brand on the supermarket shelves used to be simple: if it had the retailer's logo on – it was own brand, everything else was the real McCoy.

But a new breed of secret private labels is growing. Called phantom brands, they look like real labels but they're actually home-brand in disguise. Sometimes not even the small print reveals the retailer's name.

Nowhere is this becoming more prevalent than in liquor, where retailer-produced wines and beers now account for up to 20 per cent of sales. Your favourite craft beer could be a Coles brand undercover, your wine could be made by Woolies at its own vineyard in the Barossa.

And there's a good reason it's so cloak and dagger, University of Adelaide branding expert Dr Dean Wilkie told news.com.au: 'Unlike headache tablets, where you may not care about the brand, if you were going to a dinner party and pulled out a bottle of Coles branded wine there would be some embarrassment.'



Figure 5.11 Woolworths has recently increased its phantom brands range. These products do not have the Woolworths name on the front of the pack.

Retailers have defended the phantom labels and said the priorities of customers are taste and value, not ownership.

Private labels – like Woolworths Essentials and Coles Brand – now account for about one in five packaged products in Australian supermarkets, according to 2016 figures from data firm Nielsen. That's still far below the share in Europe where around 40 per cent of packaged products are in-house.

Private labels deliver fatter profit margins for retailers and part of the way they are growing the market is through the creation of phantom brands.

It's something Aldi has been doing for years. Regular shoppers of the German discounter know that if it's not a big brand, it's Aldi – regardless of the name on the pack. The Aldi name is always on the back of all its products.



Figure 5.12 Woolworths' new Voeu phantom skincare brand



Figure 5.13 Community Co is the phantom label brand of IGA.

Phantom brands

But these no-name phantom brands are cropping up in other large retailers. In Woolworths, you can now find Baxter's dog food, Hillview cheese and Voeu skincare products. In Coles, there's Fussy Cat pet food while IGA has its Community Co range, including bacon, cereal and bottled water.

'For some consumers, private labels carry a stigma of being cheap and nasty,' retail expert Gary Mortimer from Queensland University of Technology told news.com.au late last year.

'So developing a phantom brand, with no connection to a retailer, provides consumers with a product that looks like a national brand but still at a great price.'

Source: Benedict Brook, 'The rise of the supermarket phantom brand: Secret private label products' news.com.au, 21 February 2018.
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Questions

- 1 **Describe** the business situation presented, including the role of phantom labels in competitive environments.
- 2 Research the concept of 'delisting' to **define** it and **explain** what this means for smaller or niche businesses looking for shelf space.
- 3 Complete a PCQ (Pros, Cons, Questions) table about the trend towards private or phantom labels (an example is shown below).
- 4 According to *InsideRetail*, Coles is aiming to have private label products make up 40 per cent of its product range over the next five years. Using your PCQ table and further research, write two paragraphs that **explain** the role of branding in maintaining market share and **interpret** the challenges some businesses face with the trend to private labels.

Pros	Cons	Questions
Consumers currently benefit from increased competition between brands and private labels	Discourage suppliers from innovating with their products	What are the likely long-term consequences of the trend of private labels in the food and beverage industry?

Integrated marketing communications strategies

Key learnings

You will learn about integrated marketing communications through examining:

- integrated marketing communications strategies
- the features and benefits of integrated marketing communications.

What are integrated marketing communications strategies?

In the past, marketing efforts have sometimes been accused of being fragmented and lacking a coherent message. Businesses traditionally handle advertising, sales promotion, publicity, digital communications and social media as separate processes. With the surge in promotion avenues and communication mediums available, the necessity for a coordinated, consistent message across all channels has increased. The current trend is a move away from extensive mass media, to multiple forms of communication that work together. There are a multitude of definitions around what **integrated marketing communications (IMC)** are, with the common themes being that integrated marketing is:

- a planning process to assure all brand contacts are consistent over time
- the coordinated use of different promotion avenues, intended to reinforce one another
- characterised by '3Cs' – clarity, consistency and communication impact
- promotion avenues operating as a unified force, rather than in isolation
- relevant to the person and consistent over time
- a unified, seamless brand experience across communication channels
- communicating a consistent identity across messages and mediums
- giving customers relevant messages and making sure each communication is connected to the next
- promotional platforms working in harmony, with synergy
- unified and centred around the customer
- consistent, credible and relevant messages directed at targeted markets.

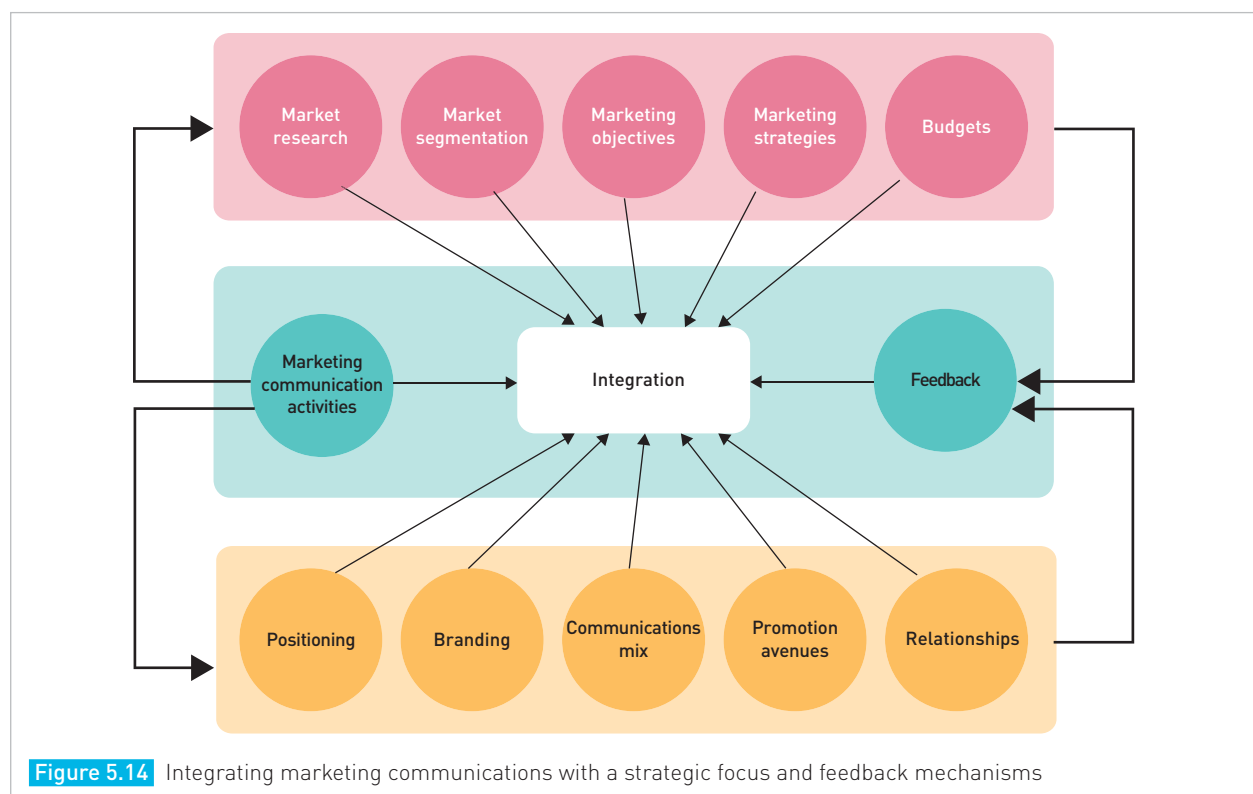
Integrated marketing communications (IMC): a unified, seamless brand experience across communication channels that is characterised by clarity, consistency and maximum communication impact

IMC is a strategic process as it integrates the elements of the brand's marketing mix with the promotion avenues to achieve long-term brand value and build equity. It differs from traditional short-term promotional tactics, seeking to influence consumer buying behaviour over the longer term to build sustainable, profitable relationships.

Building the business or brand name and reputation is key to a competitive advantage, as is being customer-centric. Marketers must ensure the communication message is clear and consistent; this can be achieved by ensuring that communications have the following 'Rs':

- *relevance* – the message must be relevant to the target market, so consumers can see the link between the total product concept and their needs. This involves determining the benefits sought by the consumer and engaging with them. In an environment of 'information overload', lack of perceived relevance will lose customers and see them switch off or unsubscribe – the ability to sustain relevance is a competitive advantage
- *recognition* – a compelling identity and message that enables the consumer to distinguish between the offerings of different businesses based on meaningful criteria. This links to the unique selling proposition (USP) and means that consumers recognise the business and what it stands for. A business should also recognise its valued customers through initiatives such as loyalty programs
- *receptivity* – it is vital to learn which communication avenues and media (e.g. magazine advertisements, radio spots, websites, social media posts) work best for the target audience and account for the timing of the message, such as on breakfast television or drive-time radio. Knowing the right media and the right timing allows the message to reach customers when they are most receptive to it. For example, millennials are typically more averse to advertising than baby boomers and will block ads with technology, while baby boomers are more sceptical of social media posts as a valid source of communication
- *reward* – the discernible value offering for engaging with the communications. This may be a tangible reward to say 'thank you' to the consumer or something else of value. Communication may entertain, inform, teach or give the consumer something. All messages should offer a reward. This is especially true of social media posts, so the target audience remains involved with the posts or tweets
- *relationships* – communication on a regular basis to build and sustain relationships with key stakeholders.

IMC should add value. To this end, marketers need to formulate marketing plans that evaluate the strategic role of communication strategies and combine them to ensure clarity, consistency and communication impact. They achieve this by ensuring all messages reflect the 'Rs' and enable two-way communication between the business and its target audience through feedback. An integrated approach supports the achievement of marketing objectives.



INQUIRY



A communications audit

Select a business you are familiar with – it may be one in regular communication with you and should be a mature business operating in a competitive environment. Locate as many forms of communication as you can for the selected business. Tip: start with its website.

Conduct an informal 'communications audit', **examining** the following:

- How many promotional avenues are employed? Are there multiple messages across one promotion avenue?
- How else, other than through promotion, does the business communicate with consumers?
- How clear and consistent are the different communications?
- Does the communication have impact?
- How relevant are the messages to the target audience?
- Is there evidence of reward or relationship-building?

Draw a conclusion about the degree of integration present and the implications for brand equity.

What are the key features and benefits of IMC?

Integrated communications rely on creating brand image using a strong singular message across all avenues. This leads to efficiencies as resources are not wasted on scattered or fragmented promotions. Economies of scale are achieved by creating a clear, consistent message that resonates across avenues and media. This resource efficiency maximises the strengths of the individual promotion avenues, creates synergy and potentially deters competitors from entering the positioning space for the product. Content produced for one avenue, such as print advertising, can also be used on other platforms such as social media. This allows a single campaign message to be deployed in multiple ways across all avenues of choice.

The fundamentals of marketing explored in *Business for QCE Units 1 & 2* remain the foundation of IMC, starting with a need to segment the market and identify a profitable target audience. Use of the segmentation dimensions is key to defining a target market receptive to the messages of the business and analysing their buyer behaviour. Knowing the target market allows selection of the most relevant promotion avenues and media to connect with the consumer.

A clear positioning strategy (*Business for QCE Units 1 & 2*, page 329) is vital, so that the identifiable image and corresponding brand message is communicated consistently across the promotions mix; this achieves the synergy inherent in IMC. To achieve a cohesive brand image, all points of contact with the consumer, known as **touch points**, must deliver the same message or risk fragmenting the message and confusing consumers. Having a clear positioning strategy will enable the message to differentiate the business from its competitors. Use of a positioning map, as seen in *Business for QCE Units 1 & 2*, is a valuable strategic planning tool for ensuring clarity of message and communicating the key points of difference. As seen in Figure 5.15, the target consumer is the central focus when planning IMC, and all touch points support this, meaning the consumer experiences as many brand messages as possible.

Beyond creating brand awareness and positive brand image, the goal of IMC is to influence consumer buying behaviour and impel them to action – to visit a retailer, go online, post in social media and, ideally, purchase the product. IMC incorporates all promotion avenues, as persuasive messages that encourage behavioural changes and purchase intentions are necessary to convert a favourable perception into purchase habits. Building customer relationships that generate repeat purchasing and loyalty through positive brand experiences is also achievable with a cohesive marketing communications strategy.

Touch point: any promotion avenue or communication that reaches the target consumer to present the brand in a positive manner



Figure 5.15 The target consumer is central to IMC.

GAINING INSIGHT



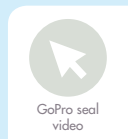
GoPro: Be a hero

GoPro was founded in 2002 by Nick Woodman, a surfer, skier and motorsports enthusiast, in search of a better way to film himself and his friends while surfing. Today, the company has sold over 26 million GoPro cameras in more than 100 countries.

GoPro has around 140 sponsored athletes who receive the small, adventure-proof cameras. In return, GoPro receives a recording of all the crazy things they get themselves into and a team of video producers and photographers creates the content and uploads it to one of GoPro's social media channels as authentic storytelling. GoPro has almost 11 million followers on Facebook, has received more than 1.2 billion video views on YouTube across nearly every extreme environment on the planet and is one of the world's most followed brands on Instagram. More than a million people have used the hashtag #GoPro to upload their own footage and the company regularly features user-generated content on its feeds. GoPro's Facebook page provides rewards for checking in, with the opportunity to post content and win prizes.

GoPro uses public relations, such as favourable news stories and editorial comments, to communicate about new products with the mantle of credibility that comes from not being advertising. In September 2018, GoPro featured as a 'special report' on Network 7's *Sunrise* program, running for 3 minutes and 42 seconds, and the very next day GoPro made news headlines across Australia and New Zealand when a GoPro brand ambassador was captured on camera being slapped in the face by a seal, with an octopus, while kayaking.

GoPro sponsors events that align with its brand, including the 2016 GoPro Athlete Summit on the Gold Coast, in partnership with Tourism Australia, Events Queensland and Gold Coast Tourism. In 2018, GoPro teamed up with Tourism NZ as part of the #nzmustdo campaign, where the *Sunrise* news segment was recorded. GoPro also uses magazine advertisements and point-of-sale displays in retail outlets.





Questions

- 1 **Define** the likely target market for GoPro.
- 2 **Explain** how GoPro is using integrated marketing communications strategies and give examples of those strategies.
- 3 With reference to the 'Rs' of integrated marketing communications, **identify** which elements are present in GoPro's IMC and **examine** them in terms of effectiveness.
- 4 **Select** data and information relating to marketing platforms used by GoPro to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis).
- 5 **Interpret** the relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of marketing strategies.
- 6 **Evaluate** marketing strategies for GoPro as it operates in a highly competitive environment to **make a decision** and **propose** a recommendation using criteria.
- 7 **Create** a response to **communicate** your findings to the marketing director of GoPro.

Key learnings

You will learn about relationship marketing through examining:

- the role of loyalty and rewards
- the Pareto principle and loyalty
- customer relationship management.

Relationship marketing

The pinnacle of IMC is the creation of a relationship between the brand and its customers. **Relationship marketing** evolved during the 1990s as marketers sought to develop long-term, mutually beneficial relationships with customers. It is a strategic orientation that emphasises retaining current customers, rather than simply pursuing new ones. The premise is that a sustainable relationship will lead to:

- repeat purchases
- customer recommendations or referrals
- stronger customer loyalty for the long term
- retention economies for the business.

Relationship marketing: the process of establishing, maintaining and enhancing long-term relationships with customers so that the objectives of both parties are met

It is reported that the marketing costs associated with attracting new customers are five or six times more than the cost of strategies designed to maintain current customers – hence, retention relates to efficiency. The primary goal of relationship marketing is to develop and maintain a core of committed and loyal customers who are profitable for a business. This can be achieved through:

- consistently delivering quality and satisfaction
- building in switching barriers, such as the economic costs associated with switching mortgage providers, and psychological costs of changing from a brand you are familiar with, such as changing running shoes or hairdresser
- special-treatment benefits, including loyalty programs or preferential treatment.

Loyalty and rewards

Having a customer feel valued is vital to building a relationship and maintaining loyalty. Marketing communications should be personalised so that all touch points have relevance and create engagement by meeting individual customer needs. **Loyalty programs** are commonly used as a reward or value offering to retain key customers and increase sales. These programs are structured marketing efforts that reward certain consumer buying behaviour. Their purpose is to influence shopping and payment behaviours. Examples of loyalty programs include:

- free or discounted products or services after a customer has purchased a certain volume – for example, ‘buy 10, get one free’ coffee cards
- VIP programs that offer benefits such as discounts on all purchases and birthday ‘gifts’ – for example, stationery business Kikki K
- programs providing customers with added incentives to shop or spend more – for example, Woolworths Everyday Rewards customers earn cash back based on dollars spent
- sending out discount codes or coupons to existing customers to persuade them to buy more – for example, online retailer Booktopia offers discount codes for repeat customers
- rewarding customers when they refer new customers to businesses such as Marriott Hotels.

The challenge of operating a rewards program that achieves its intent of building loyalty and retaining customers is to move away from short-term giveaways and achieve sustainable loyalty. Insurance companies, including RACQ, consider the tenure and number of products held by a customer when offering loyalty benefits such as ‘multi-policy’ discounts, no-claim bonuses and years of membership. This reflects the ‘80/20 rule’ (see page 157) and recognises that not all customers are equal.

A 2017 report by MasterCard, titled *Achieving Advocacy and Influence in a Changing Loyalty Landscape*, reveals that the loyalty program in Australia is at maturity, with high uptake of programs, but variable engagement and use. Some consumers are described as being jaded by programs where espoused benefits are rarely realised. Key data about Australian consumers revealed the following:



- Ninety per cent of Australians have at least one loyalty card.
- Australian consumers on average have 6.1 loyalty programs in their wallets, compared to an average of 7.6 programs for Asia-Pacific nations collectively.
- Millennials, as a segment, participated in more loyalty programs on average, having 7.9 loyalty programs in their wallet.
- Seventy-nine per cent of Australians are members of a retail loyalty program, while 50 per cent are members of an airline program, such as Qantas Frequent Flyers or Virgin’s Velocity.
- In terms of benefits earned from programs, Australia is a points-driven market, where consumers are willing to accumulate points and wait to obtain their reward. Their preferences are for:
 - rewards points other than airline miles (48 per cent)
 - Frequent Flyer and other airline miles (33 per cent)
 - discounts and cash back (32 per cent)
 - bonuses and complimentary products (17 per cent).

Loyalty program: structured marketing efforts that reward, and thereby influence, consumer buying behaviour and build loyalty



A challenge for loyalty programs in mature markets, including Australia, is that consumers have high expectations and many available options. Australian consumers are frustrated by perceived reducing value from their loyalty programs and by programs changing to make it harder to accrue rewards. They also argue that some programs lack relevance to their interests and needs. Relevant communication is vital, with too much irrelevant communication a cause of disconnect, as is a lack of regular communication.

A key to success in the competitive loyalty market is personalisation, so that consumers engage with the program. Digitisation, via apps and online accounts, also adds value by allowing customers to check points, receive offers and redeem rewards.



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Figure 5.16 Woolworths Everyday Rewards program ranks highly in the preferred loyalty programs in Australia, coming second to Flybuys. Woolworths personalises its communications, including weekly 'your specials' emails, and provides tangible rewards based on sales.

INQUIRY



Loyalty programs – worth their rewards?

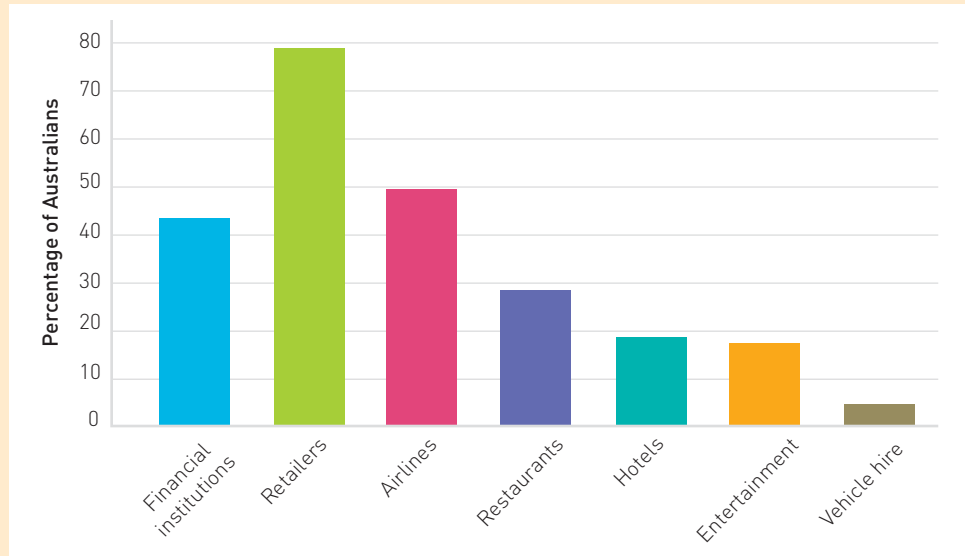


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Conduct an inquiry into the uptake and use of loyalty programs by members of your local community, including the value of the program to stakeholders.

Start by completing a simple market research survey to **determine**:

- the types of loyalty programs consumers are members of, as seen in Figure 5.17
- specific loyalty programs, for example: Flybuys, Myer One, Spotlight VIP, Cinebuzz Rewards, Ikea Family, Boost Vibe Club
- the degree to which consumers perceive that these programs influence how and where they shop – for example, do they:
 - purchase more volume?
 - purchase more often?
 - refrain from purchasing from the competition?
 - recommend the program to others?
- factors seen as positive from the loyalty programs
- factors seen as negative from the loyalty programs.



Source: Mastercard

Figure 5.17 Types of loyalty programs Australians belong to

Choose *one* of the loyalty programs to complete the following tasks.

- 1 **Describe** the business situation, using findings from the simple market research survey. Tip: you could convert your data into tables and graphs.
- 2 **Explain** the interrelationship between marketing strategies such as rewards programs, maintaining market share and customer loyalty.
- 3 **Select** data and information about the chosen program, including the benefits and any costs associated with the program, to **determine** whether it acts as a competitive advantage and achieves customer loyalty objectives. Tip: you may use a USP analysis to complete this.
- 4 **Interpret** your research findings to **draw conclusions** about the implications of loyalty programs.
- 5 **Evaluate** the chosen rewards program to **make a decision** about its value and **propose** a recommendation using relevant criteria.
- 6 **Create** a short presentation, including visual representations, of your findings to present to the loyalty manager of the chosen business.



The Pareto principle and loyalty

The **Pareto principle**, named after the Italian economist who developed it, is a 'cause and outcomes' principle, also known as the 80/20 rule. This states that 80 per cent of one variable is accounted for by 20 per cent of the causal variable – that, for example:

- 80 per cent of sales revenue comes from 20 per cent of customers
- 80 per cent of total sales come from 20 per cent of sales representatives
- 80 per cent of a typical business's revenue comes from 20 per cent of its products
- 80 per cent of sales come from 20 per cent of advertising
- 80 per cent of customer complaints come from 20 per cent of customers
- 80 per cent of search visits are from 20 per cent of the keywords (often brand terms).

This principle is connected to loyalty management as not all customers are equal. The customer pyramid (Figure 5.18) relates to the 80/20 rule by identifying that customers who represent the most value to a business should enjoy the benefits of that value creation and are the customers who need to be identified and retained.

Pareto principle: a 'cause and outcomes' principle, also known as the 80/20 rule. This states that 80 per cent of one variable is accounted for by 20 per cent of the causal variable

If a business takes care of its most profitable, loyal customers, they will potentially become even more profitable. Therefore, targeting the right customer is vital, and businesses must consider questions such as:

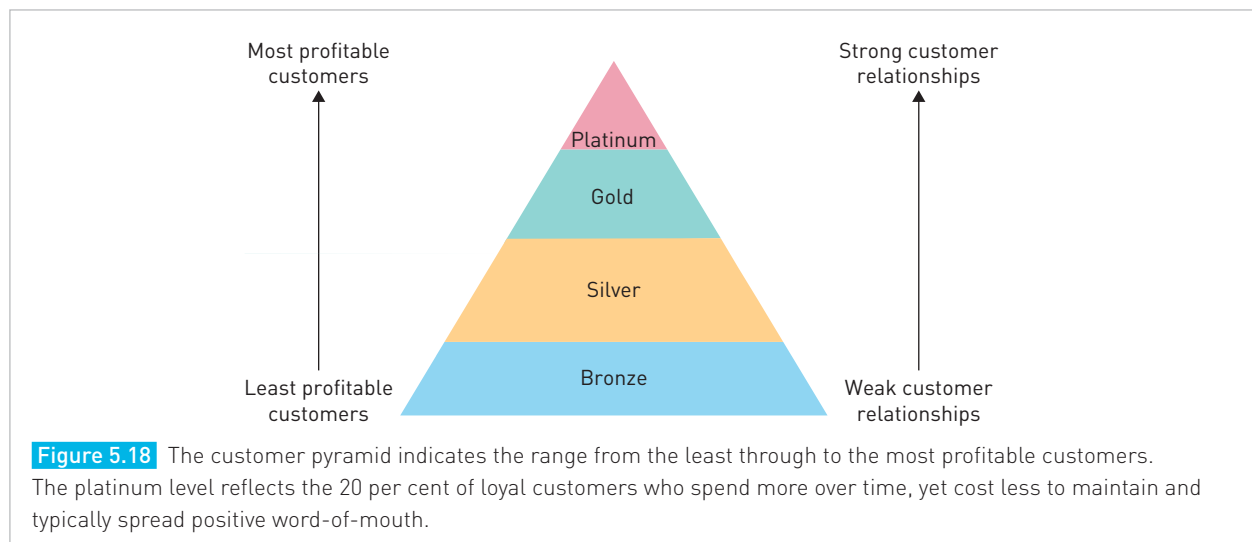
- Which segment sees high value in the product offerings?
- Who spends more over time and costs less to maintain?
- Who spreads positive word-of-mouth and refers other customers?

Mature businesses such as airlines and insurance companies use the customer pyramid to identify and reward their best customers. This can be done using **customer relationship management (CRM)** to analyse data, identify high-value customers and personalise marketing communications. The key is to build and maintain loyalty through well-conceived relationship marketing strategies, rather than being overly focused on attracting new customers or dealing with difficult ones.

The customer pyramid expands on the Pareto principle by further categorising customers for business efficiency. Tiers are based on consumer dollar spend and degrees of loyalty.

- The upper tier, often referred to as platinum, are the most profitable customers or the top 20 per cent. Loyalty programs and other incentives are key to retaining core customers. These customers tend to be less price-sensitive and more willing to trial new products offered by the business.
- Gold customers make up a larger group of customers than platinum (typically, the 21st to the 50th percentile). Gold customers may visit a business as often as platinum, but are typically more price-sensitive, their average spend per visit is lower and they are more likely to shop with competitors if they perceive a better deal is available. These are still profitable customers, who may be converted to platinum through relationship marketing and targeted rewards.
- Silver customers represent a considerable proportion of customers (typically, the 51st to the 80th percentile), but are more price-sensitive and will shop around for the best deal. They are less likely to become loyal to one business, but will provide sales revenue and support capacity, so should not be entirely forgotten.
- The bronze tier (the lowest 20 per cent) includes customers that cost in time, money and effort – they may represent the 20 per cent of customers who make 80 per cent of customer complaints or who only purchase heavily discounted products. They are typically unprofitable.

Understanding the customer base will allow targeting of profitable customers and tailoring of loyalty strategies, and will eliminate a focus on unprofitable customers. This should improve marketing efficiency and returns.



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

Product	 Blue 0 - 4 years	 Bronze 5 - 9 years	 Silver 10 - 24 years	 Gold 25 - 49 years	 Gold 50 50+ years
Discounts available to members with RACQ Roadside Assistance					
RACQ Ultimate*	-	-	-	10% discount*	25% discount*
Plus Care/Ultra Care*	-	5% discount*	7.5% discount	25% discount* Maximum annual \$ benefit doubled	50% discount* Maximum annual \$ benefit doubled

Figure 5.19 The Royal Automobile Club of Queensland (RACQ) rewards loyalty, meaning the longer you have been a member, the greater the benefits you receive.

Customer relationship management (CRM)

Customer relationship management (CRM) in a broad sense focuses on customer retention and relationship marketing, which is enhanced by technology. It places the customer as core to business strategy. Systems should be viewed as enabling the successful implementation of loyalty programs and a tool for building sustainable relationships. CRM is data-driven marketing that enables a business to:

- identify and follow up with potential customers
- identify high-value customers to maintain relationships
- target marketing efforts at the individual consumer through personalisation
- capture customer behaviour data, including complaints
- track customer spending and retention levels
- analyse online browsing behaviour
- support integrated marketing communications that are tailored to target customers.

CRM should deliver a ‘360-degree view’ of customers and create customer insights that enable intelligence-generated strategies. Successful relationship marketing is enabled by reliable databases. Customer data, often gathered through loyalty programs, provides businesses with significant opportunities for insight into consumer preferences and behaviour.

Large companies have created business insight teams to analyse the vast quantities of data and information available across a business’s functions. This includes insights from all customer touch points, including:

- digital enquiries via email
- live website chat sessions
- social channels
- traditional sources such as instore personal selling and formal market research.

CRM allows this data to be interpreted and fed to marketers as customer insights. It is part of customer retention and supports a sustained competitive advantage. As a specialised area, CRM is often outsourced to specialists who partner with the business to turn data-driven insights into actionable strategies.

Marketing strategies built on the foundations of CRM should:

- attract new customers
- encourage existing customers to purchase more often and at higher values – for example, Suncorp could promote its product offering for a customer with insurance to also include banking and superannuation services
- reduce the level of customer turnover, known as ‘churn’, resulting from high-value customers switching to a competitor, such as a business traveller with Qantas switching to Virgin
- regain lost customers
- reduce focus on unprofitable segments, or the bronze-tier customers, as seen in the customer pyramid (Figure 5.18).

GAINING INSIGHT



Audi and CRM

How Audi Australia built a CRM and digital practice

Audi head of CRM and its digital agency partner, Holler, share how the luxury automotive brand has built a customer-led data practice

Getting business stakeholder buy-in and maintaining momentum around the long-term benefits of a CRM and data infrastructure project in the face of short-term sales targets have proven the biggest challenges for Audi Australia's marketing team.

Speaking at ADMA Data Day in Sydney, head of CRM for the automotive brand locally, Josh Wood, and head of customer experience for its digital agency Holler, Vlad Mehakovic, talked attendees through the two-year journey Audi has been on to date to develop a digital and CRM ecosystem. The overall program of work is expected to take at least three years and sees Audi rolling out a range of technologies and capabilities in order to better engage with customers directly.

Prior to the CRM function being created at Audi Australia, customer engagement was an adhoc email activity the marketing team did through agencies. Data on customers and the market was also in silos across the business and its dealer network, and teams largely relied on spreadsheets for insights.

Wood said he initially needed to get the business from top to bottom to understand CRM and engaging with customers wasn't a one-person exercise, but required a whole-of-business commitment. 'People may look at it as system, or see CRM as a fluffy thing that's nice, but communicating that it's providing that premium experience for Audi customers across all touchpoints, whether that's online, our dealerships, social or other channels ... With that you're exposed to all parts of the business,' he said.

Step one: Figure out the customer set

Having been a sales-led organisation for its first eight years in Australia, Audi needed to adjust its mindset to put an emphasis on customer loyalty and retention.

The first step to creating a customer experience driven approach was to better understand who Audi's local customers are. Traditionally, these insights had been provided by the company's German headquarters. Mehakovic said it began with research, including a survey of 20 000 vehicles

purchasers to understand the context around their purchasing decisions. From there, Audi came up with five key personas that were used to lynchpin customer-led conversations within business.

'This helped identify needs across a variety of contexts but critically, focus the business around someone, their story and their needs,' Mehakovic said. 'Now we're trying to add to that mix with the most valuable customers, as well as those we want to have.'

These personas uncovered a customer journey map, Mehakovic continued, which in turn identified 10 different contexts within the ownership lifecycle. Audi assigned each a business and customer objective, identified a set of touchpoints in which customers interact with the brand, then established potential programs of work to underpin those channels. Wood said it ended up with 110 programs of work, a list that it's since worked to prioritise. 'This is always meant to be evolving roadmap of development but still aligning to strategy and objectives,' he commented.

Use insights to drive 'martech' decisions

All of this insight informed what needed to be done from a marketing technology and digital point of view. 'Firstly, we get to the experiences we wanted to create, then that facilitated what technology underpins that, the organisation processes, and what do we need to create,' Mehakovic explained.

Encourage data sharing

Gaining a mutual understanding around data sharing and management was another major hurdle, Wood said. To help, Audi put in place dealer data sharing policies. 'We had a terrible platform integration tool in place and it required a lot of work to fix that and the data sources populating our single customer view,' he said. 'We had to get support and momentum from the business to continue as we couldn't do a lot – we couldn't do much with marketing automation, for example, until our core infrastructure was in place. Presenting on our approach and what we were trying to do really helped. As we brought on digital platforms, we also

saw gaps in our data and put processes in place to deal with those.'

What Audi Australia now has is what Mehakovic described as an 'enterprise service bus' to fuel customer-led activities, insights and thinking. Underpinning this is various systems, including CRM, ERP, marketing automation and data normalisation tools to ensure that all data about a customer is consistent within that one customer record. 'All your systems are only as good as the data driving them.'

Showing short-term wins

While this long-term investment and program of work has been going on, Wood and his team need to keep stakeholders and the business motivated. To do this, Holler put in a CRM trigger program to demonstrate quick customer wins to the business. Other quick wins included email templates and A/B testing on emails.

'One of the hardest things was keeping up that momentum, particularly with sales being driven month by month,' Wood admitted. 'Long-term projects like this are very difficult to maintain when people are looking at the monthly numbers. We had to identify the key business values we can deliver relating to that monthly number – lead generation, conversion, optimisation of communications – and that allows us to continue the momentum to build longer-term projects.'

'We have had challenges with business areas in terms of showing results, but found that balance now in terms of developing and implementing strategic projects.'

Having now built the foundations, Audi is working to maximise the returns on the investment. One example Mehakovic shared was Audi Intelligence, a business intelligence dashboard that provides a centralised repository for customer insights for employees, dealers and agencies.

Getting the data infrastructure right has also allowed Audi to better utilise marketing automation, perform more A/B testing, see the results of that and make business decisions based on the effectiveness of its communications. 'We've never been able to do that before,' Wood said. 'It's great to test changes and see results to ultimately achieve engagement or sales.'

Give back to customers

Audi is also creating an owned customer-focused channel, MyAudi v1.0, earlier this year, an online portal that can be used for product launches, to provide content and give customers the ability to see their own service data, loyalty program status, and so on. 'If and when we build a mobile app, or want to interact with a talking toaster, we can talk to the same back-end architecture,' Mehakovic said. 'Having that data infrastructure and good APIs to interact enables us to build sophisticated interfaces to all of those new touchpoints.' And as more vehicle automation, telematics and other types of data sets emerge, these can also all be integrated into the platform, Wood added.

Source: Nadia Cameron, 'How Audi Australia built a CRM and digital practice', CMO from IDG, 28 April 2016
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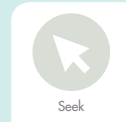
Questions

- 1 Using an example, **explain** the role of research in Audi's development of marketing strategies.
- 2 **Explain** the interrelationship between CRM, loyalty and relationship marketing present in this situation.
- 3 **Explain** how a CRM system supports integrated marketing communications strategies in a competitive environment.
- 4 **Identify** how Audi can achieve marketing economies of scale with the support of CRM.
- 5 Give examples of short-term goals used by Audi during the establishment of its CRM program and **explain** how these fit with the strategic focus of the program.

QUESTIONS 5.2



- 1 Go to a careers website, such as Seek, and research the roles of business insight and customer insight managers. **Identify** the similarities and differences between these roles and **explain** why this employment category has grown.
- 2 Select a mature business that uses the customer pyramid approach to identifying key customers. **Examine** how this business aims to create engagement and loyalty.
- 3 **Explain** how customer retention relates to efficiency.
- 4 **Create** an attribute table to **identify** a variety of loyalty programs, outline their purpose and **explain** the strategies they use.
- 5 **Explain** what it means to achieve a '360-degree view' of customers and why this can be valuable when developing marketing strategies.



Key learnings

You will learn about contemporary marketing strategies through examining:

- emerging technologies
- mobile commerce (m-commerce)
- trends such as 'retailtainment' and experiential marketing
- influencer marketing and social platforms.

Emerging technologies and contemporary marketing strategies

The marketing landscape is constantly changing with disruptions from the technological environment. Marketers must ensure they are attuned to the role of emerging technology as it influences contemporary marketing strategies, including a focus on mobile communications, data analytics and CRM. Marketing must also evolve to be highly customer-centric, meaning that relationship marketing, personalisation and brand engagement will become increasingly important to remain competitive.

Mobile commerce (m-commerce)

The change as m-commerce has become core to the digital marketing environment has been likened to a revolution. Consumer behaviour has changed, being led by mobile technologies including wearable technologies as a communications channel, service mechanism and purchasing tool. According to the 2018 PayPal mCommerce Index, 72 per cent of Australians shop on mobile technology and 46 per cent of millennials state it is their preferred mode, yet 45 per cent of businesses are not mobile-optimised. This presents a challenge for businesses that are not ready for mobile shoppers. The move to mobile shopping has arrived, with 32 per cent of consumers making payments on mobile devices at least once a week, and millennials double that.

With 89 per cent of Australians shopping online, and half (49 per cent) saying they do so at least once a month, online marketplaces have become a top destination for Australian shoppers to browse for products when they have a purchase in mind, surpassing search engines (43 per cent) and online retail stores (29 per cent). eBay remains the most popular marketplace for Australian consumers (79 per cent); Amazon and Etsy are alternatives.

Offering a 10 000-product range, Myer has joined other national retailers, such as Officeworks, Target and Bing Lee, in establishing a shopfront on eBay. The objective is to boost sales online and instore by reaching a wider audience and accessing new customers who may not be shopping on Myer's e-commerce site but use eBay. Establishing a shopfront was deemed a relatively low-cost way of accessing new customers for Myer and will be a growing trend for similar businesses. This highlights the need to have a multi-channel 'place' strategy.

Mobile is the growth engine of digital commerce. Key drivers for using m-commerce include free delivery, low prices and protected purchases, including buyer guarantees and free return shipping; trust, however, remains a key concern. Businesses wanting to embrace m-commerce must:

- focus on mobile technologies that support a wide range of devices, from small smartphones to large tablets
- have a fast page load time, or risk customers abandoning the site after three or more seconds waiting. This means balancing visual appeal with software that can support fast loading
- make navigation simple and ensure easy steps through to transactions
- streamline payment processes to reduce the risk that customers will abandon their shopping baskets.

‘Retailtainment’: A growing trend

Retailtainment – the merging of shopping and entertainment – is a growing trend in retail that is meant to deliver enticing instore customer experiences. This can be as simple as the free yoga classes Lululemon offers, ‘meet the author’ events in bookshops and ‘how to’ sessions in hardware stores. Shopping centres have embraced this trend to create excitement and build centre traffic through initiatives including holiday programs such as free ice-skating and inflatable laser tag, and kids’ activities such as a gardening masterclass and animation classes.

Mobile shopping has also embraced retailtainment. Once regarded as a convenience, ‘window shopping’ for recreational purposes is increasing in popularity, with 77 per cent of consumers browsing on their mobile phones with no intent to purchase, reporting impulse purchases. Browsing of retail sites for entertainment is increasing. Mobile-optimised businesses can capitalise on this with strategies including augmented reality and voice assistants.

INQUIRY



The trend towards abandoning shopping carts

Australian consumers have embraced online shopping as both a source of purchasing and a form of passive leisure entertainment. Data on consumer behaviour reveals that Australian consumers have a high propensity for deserting their shopping carts mid-shop, with 57 per cent discarding their carts sometimes or all of the time, predominantly in the fashion (67 per cent) and furniture (65 per cent) categories.

Understanding consumer buying behaviour is vital to overcoming this trend, with research revealing key reasons for abandoning carts as shipping costs (60 per cent), using online carts as a tool for price comparisons across sites (46 per cent) and out-of-stock products (32 per cent). Delivery delays account for 29 per cent, meaning businesses must also be mindful of the impact of logistics on sales. Online retailers must look to engage consumers to increase conversion rates.

You are to conduct an inquiry into m-commerce behaviours and the trend towards abandoning online shopping carts.

- 1 Conduct research to **select** business data and information about the current trend and other environmental information relevant to the context. Tip: you may choose to conduct a simple primary research survey to gauge consumer behaviour in your local area.
- 2 **Explain** the challenges of digital and emerging marketing strategies and **interpret** what implications this has on marketing strategies.
- 3 **Create** an infographic that **explains** the challenges and recommends tips for businesses to manage this situation.



Experiential marketing: AR, VR and MR

Augmented reality (AR) has become a major trend in marketing and advertising, creating innovative ways of engaging with customers, integrating the digital world with the real world and tapping into the m-commerce trend. AR provides a vibrant platform for storytelling and linking content with brand messages. It can also make online shopping fun by allowing potential customers to learn about products in an interactive manner and guiding them through a virtual experience, as IKEA and Sephora have done.

AR should not be viewed as a gimmick and must be used as one platform within a business’s integrated marketing communications strategies. It represents an interactive, reality-based medium for brand engagement and supports the need for relevance and receptivity if done authentically.



Figure 5.20 Emerging technologies such as VR can be used for project development and marketing campaigns using virtual reality goggles.

GAINING INSIGHT



Sephora Virtual Artist app

Sephora identified the major barrier to online purchases – that it is impossible to know if the product will suit you without trying it on instore – and created an augmented reality experience, the Virtual Artist app. This allows Sephora app users to see how makeup products will look on their face via their phone's camera. Sephora's use of AR helps consumers, while it drives sales by appealing to the more tech-savvy consumers. Some consumers have become brand ambassadors by recording and sharing their augmented reality experiences online.

Many other beauty companies are now investing in AR to allow customers to 'try on' makeup at home. Brands such as L'Oréal, Maybelline, CoverGirl, Rimmel London and Estée Lauder have all launched apps with virtual try-on. These apps also collect consumer data and personalise the shopping experience.

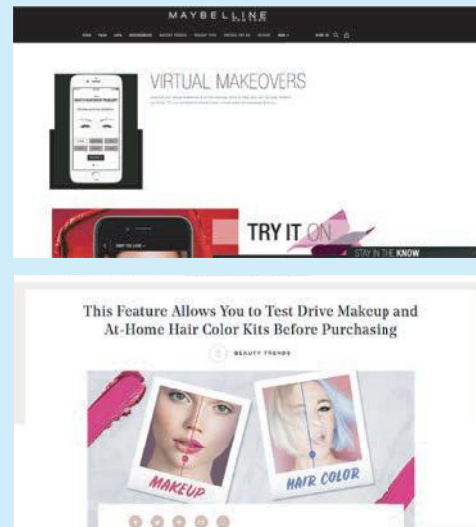


Figure 5.21 Maybelline (top) offers a 'Virtual Makeover' app, while L'Oréal's app (bottom) allows consumers to 'try on' hair colour and makeup.

So what is the difference between AR and virtual reality (VR)? AR overlays virtual objects onto the real-world environment, so consumers see and interact with the real world while digital content is added to it. Pokémon Go, a mobile game that overlays digital monsters onto real-world neighbourhoods, is a successful example of AR. Branded content was integrated into gameplay, including sponsored 'PokéStops' in the game, with companies paying to become stops to entice players to enter the store.

VR, on the other hand, absorbs users in a fully artificial digital environment. Most VR requires the use of a headset to experience the virtual reality and special hand controllers to enhance experiences. Immersive videos, such as those available on YouTube, enable 360-degree mode, which means that users can wear a VR headset and experience a form of VR. Major international brands are embracing VR. Merrell, for example, launched its new hiking boot, the Capra, by creating a VR experience called Trailscape that took users on a dangerous mountain hike on which they 'walked' along a stage mapped to the virtual experience. Coca-Cola has also embraced VR to create powerful user experiences and build on its brand engagement.

A recent emergence in the reality sphere is mixed reality (MR), which can overlap objects and anchor virtual objects to the real world. It is a hybrid of AR and VR that can produce new



Shutterstock.com/Artissara

Figure 5.22 Pokémon Go was a global phenomenon and is an example of people engaging with AR using smartphones.



Coca-Cola
Virtual Reality
for Christmas

environments and visualisations. In terms of marketing, MR will seek to give consumers the chance to interact in new ways with products. Volvo has embraced this technology with its launch of the XC90 car, pitching ‘the first virtual test drive on your phone’ and the ‘Friday Getaway’ experience as a way of creating content and storytelling as the user virtually drives through open fields and mountains. MR aims to place the product in the life of the consumer so they can experience how a product might fit into their lives.

AR, VR and MR are all forms of experiential marketing that will enable brands to engage with consumers. Each offers a so-called ‘wow’ factor that can give consumers memorable experiences and supports storytelling and engagement. Each also provides a point of difference in its application; for example, if a business wants to present an experience that suspends reality, VR is ideal, but if you want consumers to access information that expands on the real world, then AR is optimal.



INQUIRY



Experiential marketing and emerging technologies

Using a mature business of your choice, conduct an inquiry into experiential marketing and the role of emerging technologies, as follows.

- 1 **Research** the current trends in experiential marketing and the uptake of technologies.
- 2 **Explain** how emerging technologies relate to integrated marketing communications strategies.
- 3 **Select** data and information relating to traditional, digital and emerging marketing platforms to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis) for the chosen business.
- 4 **Interpret** the relationships, patterns and trends in the marketing platforms SWOT analysis to **draw conclusions** about the implications of emerging strategies in the marketing mix.
- 5 **Evaluate** marketing strategies for the selected business to **make a decision** and **propose** a recommendation using criteria.
- 6 **Create** a persuasive report (either in written or spoken mode) to advocate findings to the chosen business.

Influencer marketing and social platforms

The arrival of Instagram in 2010 saw the inception of social media advertising, with people able to influence their peers in an online setting. People who were relatively unknown started to amass followers on a variety of social media platforms because they were able to quickly create engaging content and post it in a timely way. They became known as social media influencers, and they operated in a digital public relations and word-of-mouth space. Influencers typically focus on specific content areas such as travel, fashion, beauty, parenting or fitness, and tailor their content to that area. Influencers make use of one or more social media channels, such as Instagram, YouTube, Snapchat, TikTok, LinkedIn, Facebook, Twitter and independent blogs.

Trends in social media and influencer marketing for Australia in 2018 reveal that:

- product reviews by influencers are deemed credible. Over 50 per cent of consumers read blogs and reviews to find out what an influencer thinks of a product before making a purchase decision
- a majority of consumers use social media to research prior to purchasing products, with almost 25 per cent purchasing a product online on the same day they have researched it on social media
- the average Australian consumer checks their social media six or more times per day, engaging with platforms for at least one hour per day



Jonathan Leibson/ Stringer via Getty Images

Figure 5.23 Many companies use brand ambassadors, as well as a variety of influencers, to connect with consumers and raise brand awareness.

- inspiration and motivation are the top reasons consumers follow influencers and bloggers
- many consumers are not aware of the meaning of the hashtags ‘#spon #ad’
- ‘Travel and accommodation’ and ‘Fashion and beauty’ are the most popular categories for products researched on social media. Travel influencers are the most-followed group of influencers on social media
- the effect on actual purchasing remains debatable – 39 per cent of people say they are more likely to purchase a product after seeing an influencer posting about it, yet 40 per cent indicate they are no more likely to purchase a product promoted by an influencer.

The key benefit of using influencers is that they tend to have higher engagement than content generated by brands themselves. They use contemporary and emerging platforms to engage with their audience and communicate brand messages in an authentic way. However, there has been criticism levelled at influencer marketing around value for money, transparency and accountability.

In 2017, the Australian Association of National Advertisers (AANA) published an ethical code for Internet advertising that requires brands to disclose where they have paid personalities to promote products on social media. The Australian Competition and Consumer Commission (ACCC) has also considered the issue of ‘sponsored posts’ and the use of influencers, stating that ‘... businesses using social media channels like Facebook, Twitter and YouTube have a responsibility to ensure content on their pages is accurate, irrespective of who put it there’ (‘Social media’, ACCC).

The intention of both the AANA ethical code and the ACCC guidelines around misleading and deceptive conduct is to prevent the exploitation of the trust of followers on social sites. Consumers should be able to distinguish between genuine endorsement by an impartial influencer and an advertisement sponsored by a business.



QUESTIONS 5.3



The argument for and against influencers in marketing

Complete a PCQ table, like the one shown, to **examine** the value of influencers in building brand awareness and converting this to brand equity and market share in a competitive environment.

Create two paragraphs arguing either *for* or *against* the use of influencers in IMC.

Pros	Cons	Questions
Higher engagement than content generated by brands themselves	Does not necessarily convert awareness into product sales	Is there any evidence that influencers, other than celebrity endorsers, are viable?

Traditional broadcast advertising, broadcaster video on demand (BVOD) and digital advertising

Television advertising in the free-to-air ad market saw an increase in demand during 2018, with demand for broadcast advertisements at the Seven, Ten and Nine networks rising by 2.53 per cent to \$2.86 billion. Reasons for this return reflect issues with digital advertising around viewability of ads, fake news, fake traffic and ads appearing alongside inappropriate content on Facebook and YouTube. Some advertisers say that digital media haven’t lived up to expectations in terms of return on investment. Free-to-air advertising is touted as the fastest, most effective way to communicate brand messages in a ‘brand-safe’ environment. This also supports a trend to a balance between traditional and digital avenues as part of IMC.

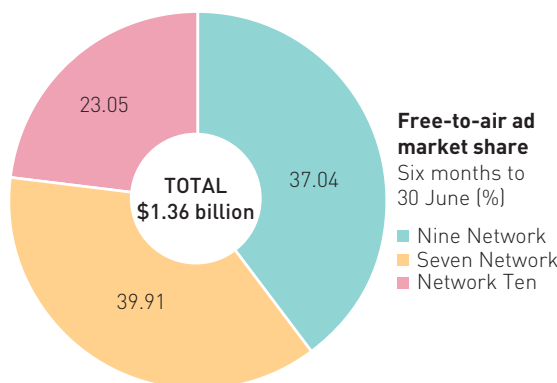
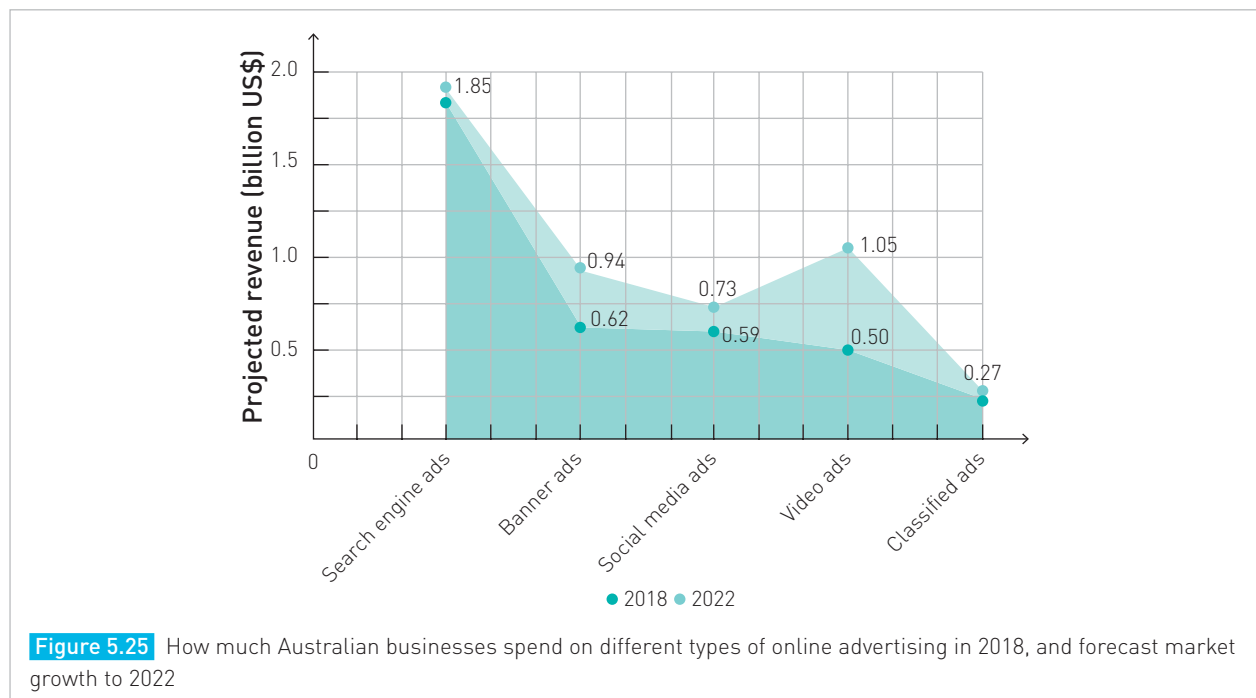


Figure 5.24 Spending on advertising in the free-to-air market increased by 3.81 per cent to \$1.36 billion in the six months to June 2018. The Seven network won the biggest share of ad dollars at 39.91 per cent in a competitive market.

Traditional broadcast television has undergone a transformation, with TV viewing now fragmenting across devices. ThinkTV believes this availability has strengthened the effectiveness of TV advertising and reflects the trend to mobile communication. Due to the increase in cross-platform viewing, industry bodies OzTAM and Nielsen have joined forces to create a new measurement system called Virtual Australia (VOZ). This will provide networks with a total video metric and the ability to follow eyeballs no matter which device. VOZ will allow agencies and advertisers to create media plans for TV inventory on all screens for the metropolitan commercial free-to-air and Foxtel channels. VOZ will enable advanced audience targeting based on viewer behaviours, interests and needs, in addition to fundamental demographic characteristics.

The popularity of broadcaster video on demand (BVOD) increased during 2018 and is forecast to continue growing due to the convenience of being able to watch your favourite TV, anywhere, any time. People aren't just turning off their TVs, they are simply changing devices. BVOD includes 7plus, tenplay, ABC iview, 9now, SBS On Demand and Foxtel now. In 2018, the average Australian home had 6.6 screens, made up of 1.8 televisions, 2.1 mobiles, 1.0 tablets and 1.8 desktop/laptop devices, creating new viewing opportunities at home and on the go.

Digital advertising is also continuing to grow, accounting for around half of the total budgets. There are multiple channels of online advertising, including banner ads, search engine ads (also known as 'pay-per-click' or PPC) and social media advertising. Currently, search engine ads are the most popular online advertising platform in Australia, with growth in video ads projected to be strong until 2022.



Online advertising trends are forecast to include the following:

- Search engine advertising, including ads that appear on the search engine result page next to organic search results for targeted keywords, are forecast to remain the most used digital advertising medium in Australia in terms of revenue.
- Banner ads, which are shown on websites and inside mobile apps, will continue to grow in popularity. These often operate through search engine ad platforms like Google AdWords. The Interactive Advertising Bureau (IAB) sets banner sizes, released as the 'IAB Standard Ad Unit Portfolio', to provide publishers and advertisers with a set of standard specifications and guidelines for advertising experiences. These are similar in nature to the specifications set in traditional print advertising for newspapers and magazines.
- Social media ads, including paid advertising through Facebook, Twitter, LinkedIn and other social platforms, are expected to experience modest growth.

- Video advertising is forecast to experience the strongest growth, both for video ads (for example, YouTube videos) that appear when viewers are on a webpage or app and ads that precede the viewing of another video.

Forecasts indicate that mature businesses will require an online marketing strategy to remain competitive in the future. Video ads are predicted to experience the most growth, with television broadcasts entering the platform with BVOD and new Internet-based video services offered by all three commercial networks and Foxtel in order to remain competitive for advertising revenue. While online advertising strategy should focus on desktop, this will increasingly be on mobile as Australians continue to consume content via their smartphones.



Figure 5.26 The Interactive Advertising Bureau (IAB) sets banner sizes to provide publishers and advertisers with a set of standard specifications, much like those that exist in print media advertising.

Alamy Stock Photo/ Oleksii Telnov

INQUIRY



Debate reigns about professional versus user-generated content

'There is a real difference between ads seen in professionally generated content and ads seen in user-generated content.'

Using the quote above as your focus, prepare a persuasive argument either for or against the statement, based on the current promotions landscape. You should use data and information to support your viewpoint. Tip: you could conduct a simple primary research survey of different demographics to gauge consumer sentiment, and present this graphically.

Be prepared to present your perspective in the format of a debate.

Programmatic and advertising

The digital advertising space is rapidly evolving, with new technologies changing the advertising platforms available and software altering the way it is bought and sold. 'Programmatic' refers to the use of software to buy and sell digital media using real-time bidding, replacing traditional processes that included human negotiations and manual ordering of ad space through agencies and ad networks. It is essentially machine-to-machine buying, designed to achieve efficiency and transparency for both advertisers and publishers.

Programmatic is a more cost-effective, quick and easy way to plan and place media buys. It also has robust consumer targeting capabilities, going beyond the self-declared demographics a consumer may give (for example, when you create a Yahoo or Facebook account) and inferred from content viewed, to utilise behavioural segmentation based on data gathered from viewing habits, videos watched, content shared, blogs read and online shopping habits. This allows for precision targeting, meaning marketers can predict the types of products certain consumer groups will be interested in, along with their perception and relationship with the brand, allowing for personalisation of the message.

To achieve the desired efficiency and reach, targeting must be based on accurate customer insights from quality data analytics as there is no costing saving in communicating to the 'wrong' customer. As technology increasingly allows for focused, data-driven precision in targeting consumers, this will need to be balanced with maintaining brand awareness and engagement through mass marketing strategies.

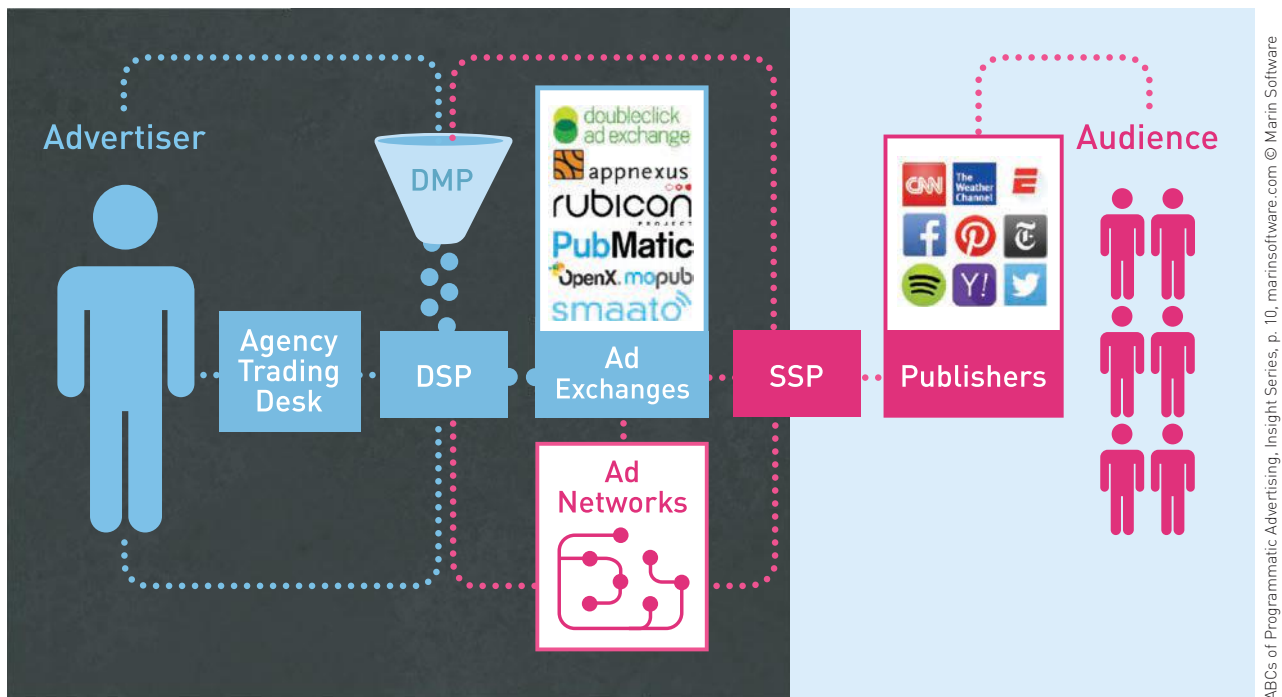


Figure 5.27 'Programmatic' is automation in the buying and selling of digital advertising.

With these types of emerging technologies, there is a critical need for data analytics, which helps businesses uncover consumer patterns, trends and other valuable customer insights. This type of information can be leveraged not only by advertisers, but in other marketing areas such as customer service, loyalty and retention, and product development.

GAINING INSIGHT



Procter & Gamble and precision targeting

Why P&G decided Facebook ad targeting often isn't worth the money

There's still something to be said for mass reach



Figure 5.28 Some Procter & Gamble brands may not benefit from consumer targeting beyond a certain point.

Why is the world's biggest advertiser, Procter & Gamble, changing its Facebook ad strategy? Although it's not cutting back on advertising with Facebook, it plans to buy highly targeted Facebook ads less often.

Targeting to super-specific audiences was expensive but didn't result in a big difference to its business, P&G CMO Marc Pritchard told *The Wall Street Journal*. The company, whose massive portfolio of household brands includes Tide and Crest, had experimented with Facebook's most sophisticated targeting tools, which allow advertisers to reach a narrowly defined audience.

Some ad industry insiders said there could be more to the public challenging of Facebook, such as seeking leverage in price negotiations with Facebook and others. In 2012, General Motors publicly walked entirely away from Facebook advertising three days before the social network's initial public offering, but returned eleven months later.

Any potential posturing aside, P&G may well have a point for certain kinds of marketers. Big enough brands may not benefit from such narrow targeting, ad execs said.

'There is a bit of a sideshow going on,' said one digital media executive, speaking on condition of anonymity. 'You have two really large players in Facebook and Google that constantly remind advertisers how premium a value they are. Now, you have a really large advertiser saying, not so fast, I can do this somewhere else.'

A Facebook spokeswoman said the company's business with P&G grows each year. 'We learn from each other and iterate,' she said in an email. 'That has always been the spirit of how we work together and challenge one another. The cornerstone of our ad strategy is a mix of mass reach and personalized targeting that lends well to mobile consumption and is a strong complement to TV. Our clients tell us this strategy works because we can deliver relevant marketing to the right audiences, with unprecedented scale. It enables partners like P&G to drive the business metrics they care about.'

Price of precision

Aiming ads at precise groups of consumers does cost more per impression, and P&G is saying that

it found the same results from broader ad buys. That's going to be more true for some brands than others, of course.

'Targeting may have been an experiment, but at the end of the day a brand like Tide needs as many people to see an ad as possible,' said Warren Zenna, managing director at Mobext, which is part of Havas. 'They kind of don't need Facebook, except that it is another scale opportunity.'

Facebook has 1.7 billion users, and advertising there soared 62% last quarter to \$6.2 billion.

There are plenty of advertisers making similar calculations, said Noah Mallin, head of social at MEC North America.

'Facebook has enormous reach, so from a branding perspective, why wouldn't you go for the biggest audience possible,' Mr. Mallin said.

'The inference is they are switching to TV but what's really happening is a shift to reach and frequency and away from highly targeted buying, but still on Facebook, which we've been doing on similar clients for the past two years,' he added.

Source: Garrett Sloane, 'Why P&G decided Facebook ad targeting often isn't worth the money', *AdAge*, 10 August 2016. Reprinted with permission of *Ad Age*. © Crain Communications, Inc.

Questions

- 1 Use a double bubble map to compare traditional target marketing with precision targeting.
- 2 **Examine** the concept of precision targeting to **interpret** why Procter & Gamble (P&G) decided to move away from the strategy for some of its brands.
- 3 **Select** data and information relating to digital and emerging marketing platforms to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis) from the perspective of P&G.
- 4 **Interpret** the relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of marketing strategies for P&G.

INQUIRY



Marketing platforms: Are digital platforms alone delivering for brands?

Some marketers and businesses are questioning how many people are truly seeing digital ads, which is called 'viewability', and how persuasive those ads actually are when communicating to consumers. Is using digital alone enough to achieve strategic marketing objectives?

Individually, or in pairs, research the traditional, digital and emerging marketing platforms available to **make a decision** about the suitability of these platforms for a mature business operating in a hostile competitive environment. Ensure that you do the following:

- 1 **Explain** the role of emerging technologies in contemporary marketing strategies, including its place in integrated marketing communications strategies.
- 2 **Select** data and information relating to traditional, digital and emerging marketing platforms to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis).



iStock.com/pictafolio

- 3 **Interpret** the relationships, patterns and trends in the marketing platforms SWOT analysis to **draw conclusions** about the implications of marketing strategies.
- 4 **Evaluate** marketing strategies for a business operating in a hostile competitive environment to **make a decision** and **propose** a recommendation using relevant criteria.
- 5 **Create** a response to **communicate** your findings, addressed to the selected business.

Use the stimulus that follows as a starting point for your inquiry.

Unilever threatens to reduce digital ad spend

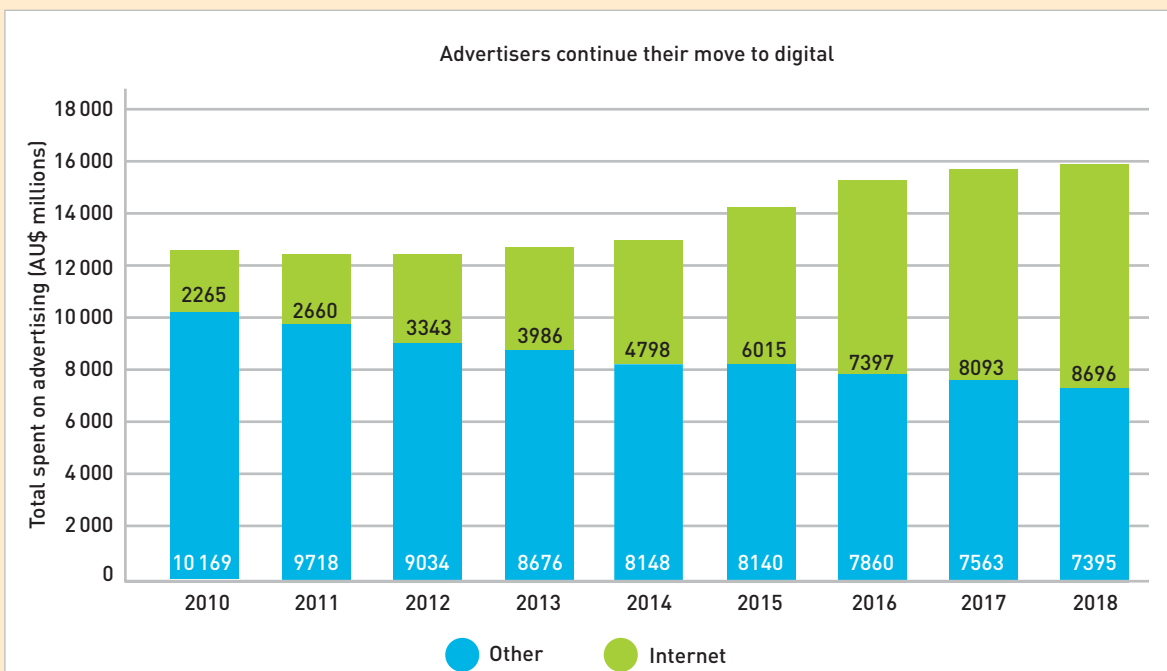
Unilever is threatening to pull its ads from any platform, including Facebook and Google, that allows 'toxic' content, according to Reuters. Keith Weed, Unilever's chief marketing officer, said the company – which owns numerous well-known consumer-packaged goods (CPG) brands including Ben & Jerry's, Dove, and Lipton – will not invest in platforms that create division in society, do not protect children, or promote fake news.

Unilever spent over \$9 billion in advertising in 2017, second only to Procter & Gamble, which spent over \$10 billion. The company is taking a firmer stance on brand safety and is willing to work with social giants to come up with a solution.

Unilever is focused on 'responsible content' and 'responsible infrastructure.' In terms of content, Unilever plans to tackle gender stereotypes in advertising and improve its own brand messaging after missing the mark on a Dove campaign last year that led to a social media backlash. In addition, the company has committed to partnering with organizations that strive to improve the transparency of the digital media supply chain.

Moves by Facebook and Google to address advertisers' concerns has been too slow. While both companies have launched programs to vet the types of content that populate their platforms, the progress thus far is still not enough to appease brand-safety-minded advertisers with large budgets. This potentially opens the door for TV broadcasters to lure ad dollars away from digital platforms, as TV is often seen as a transparent, brand-safe environment, albeit more expensive than digital advertising.

'Unilever threatens to reduce digital ad spend', *Business Insider*, 13 February 2018



Source: Zenith, *Advertising Expenditure Forecasts*, March 2018.

Figure 5.29 Australian advertisers continue to move towards digital platforms at the expense of traditional promotion avenues. Online now outpaces all other advertising in Australia.

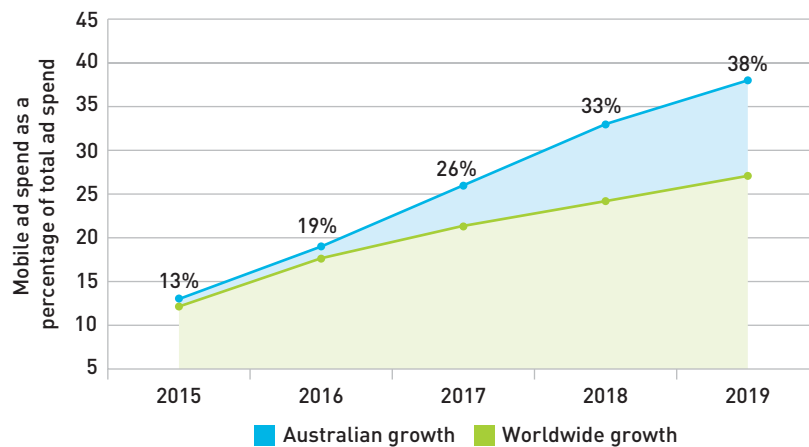


Figure 5.30 In 2016, the total amount businesses spent on advertising in Australia reached 15.7 billion dollars. Of that, \$7.1 billion was spent on Internet advertising. In 2021, Australian advertising spend is forecast to reach \$17.3 billion, of which around \$10 billion is forecast to be spent on Internet advertising. However, while Australian advertisers are increasing their digital budgets, the use of ad blocking software has increased 80% since 2013, indicating that many consumers find ads irrelevant and annoying. Nearly one in five Australians will not see any internet ads over a 30-day period.

Follow the weblink to read the following articles:

- 'When Procter & Gamble cut \$200 million in digital ad spend, it increased its reach 10%'
- 'Facebook gives advertisers more info on where their ads are running – but is it enough?'
- 'Media buyers warn Facebook viewability "diabolical and horrible"'
- 'Australian advertising industry holds talks to protect brands against extremist content'

Follow the weblink to Business Queensland to read about using social media as a marketing tool.



GAINING INSIGHT



Frosty Boy: Equipped for the future

FOCUS QUESTION: How does Frosty Boy maintain a competitive edge for its operations systems in a global market?



Frosty Boy

About Frosty Boy

Frosty Boy Australia is an internationally acclaimed manufacturer and distributor of a range of powdered dessert bases, including soft serve, frozen yoghurt and beverages.

Since its beginning in 1976, Frosty Boy has established itself as a leader in the food and beverage market, expanding its product range to include toppings and syrups, catering and food service products. Australian customers include cafes and quick serve restaurant chains. The business exports into more than 50 countries, across five continents, with a current focus on developing sales in the markets of Asia and Latin America.

A proud Queensland business, Frosty Boy outgrew its Loganholme factory and in 2014 relocated to a state-of-the-art plant at Yatala, near the Gold Coast.



Frosty Boy



Frosty Boy

Figure 5.31 Frosty Boy relocated to a large, modern facility at Yatala in 2014.

Business goals

- To maintain long-term relationships with our clients by acting as a partner
- Commitment to research and development and innovation to provide solutions to the ever changing challenges Frosty Boy's customers are facing
- Ongoing improvement in production capabilities to maintain flexibility and adjust to changing consumer demands and trends
- To uphold world-leading food safety and quality certification
- Continuous improvement and automation to increase production efficiencies, which are monitored and reported daily
- To maintain a business culture that promotes support and collaboration with the help of a clearly defined set of values

Manufacturing and technology

Before relocating, the Loganholme facility was operating at full capacity 24 hours a day, seven days a week, to meet demand. Having opened a technologically advanced manufacturing facility at Yatala in 2014, Frosty Boy operates comfortably at around 60 per cent capacity. This equates to two million serves of soft serve ice cream daily, alongside frozen yoghurts, slushies and flavoured beverages, and provides the scope for growth.

The new plant is a 6000 square metre facility with three production lines, using best-in-class robotics and computer technology. The Yatala plant features ultramodern equipment developed in Germany and Australia. It also incorporates a research facility. Frosty Boy has invested significantly in technology, including:

- world-class production equipment
- robotic technology in the packaging and labelling lines
- a layout that facilitates optimisation of productivity and quality assurance
- large container handling facilities
- computer-controlled batching, blending and filling processes.

By investing in the new plant and technologies, Frosty Boy has been able to reduce costs, increase capacity, improve speed and flexibility of operations and more efficiently utilise resources. These savings and operational efficiencies have resulted in economies of scale and support the growth of the business internationally. General Manager Operations, Angela Hausmann, says:

The manufacturing process is set up to balance the need for flexibility and efficiency. Across three manufacturing lines, we have varying degrees of automation and robotics in use. This way we get to enjoy the benefits of an efficient, highly automated line for our high-volume product ranges while maintaining flexibility to test out new products on our smaller production lines.



Frosty Boy



Frosty Boy

Figure 5.32 State-of-the-art facilities and technology at Frosty Boy

Quality

The Yatala plant houses an advanced laboratory for product development and quality testing. Accuracy is achieved via a computer-controlled batching, blending and filling process which delivers precise and accurate results. Quality control points include in-line rare earth magnets, a sifter, in-line check weigher and X-ray inspection of every sachet. All products conform to specification or are automatically rejected on the line.

The laboratory at Frosty Boy guarantees that every product leaving the factory has been tested for

quality and integrity by testing that includes analytical methods as well as sensory evaluations. The Frosty Boy facility is Safe Quality Food (SQF) certified, for both Food Safety and Food Quality. SQF is a globally recognised certification (GSFI – Global Food Safety Initiative), meaning products are assured for domestic and international markets. They are also audited and certified by other industry bodies including Safe Food Queensland, Yum! and many others.

The role of research and development

Consumer preferences in the dessert market are constantly changing, so anticipating market trends is critical. General Manager Research, Development and Innovation, Sarah Cutler, attests that Frosty Boy is constantly looking for new ingredients that will make the existing products better, while also looking towards the future and the next trend. Cutler explains that:

First and foremost, we are solution providers. We incorporate varied international tastes and flavour preferences to create customised products. The team travels internationally to collaborate with our customers and to develop products specifically tailored to local tastes and preferences.

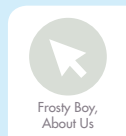
When in the other countries, we delight in researching local flavours and desserts. The world is growing ever smaller, and consumers are being more adventurous and always wanting something new. We deliver this to our customers creating delicious desserts and beverages, some based on the exciting new things we taste in our travels.

As the soft serve experts, Frosty Boy stays ahead of consumer trends by analysing market data and listening to feedback. The business also helps its clients innovate and keep their menus current.

A strategic focus

Frosty Boy is an iconic brand and an Australian food export success story. The business operates with a strong vision for the future based on high-quality products, innovation, solution selling and excellent customer service. Frosty Boy's focus on anticipating market trends and achieving long-term partnerships with its customers bodes well for the future.

Questions



View the video about Frosty Boy and then answer the following questions.

- 1 **Describe** the stages of the business life cycle for Frosty Boy, including facts and characteristics. **Create** a timeline to **communicate** the progression of the business.
- 2 **Explain** why Frosty Boy relocated in 2014 and the impact of technologies on business processes.

- 3 **Explain** how Frosty Boy achieves economies of scale in its operations system.
- 4 **Identify** and **explain** the quality management strategies evident for the business and how this relates to customer satisfaction.
- 5 **Explain** the role of research and development in operational and marketing strategies at Frosty Boy and how this relates to its strategic direction.
- 6 **Select** data and information relating to Frosty Boy's current situation in a competitive environment to

analyse strengths, weaknesses, opportunities and threats (SWOT analysis).

7 **Interpret** the relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of strategic planning.

8 **Evaluate** operating strategies for Frosty Boy as it operates in a competitive environment. **Make a**

decision and **propose** a recommendation using criteria.

9 **Create** a short business report extract to **communicate** findings to the chief executive officer (CEO) of Frosty Boy.

Key learnings

You will learn about strategies for a mature business to remain competitive in the marketplace through examining:

- operations objectives in the maturity stage of the life cycle
- quality of conformance
- cost leadership.

Operations strategies in a competitive environment

In a competitive market, a mature business must aim to optimise operations systems to sustain or improve its position in the market. Where marketing generally focuses on sales, branding and market share, the strategic focus of operations will typically be around cost advantage via drivers including economies of scale and the role of technology. The strategic goals of operations are to achieve business competitiveness through improved efficiency and effectiveness. This can be achieved with a focus on productivity, quality of outputs and lean management systems.

Operations objectives in the maturity stage

During the initial stages of the business life cycle, a business will focus on establishing a production or operating system to transform inputs into outputs, and on forming relationships with reliable suppliers or contract manufacturers who are willing to take them on (see *Business for QCE Units 1 & 2*). As a business reaches maturity, it will seek to improve competitiveness by establishing strategic or long-term goals, such as increasing productivity, improving quality in processes and outputs and adopting a leaner, more sustainable model. These goals must fit with the overall strategic direction of the business and will be translated into five interrelated performance objectives (Figure 5.33) which can be expressed as **key performance indicators (KPIs)**.

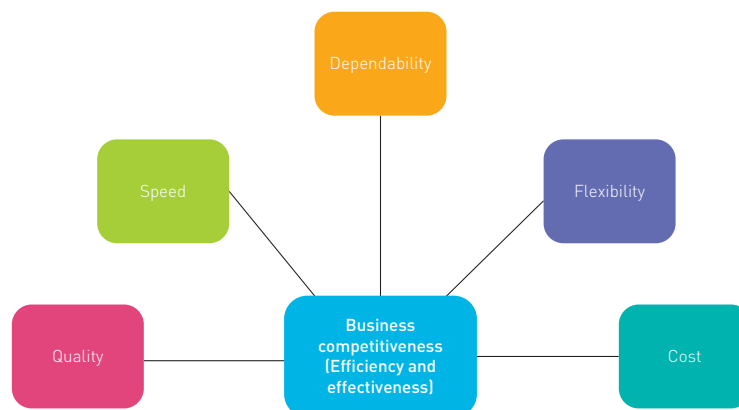


Figure 5.33 Performance objectives enable a business to assess its operations performance in achieving strategic goals, thereby maximising competitiveness.

Key performance indicator (KPI): an objective, set by a business, that can be measured to allow business performance to be assessed

Quality objective

A quality objective is multifaceted and addresses the quality of the design of the product and/or the quality of service and the processes used to produce it, along with aspects covered later in this chapter. Production standards are typically based on the quality expectations of the consumer, with characteristics such as performance, reliability and aesthetics deemed important. From an operations perspective, quality will be judged on how closely the product or service aligns with the specifications required by the design – this is known as **quality of conformance**.

- Quality of conformance is the degree to which a product, service or process meets its design specifications. Conformance is measured based on how consistently products achieve compliance with the desired standards, noting this is based on the standard required. An example is that a Sony Smart TV requires high-quality design and high standards of conformance, while an inexpensive kitchen kettle would have much lower quality design; but, if it meets the low-design specifications, then a high standard of conformance has been attained. Conformance is achieved with processes of quality control and quality assurance.
- Quality of design: as a performance objective, a business must determine the quality of product it will offer to the market. This is interrelated with the marketing function as it reflects the target market and positioning strategy; well designed and manufactured products will usually attract a higher price. Aspects of quality of design include:
 - features, such as how many options are provided
 - aesthetics, or perception about how the product looks and feels
 - durability and serviceability, or how long the product is expected to last before it needs servicing (or replacing) and how easy and convenient it is to perform maintenance.
- Quality of service relates to customer satisfaction in terms of how reliable the service is, how well the service meets customer needs and expectations and the timeliness or responsiveness of the service experience. Service offering is also a key part of the total product concept which can differentiate a brand from its competitors, leading to greater business effectiveness.

GAINING INSIGHT



Sony and quality design



Figure 5.34 Canstar Blue's 2018 review and ratings of television brands included Sony, Samsung, Hisense, Panasonic, LG, Bauhn, Kogan, TCL, JVC and Soniq. Brands were reviewed based on picture quality, sound quality, ease of use, smart compatibility, value for money and overall customer satisfaction. Sony rated best for overall satisfaction, picture quality, sound quality, ease of use and smart compatibility.

Source: www.canstarblue.com.au. Canstar Blue research finalised in May 2018, published in June 2018.

According to Canstar Blue, of the 10 leading brands included in the television ratings, only Sony received a five-star overall satisfaction review from Aussie consumers. Note, however, that Canstar does not compare every brand in the market. Brands were rated in the following order for overall satisfaction:

1st	Sony	6th	Bauhn
2nd	Samsung	7th	Kogan
3rd	Hisense	8th	TCL
4th	Panasonic	9th	JVC
5th	LG	10th	Soniq

Questions

- 1 **Examine** the effect of design quality on customer satisfaction and branding.
- 2 **Explain** how quality and price are related, using examples from the above brands to illustrate your findings.

Quality of conformance: the degree to which a product, service or process meets its design specifications

Speed

Speed, in a business context, means the elapsed time between customer orders and the receipt of products or services. It means ‘doing things fast’ to minimise customer wait times and shorten lead times. Speed relates to productivity as output can be measured in units of time. For example, if Sony produced 9000 televisions last month and needs to produce 10 000 during the current month, with fixed amounts of equipment and staff inputs, increasing the speed of the production process will allow the business to reach its forecast.

Improved speed can be achieved through technology such as computer-aided design (CAD), computer-aided manufacturing (CAM) and robotics. Faster speed can reduce the **lead time**, or time it takes from placing an order until it is received, which improves customer satisfaction. A speed objective that leads to efficiency of inventory relates to just-in-time and lean management.

There is a limit to the value of speed, as other issues can arise if speed is prioritised. Focusing solely on speed may compromise quality and increase the chance of equipment failure or human fatigue.

Dependability

Dependability refers to the reliability of the product or service, including how well the product is made and how long it lasts before it fails. Some brands enjoy a positive reputation for dependability because they uphold their marketing promises. Dependability can be measured as a key performance indicator (KPI) based on warranty claims and the level of customer complaints. In an era of online reviews, dependability has become increasingly important.

Dependability also refers to consistently meeting a promised delivery time for a product or service and doing things in a timely manner. Meeting promised delivery or supply times is of great importance so that products arrive to market on time or services are delivered on time. However, an increase in delivery speed will not lead to customer satisfaction if the product is not delivered in a manner consistent with quality expectations. In some instances, such as a fine dining restaurant, delivering too quickly may result in customer dissatisfaction. Dependability can also lower costs as it avoids costly warranty claims or the need for service recovery and refunds. In manufacturing and project management, failure to deliver on time may also incur financial penalties.

Flexibility

Flexibility is the ability of a business to change what it does quickly and be able to adapt to internal and external influences. Flexibility refers to how quickly a business can change its operations system to respond to the market and adapt to changing consumer needs in terms of product range and varying demand. Types of flexibility can be identified as:

- product or service flexibility – the ability to quickly respond to changing customer needs with new product design or service offerings
- volume flexibility – the ability to increase or decrease output in response to changes in demand and manage capacity. Some businesses, such as those in tourism, require significant volume flexibility for seasonal changes in demand.

During the growth stage of the business life cycle, a business needs the flexibility to meet increases in demand to avoid inventory shortages and delays in supply (a dependability issue). Having sufficient productive capacity is important for all businesses and can require both growing and mature businesses to relocate or expand, as seen at Frosty Boy (pages 173–5).

Lead time: the time it takes from placing an order until it is received



GAINING INSIGHT



Witness the giants

Reasons why you should go whale watching in Hervey Bay

Witnessing a 15-metre humpback whale slowly emerge to the surface of the ocean is a truly unforgettable experience.

Every year, between mid-July and November, the town of Hervey Bay becomes a playground for thousands of humpback whales as they make their journey from the Great Barrier Reef to Antarctica.

Hervey Bay waters are protected by World Heritage-listed Fraser Island – which makes it the perfect place for these 40 tonne wild animals to put on a show for tourists.

Tourists can witness the friendly giants on a whale watching tour with one of the local operators during the 'whale season'.

Experience breaches, fin slaps, spy hops and muggings of the boat – when the whales swim around the boat in curiosity.

If seeing the whales isn't exciting enough, some vessels also have sound systems through which passengers can hear the whales sing to each other beneath the ocean.

There's also a high chance you will encounter other marine life including dolphins, turtles and, occasionally, dugongs.

Locals celebrate the arrival of the whales with the Hervey Bay Ocean Festival, a 10-day festival highlighting the importance of the ocean and promoting marine life in the Fraser Coast region.

This year, the festival will kick off on August 11 with events including:

- **The Blessing of the Fleet**
The Fraser Coast's famous fleet of whale watch boats will be blessed in a century-old tradition at Hervey Bay Marina to ensure a safe season.
- **The Hervey Bay Seafood Festival**
A seafood festival, hosted by the local fishing industry, with live entertainment, cooking demonstrations and prizes.
- **The Whale Parade and Concert**
A fleet of floats will fill the streets to represent the humpback's annual migration.
- **Paddle Out for Whales**
Locals and tourists will paddle out to sea on a kayak for one minute's silence to highlight efforts made to protect the marine environment.

Humpback whale facts

- Humpback whales sleep with one eye open.
- They can stop blood flow to certain parts of their body.

- Sound is a more dominant sense than sight.
- They are conscious breathers and decide when to reach the surface for air.
- Their brain is much larger and more complex than the human brain.
- They can make sound frequencies higher and lower than humans can hear.

Source: <https://www.racq.com.au/Living/Articles/Witness-the-giants>, © Sam Marsh, RACQ Publishing



iStock.com/Uwe-Bergwitz

Figure 5.35 Hervey Bay promotes itself in the winter months as a whale watching paradise.



Shutterstock.com/Steve Todd

Figure 5.36 Whales put on a show for tourists in Hervey Bay.

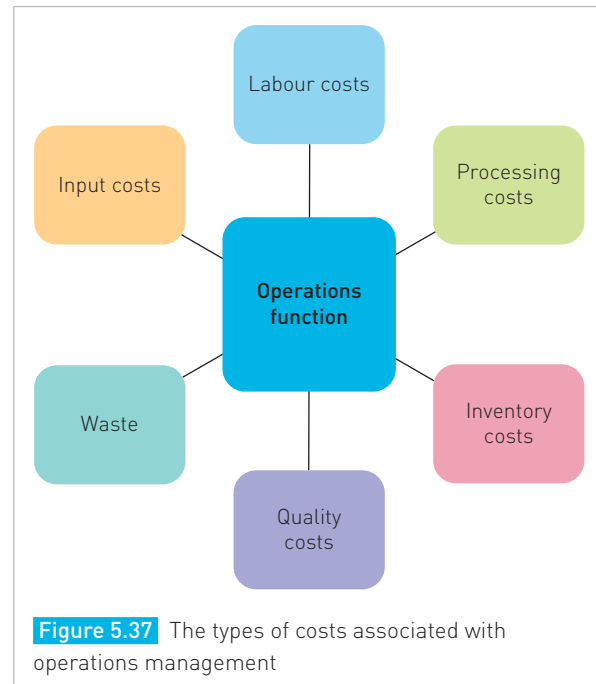
Questions

- 1 **Describe** the business situation present and **identify** factors from the external environment that influence business operations.
- 2 With reference to performance objectives, **explain** why Hervey Bay promotes itself as a major whale watching destination.

Cost

The operations function is largely an expenditure area for a business and refers to the cost involved in producing goods and services at a level which will enable them to be priced appropriately and reflect marketing strategies. This involves controlling expenses in the production system. Costs that are typically a facet of the operations function are illustrated in Figure 5.37.

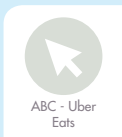
As a business matures, it should become more efficient and thus manage expenses more productively. Strategic operations management involves **cost leadership**, which means having the lowest costs within the industry. Costs will be carefully analysed, with a view to achieving cost savings and increasing efficiency. If a business is competing on price then cost control is critical, or cost leadership may not be achieved. Procurement of new technologies can help a business lower costs, maximise use of resources and minimise waste, thereby reducing operational costs.



GAINING INSIGHT



Food delivery industry: A hot ticket or a lukewarm performer?



Follow the weblink to read the article 'Uber Eats imposes "unfair contracts" and ruins deliveries, restaurateurs allege'.



Figure 5.38 Uber Eats has become a key player in the competitive food delivery market.

Technology and international businesses have changed the way consumers 'dine in' at home, bringing convenience to the dining industry. Consumers can

now order in from an array of restaurants and cafes without getting off the sofa. In Australia, Uber Eats and Menulog dominate, with about 70 per cent of the market, while smaller businesses, including Deliveroo, fight for the remaining share. International player Foodora exited the market in late 2018 citing a 'shift in focus to higher growth markets' as the reason, while data reveals that Foodora only had about 2500 restaurants, compared with Menulog at about 10 000.

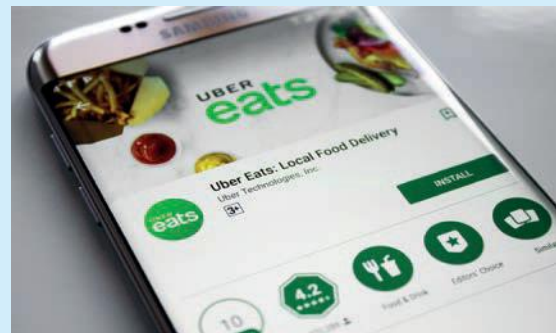


Figure 5.39 Uber says it is not a delivery service, but its website states 'You crave, we deliver'.

Cost leadership: aiming to have the lowest costs, and therefore be the most price-competitive, within an industry

A challenge for the industry is delivering at a high standard, with restaurants having little choice over the length of time it takes for food to be delivered. This means a restaurant can send out a hot meal with an Uber Eats driver, but it may not still be hot by the time it reaches the consumer if the driver has made multiple deliveries along the way. A report by the ABC stated that late delivery was the greatest complaint by restaurant owners and customers about Uber's delivery drivers. A consequence of this can be disgruntled customers who post negative reviews about the delivery service, but also about the restaurant.

Given the huge scale of delivery operations for the dominant players, businesses like Uber Eats admit mistakes do sometimes happen. Some orders are not delivered within 30 minutes and some don't arrive to

the standard that they left the restaurant. Uber aims to minimise its responsibility, stating that restaurants are responsible for the delivery of meals and they 'maintain possession, control, and care of the meals at all times'. If a customer complains about their meal being substandard, then Uber decides whether to deduct refunds from the restaurateur or accept the liability.

With restaurants paying up to 35 per cent of their revenue in delivery fees, these businesses are barely making any gross profit per sale, and sometimes are running at a loss. Some restaurants have cancelled contracts and taken to social media to communicate their stance on delivery businesses, while others accept that this is the trend and that, in a consumer-centric market, they need to offer the service to remain competitive.

Questions

- 1 **Describe** facts and characteristics about the food delivery industry in Australia, including alternatives to app-based delivery businesses.
- 2 **Explain** the role of outsourcing in this business situation and the challenges faced by outsourcing an operational activity.
- 3 **Examine** the situation, from the perspective of a restaurant, to **determine** the critical performance objectives present. **Identify** any conflict between performance objectives in the situation.
- 4 **Explain** how the performance objectives of a restaurant may differ from those of a delivery business such as Uber Eats.
- 5 **Select** data and information relating to operational functions for a mature business to **analyse** outsourcing power interest (using a power interest grid) in this situation.
- 6 **Interpret** the relationships, patterns and trends in the outsourcing power interest grid to **draw conclusions** about the implications of outsourcing from the perspective of the business.
- 7 **Evaluate** strategies for the mature business operating in a hostile competitive environment to **make a decision** and **propose** a recommendation using criteria.
- 8 **Create** a response to **communicate** your findings to the mature business.

Key learnings

You will learn about quality management through examining:

- quality control (QC)
- quality assurance (QA)
- total quality management (TQM)
- service quality and TQM
- strategies for improving quality and operational efficiency
- the Pareto principle and operations.

Quality management

Quality management is a journey, with strategies that evolve as a business moves through the stages in the business life cycle. What may start as quite an ad hoc approach, designed to reduce quality costs, will develop into an integrated, strategic approach as a business matures and seeks to remain competitive. Quality is one of the five operational performance objectives, so having a high-quality product or service is generally an essential element in a consumer buying decision, even where the consumer is also price-driven.

Quality can be viewed from several perspectives. The business, for example, may see quality in terms of conformance and marketability; the customer, in terms of how well the product or service meets their needs and

expectations (see pages 390–2 of *Business for QCE Units 1 & 2*). In a competitive environment, a business may aim to produce a quality product or service that represents value for money. A quality product does not have to be made with the finest materials and to the most rigorous standards, but it must meet consumer expectations. Consider the case of a \$20 pair of jeans available at Kmart compared to a \$200 pair by Armani – the expectations of the consumer around aesthetics in design, standards of stitching and durability of materials would be different. A quality product does not need to be expensive but it should perform to expectations and reflect the marketing strategy of the business. An inexpensive product will be considered of good quality if it performs as expected. This demonstrates that quality is a relative concept, depending on the nature of the product or service, its price and the expectations of consumers.

Quality management refers to the processes that a business carries out to meet its quality objectives, including the requirement that products are safe, reliable and fit for purpose. Quality management strategies include quality control, quality assurance and total quality management.

Quality control

As introduced in Units 1 & 2, **quality control (QC)** is based on inspections, testing or checking of the product to ensure it conforms with ‘acceptable quality’ and is free from faults. The aim is to detect 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 steps, by a trained quality inspector. QC relates to the performance objective of quality of conformance.

To gauge and monitor quality, a business will need to have defined:

- quality standards and parameters that are applied across the range of processes
- a range of tests and/or check-points designed to assess quality against the standards
- predetermined quality targets, where failure to meet targets sees corrective action applied.

Although this method is useful in achieving a quality product that conforms to standards, it is a reactive approach that can cost a business money in terms of waste from scrapping or reworking items in the production system, repairs and warranty claims and recall of faulty products, which could generate negative publicity.

When adopting a QC strategy, it is important to know what defect levels are tolerable based on industry standards. This involves benchmarking against other businesses. A business in the air travel industry will have a very low tolerance for faults, as any defective part may lead to a disaster. A higher tolerance level will be accepted when manufacturing in the textiles, clothing and footwear industry, especially when this involves use of cheap labour.

Quality inspections

Quality inspections can be performed before, during and after production. Some businesses will inspect the inputs to be used in the production process before accepting them from the supplier. During the process, checks may be made at critical stages in the production process, while all products will be checked on completion, often by random sampling. Random sampling is used as a business cannot test all its products either due to the large volume of products or the potential to ruin the products during inspection. This process can be expensive, requiring highly trained staff such as quality engineers to perform the checks.

The quality inspector will adhere to a pre-established checklist that is based on the product specifications to verify conformity. This person may be an employee of the business, or quality inspections may be outsourced to a specialist. Where a business is using an offshoring strategy to source finished goods from suppliers overseas, outsourcing to a specialist inspector may be the only viable option.

Quality management: the processes that a business carries out to meet its quality objectives, from the business and consumer perspective

Quality control (QC): a system based on inspecting, testing or checking the product to ensure it conforms with ‘acceptable quality’ and is free from faults



Quality assurance

The purpose of **quality assurance (QA)** is to prevent defects from entering the production system in the first place. It is a proactive process focused on prevention, rather than detection and correction. Quality assurance involves establishing and using a set of procedures and processes that will prevent product defects and assure a stated level of quality. With a thorough QA process in place it is usually possible to reduce the volume of inspections needed in the system. Inspections will then form part of the broader QA process. As with quality control, quality assurance aligns with the performance objective of quality of conformance, as QA is measured against design specifications.

Businesses wishing to be certified as 'quality assured' obtain certification from a quality assurance authority which audits their processes against national or international standards. Achieving certification entitles the business to display certification marks on all business communication, including product packaging. Attainment of a 'Quality Endorsed Company' certificate verifies that a business uses a quality system. This can represent a competitive advantage for a business in comparison with non-certified competitors.

Standards Australia provides support to businesses pursuing QA, with advice on processes and awarding of certificates for meeting certain standards. Standards Australia certifies operations domestically, while ISO (International Organisation for Standardisation) certifies international standards, which mature businesses operating beyond the domestic market will require. The ISO 9000 series is a widely used international standard.

Among the benefits of QA, as compared to QC, are that it:

- reduces the need for multiple inspections and eliminates the costs associated with scrapping or reworking of faulty products or service recovery strategies
- reduces the need for expensive final inspections, with the sample size of any inspections likely to be reduced
- makes quality the responsibility of all employees, which can enrich the work environment and engender greater commitment to quality processes
- enables a business to proactively meet its performance objectives and benchmark against other businesses
- provides greater confidence to all stakeholders and can represent a competitive advantage in international markets against non-certified competitors.



Figure 5.40 ISO 9001 is an international quality assurance standard.

GAINING INSIGHT



Standards Australia: Making standards and innovating

A recipe for an Australian standard



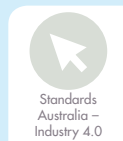
Follow the weblink to view 'A recipe for an Australian standard' and complete the following questions.

Questions

- 1 Outline the role of stakeholders in the creation of standards, ensuring you name the possible stakeholders.
- 2 **Explain** the purpose of ingredient number 5, 'A keen eye for style'.
- 3 What are 'nominating organisations' and how are they involved in the creation of a standard?

- 4 **Explain** the role of the public comment process.
- 5 How many current Australian standards are there? Why do you think this is the case?

Industry 4.0



View the weblink 'Standards Australia – Industry 4.0', which was released on World Standards Day in 2018.

Using examples, **explain** what Standards Australia means by 'industry 4.0' and the benefits to be achieved from this.

Quality assurance (QA): establishing and using a set of procedures and processes that will prevent product defects and assure a stated level of quality

GAINING INSIGHT



Yakult: Quality management systems

How is Yakult made?

Yakult's 'purpose-built' Australian factory is a technologically advanced manufacturing facility. It incorporates some of the latest food processing equipment. Strict standards apply to producing Yakult, ensuring a drink yield that is close to 99 per cent (this means that 99 per cent of the raw ingredients end up in the bottle). There are no by-products and there is little waste. The factory is in Dandenong, Victoria, and makes Yakult for the whole of Australia and New Zealand.

The high-tech facility incorporates some of the latest food processing equipment, including equipment for the manufacture of plastic bottles, filling and packaging lines, culture and quality control rooms.

Questions



- 1 Refer to the Yakult website, and the 'Made fresh for you' document, to **explain** the production system for manufacturing Yakult.
- 2 **Explain** the quality strategies the business uses and how these relate to operational performance objectives.
- 3 **Examine** the role of technologies in achieving efficiencies at Yakult.



© Yakult Australia

Figure 5.41 After the bottles are filled with Yakult, they are capped with a foil lid, sealed and transferred along the conveyor belt to the packaging facility. This filling machine is fully computerised and controls the flow of production. Different coloured lights indicate any areas that need attention.

Total quality management (TQM)

Total quality management (TQM) is a philosophy and an approach that seeks to unite all business functions to focus on continuous improvement and on meeting or exceeding 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 as a performance objective.

TQM has evolved from the ideas of a number of 'quality gurus', notably W. Edwards Deming, an American statistician. While working with Japanese industry after World War II, Deming introduced new quality concepts designed to cease dependence on inspections, or QC, and shift the focus to constant improvement. While the concept of TQM was not coined until later, Japanese companies such as Toyota, Fuji and Sony embraced Deming's philosophy with great success and now operate using a TQM strategy.

See MindTools for Deming's 14-point management philosophy that is the foundation of modern TQM. There are principles that guide the total quality management approach:

- **customer focus** – everyone in the business has a customer, with the customer ultimately determining the level of quality:
 - external customers, or consumers who purchase the end product
 - internal customers, or those in the system who use what your team or workgroup produces (this includes information as well as physical products)



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

This involves finding out exactly what the customer needs and wants, and guarantees quality products are delivered that are fit for purpose. This leads to customer satisfaction and the likelihood of loyalty

- *continuous improvement* – the TQM philosophy says there is no such thing as ‘good enough’ and that everyone is responsible for continuous improvement. Success comes from making small, incremental steps each day, a process the Japanese call *kaizen*
- *employee participation and empowerment* – quality is not solely the responsibility of quality inspectors or the operations department; it is the responsibility of all employees across the business. To achieve participation and empowerment, **quality circles** are developed. This involves groups of employees from different areas of the business coming together to discuss ways of resolving problems and improving productivity in the workplace. The aim is to foster employee ownership of issues that enable teams to investigate issues and present solutions to management. Self-managed work teams are a form of empowerment and this is linked to motivation theory
- *organisational culture* – for TQM to be a success, leadership must infuse an appropriate culture. The culture must integrate continuous improvement, high-quality ethos, feedback, teamwork, a learning organisation and a systems approach. The culture must support the ideal that TQM will facilitate improved business success, growth and competitiveness. A change management process (see Chapter 9) may be necessary when introducing TQM for the first time
- *strategic and systematic approach* – all strategic planning must integrate quality as a core component. Quality must be central to the vision, mission and goals of a business and must be communicated accordingly. This creates the constancy of purpose that Deming refers to as vital for improving products and services.

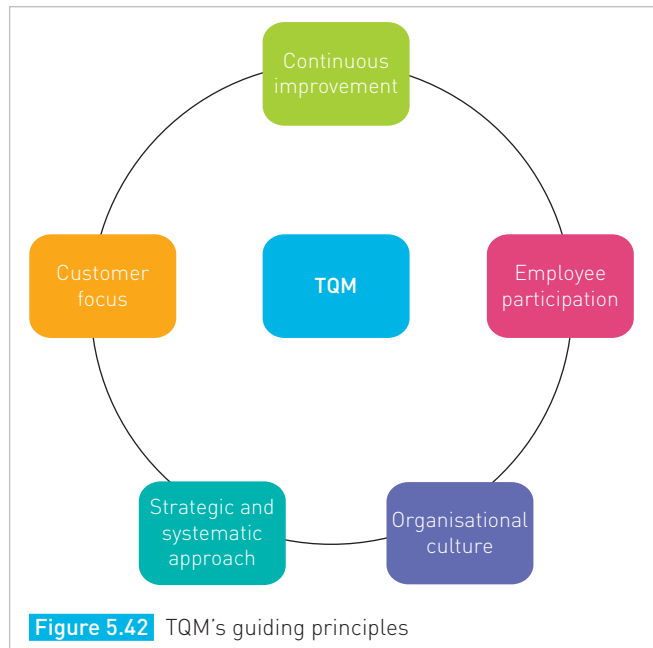


Figure 5.42 TQM's guiding principles

TQM and competitive advantage

Implementation of TQM can improve the price competitiveness of a business, through decrease in waste and increase in efficiency, giving a business a competitive advantage. A strong competitive advantage can be achieved as TQM has a focus on:

- *customer satisfaction* – TQM is driven by customer needs and wants, providing value to customers and exceeding their expectations
- *leadership* – TQM provides direction and motivation to employees and management across the business; it gives a unity of purpose
- *team-building* – employees at all levels of the business are included in quality circles and quality processes to gain maximum input and benefits from their abilities and knowledge
- *continuous improvement* – applying the ‘plan, do, check, act’ cycle ensures a constant improvement cycle that enhances system performance
- *process management* – making more efficient use of resources, which can reduce cost and waste.

Some businesses believe that the costs of introducing TQM outweigh the benefits, that its introduction can be too time-consuming and expensive. As it requires a shift in organisational culture, success is dependent on changing employee attitudes, which may involve overcoming some employee resistance.

Quality circles: groups of employees from different areas of the business that come together to discuss ways of resolving problems and improving productivity in the workplace

Service quality and TQM

The services sector in Australia employs four out of every five working people and accounts for a significant amount of trade with other countries, including in education, recreation and tourism, business and financial services. The increased competition that international trade brings must inspire local service providers to become more innovative and efficient in the way they deliver a quality service.

Given that a service-based business typically has both tangible and intangible elements, quality of service can present a considerable challenge. Unlike for products, the quality of a service may be difficult to measure and is influenced by the interaction between the business and the consumer, meaning each customer experience may be unique.

There is a close relationship between the marketing function, customer service and service quality, with customer satisfaction directly linked to quality. While a quality product may be deemed ‘free of defects’ a quality service must be considered in terms of customer satisfaction, meaning it has a user-based focus. Enhancing service quality can positively affect profitability, supply a competitive advantage and enhance customer loyalty.

The principles of TQM can be applied to the service-based businesses, with a focus on continuous improvement and meeting, or exceeding, customer needs. Aspects of a total quality approach to services include:

- *tangible aspects* – physical facilities, aesthetics, appearance of employees and ability to manage capacity
- *reliability* – performing a service dependably and accurately, with technical competence
- *responsiveness* – to customer needs and promptness of service
- *assurance* – capacity of employees to develop confidence and trust
- *empathy* – individualised attention and relationship building.

Quality management in service operations should result in improved customer service and lead to greater retention rates as customers are highly satisfied and develop loyalty. Customer satisfaction should also attract new customers through word-of-mouth referrals and positive online reviews.

Improving quality and operational efficiency

Total quality programs are employed by businesses that are looking to achieve continuous improvement. Quality is not viewed as an end-state; rather, a holistic approach builds a quality culture committed to achieving strategic success.

Six Sigma

Six Sigma is an operations strategy that was initially developed by Motorola in the 1980s as a process for driving improvement. It is used primarily to identify and rectify errors and defects in a manufacturing or business process, and is aimed at producing not more than 3.4 defects per million iterations. This equates to a quality rating of 99.9997 per cent and is defined based on customer specifications. The system uses a number of quality methods and tools, which are employed by Six Sigma-trained professionals, known as ‘green belts’ and ‘black belts’. It uses a process to define, measure, analyse, improve and control (DMAIC) for existing processes that fall below specification and need incremental improvement. The process is adjusted for new systems to define, measure, analyse, design and verify (DMADV). Businesses such as LG, Toyota and Boeing have adopted Six Sigma as a process for improving quality and achieving customer satisfaction.

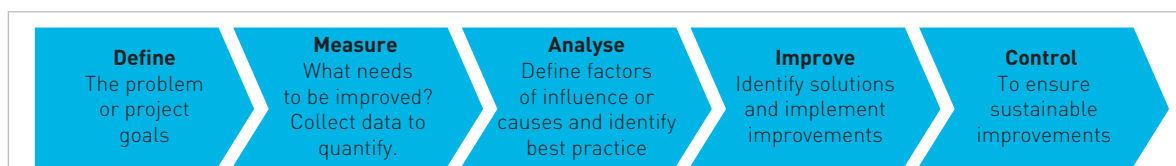


Figure 5.43 The DMAIC problem-solving method is a ‘road map’ used for quality improvements in Six Sigma.

Lean management

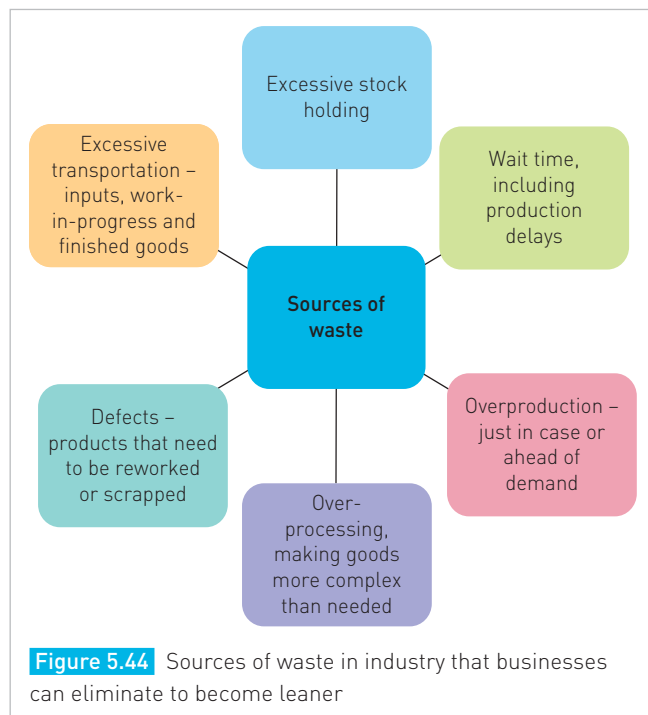
Lean production or management is an operations approach that aims to improve efficiency and effectiveness by eliminating waste and improving quality. Lean is based on philosophies drawn from Japanese manufacturing, notably the Toyota Production System, and focuses on perfecting processes and empowering the involvement of employees. Lean management is related to ecologically sustainable practices due to its focus on reducing waste across a business and using less energy or renewable energy wherever possible; this includes reducing reliance on non-renewable resources in production.

The benefits of lean include:

- elimination or reduction of factors that waste time, effort or finances
- reduction in unit costs, leading to improved profits
- waste reduction, which includes recycling and use of environmentally friendly materials
- focus on processes that create value for customers.

The overall objective of lean production is to produce quality outputs with fewer resources and cut out anything representing waste or not adding value to the customer. A key focus of lean management is therefore to identify the sources of waste and either remove them or replace them with more sustainable alternatives.

Lean management is typically found in the automotive industry, as well as other manufacturing and the provision of some services. With its focus on waste reduction and efficiency it is not suitable for all businesses, notably in situations where demand is variable and difficult to forecast. There are substantial costs associated with new technologies and staff training that may make full implementation a challenge for some businesses.



The Pareto principle and operations

The Pareto principle is useful in planning, analysis, problem-solving and decision-making, making it beneficial in managing operations. It involves identifying the few key elements or causes that create the majority of results. It is characterised as ‘the vital few and the trivial many’, meaning that in any given situation the usual 80/20 rule may be slightly different – for example, it may be 70/30 or 90/10 – but it always focuses improvement projects on the areas that will have the greater impact with a view to improving productivity. For example:

- 80 per cent of quality issues impact 20 per cent of products
- 80 per cent of defects typically come from 20 per cent of input errors
- 80 per cent of software crashes are caused by 20 per cent of software viruses
- 80 per cent of outputs are created by 20 per cent of inputs
- 80 per cent of warehouse space is taken up by 20 per cent of inventory items
- 80 per cent of fast-selling products come from 20 per cent of the product line
- 80 per cent of downtime is caused by 20 per cent of variables.

Analysing these ratios can help a business identify where best to spend time, resources and research efforts and enable opportunities for improvement.

Lean production: an operations approach that aims to improve efficiency and effectiveness by eliminating waste and improving quality

In a manufacturing setting, a business aiming to increase productivity would identify the origin of work stoppages and downtime, the time during which production is stopped or technology is offline and not producing anything. For businesses adopting a proactive approach to operations, identifying and removing these variables is a focus of continuous improvement and applies to total quality management and lean management.

In terms of inventory management, identifying the fast-selling products that are in demand will allow the business to focus on revenue-generating products. Slow-moving products tie up funds in inventory and can represent a cost to the business if they perish or become out of date or obsolete. Eliminating these products, or reducing the number of them held in stock, could reduce overall holding costs for inventory and improve profitability. As seen in the chapter opening case study on Allen's, reducing the product line in this way is not always viewed favourably by consumers, meaning decisions about product viability must be considered from an operations and marketing perspective.

QUESTIONS 5.4



Research the Toyota Production System (TPS).

- 1 **Explain** the relationship between Six Sigma, lean management and the achievement of customer satisfaction.
- 2 **Explain** how a total quality approach can achieve performance objectives and a sustainable competitive advantage in a competitive market.
- 3 Conduct research to define and **explain** the lean production concepts of *jidoka*, *kaizen* and *kanban* and their relationship to Six Sigma.



Chapter 5 review

This chapter introduced marketing and operational strategies used by businesses in the maturity stage of the business life cycle to remain competitive in the marketplace. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

5.1 Short items

- 1 Define market share analysis and **explain** why mature businesses use this as a key performance indicator (KPI).
- 2 **Explain** the relationship between integrated marketing communications and economies of scale in marketing.
- 3 Using a T-chart, outline the benefits of branding from the perspective of the consumer and the business.
- 4 **Explain** how the Pareto principle applies in both a marketing and an operational context.
- 5 Outline strategies a business can employ to achieve a sustainable relationship with its key customers.
- 6 Using examples, **explain** contemporary marketing strategies that utilise emerging technologies.
- 7 **Create** an attribute table to outline the quality management strategies available to a mature business.
- 8 **Explain** the operational performance objectives necessary for improving competitiveness and supporting the strategic direction of a mature business.
- 9 **Explain** the importance of the dependability objective for a car manufacturer and a producer of confectionery.
- 10 **Examine** the impact of a business pursuing a speed objective on the achievement of other performance objectives.

5.2 Interpretive items

Read the 'Gaining insight' below, then answer the questions that follow.

GAINING INSIGHT



Vegemite returns to Australian ownership



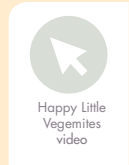
Figure 5.45 Vegemite is an iconic Australian brand that has recently returned to Australian ownership. The product is made at a plant in Port Melbourne.

Invented in Melbourne in 1922, Vegemite is an iconic Australian brand that was owned by overseas companies for many decades. However, in 2017 Bega Cheese Limited, an Australian company, purchased the brand and its manufacturing facilities in Port Melbourne from Mondelez International for a reported \$460 million.

According to the company, approximately 80 per cent of Australian households have Vegemite in their pantries, and Vegemite continues to be Australia's most popular spread. There are more than 22 million jars of Vegemite manufactured in Port Melbourne every year.

View the 'Happy Little Vegemites' video and answer the following questions.

- 1 Write a paragraph response to **interpret** the following statement: 'There's a private label version of just about every product these days in Coles and Woolworths, but neither company will mess with Vegemite. Even Aldi appears to have refrained from copycat packaging its own similar product ...'
- 2 **Create** a short survey about consumer awareness of, attitudes to and usage of Vegemite. Present your findings visually and **interpret** findings in terms of Vegemite's competitive situation and consumer loyalty.
- 3 Conduct a USP analysis, relative to two competing brands, to **draw conclusions** about the implications of strategic marketing for Vegemite.
- 4 Write a response, in paragraph form, to **evaluate** the decision by Bega Cheese Limited to purchase the Vegemite brand from Mondelez International, and **make a decision** on the suitability of the acquisition from a strategic development perspective, using relevant criteria.



5.3 Extended-response items

Using the inquiry process, **create** an extended-response business report to **communicate** the following. You may choose to use one of the case study businesses from within the chapter or a mature business, in a competitive environment, that you are familiar with.

- 1 **Describe** the facts and characteristics of a business operating in a competitive market in the maturity stage of the business life cycle.
- 2 **Select** data and information about the business to **analyse** strengths, weaknesses, opportunities and threats, taking into account its marketing and operational strategies.
- 3 **Interpret** the SWOT analysis to **draw conclusions** about the implications of marketing and operational strategies for the business as it operates in a competitive environment.
- 4 **Evaluate** the marketing and operations strategies used, using relevant criteria, to **make a decision** and **propose** recommendations.

Note: Ensure you use and **explain** business concepts throughout your response.



Case study 2: Strategic development

Nak

Who is Nak?

Nak Hair is an Australian-made and Australian-owned hair-care company with a down-to-earth culture. Nak is privately owned and managed by founders Tony and Carmen Rigney and partners John and Karen Cash, operating from headquarters (HQ) in Brisbane. The company manufactures and distributes leading-edge, salon-only hair-care products, with a focus on education.



Nak has a core team of staff in HQ, along with 35 sales representatives (many of whom are hairdressers) and 22 educators nationally who actively teach salons how to best use products and provide support with sales, merchandising and retailing, including business strategies to help salons reach business success. Nak currently exports to 22 countries, predominantly in Europe, and is serviced by a distribution warehouse in the Netherlands.

How competitive is the Australian hair-care market?

Nak operates in the hairdressing and beauty services industry, a highly competitive industry dominated by international companies including L'Oréal (Kerastase, Redken and Matrix), Wella (Sebastian, Goldwells), KMS and Schwarzkopf (Silhouette). Based on its strategic direction, Nak identifies Australian brand competitors as De Lorenzo, Kevin Murphy and Muk.

Key trends in the market include:

- rising image consciousness, which is boosting demand for hair and beauty services
- an increasing trend of male grooming, including facial hair styling
- increasing concern for hair health, including the impact of sun damage, pollution, scalp issues, hair thinning and hair loss, faster regrowth and damage repair
- awareness about harmful chemicals and the need for safer products
- a desire for more natural and humane ingredients.

Nak remains strategically future-focused, with product solutions to all current and emerging trends, based on its core value of 'adapt, evolve, grow'. Nak is sulfate-free, paraben-free and not tested on animals. Nak is transitioning to meet market trends by creating vegan-friendly products.

How strategic is Nak in this hostile competitive environment?

Talking with Nak co-owner Karen Cash, it is evident that Nak is truly strategic in its thinking and continually focused on product development and education. Karen indicated that social trends, including products that offer a more natural experience for the consumer such as vegan-friendly, sulfate-free and paraben-free, are a huge consideration in the cosmetics industry, with anticipating and responding to trends a key to remaining competitive. Karen says, 'I always described our company as having a 360-degree view of the industry – because we are first and foremost hairdressers, we understand the industry, not just our role in the marketplace, and have a healthy awareness of other brands and what they do well. We know the whole industry and are future-focused'.

Karen says that, in the field of cosmetics, there are always ingredient trends, which usually start in skin care and then come into hair. Some trends filter through from the interior design industry, such as the current trend of metallics – it is all connected, as in 'fashion', including the hair industry, and there is always something in season (e.g. colour). Nak's team are actively engaged in research to stay aware of these trends, and the sales representatives and educators are well positioned to give feedback to HQ about trends and customer preferences.

What makes Nak unique?

Nak is a salon-exclusive brand: it cannot be purchased in supermarkets or pharmacies. This strategy is important to Australian consumers as it creates a perception of quality and reflects the slogan 'Only a hairdresser knows'.

Consumer perception is key in this market and it is not always based on science. The founders of Nak are hairdressers, who talk with their clients – other hairdressers. Nak remains actively connected to the market and its customers, where many multinational companies don't have the same connection.

How does Nak build relationships?

Nak's Chief Operating Officer, Renee Ngaparua, identifies the company's main market as business-to-business. Renee affirms that 'the salon is our client – the real client is the owner of the business and their staff'. Nak supports hairdressers to be successful, to add value and build loyalty. This is achieved through hands-on training, problem-solving, helping them to become superior colourists and understand their customers better – to have really good consultation skills and to improve their retail skills by partnering with them. Karen says, 'You aren't telling them what to do, it's about supporting salons to reach their personal goals for their business and achieve their own "salon magic"'.

Karen and Renee agree that protecting the existing business is vitally important. Nak has a 'culture program' where salons that spend between \$15 000 and \$20 000 per annum have exclusive pricing, special deals, exclusive promotions and greater access to education to maintain loyalty. This partnership is critical to success, as the competitive landscape is hostile, with competing international brands that aim to take business from other companies. It happens a lot in the hair industry that another business will try to entice salons to change by offering better pricing, the promise of better service etc. and then trade everything out from the current company and replace it with their own product range.

Renee says, 'We aim to help our clients, as the more successful they are, the more added value we give to them, the loyalty develops as they can see they are being more effective and more profitable, and it is a strong partnership'.

Does Nak also market to the end user?

The consumer relationship is characterised by communication via social media. Nak aims to reach customers through initiatives such as ambassadors, sporting people and sponsorship of television programs including *The Voice* and *House Rules*. Nak has a relationship with presenters at Channel 7 and Channel 9, who come to HQ for personal styling and often post images on social media. The marketing team at HQ are very active with digital media so that the consumer recognises the brand and engages with it. Nak has 35 000+ followers on Facebook who regularly connect as the Nak team upload 'How to' and 'Nak Loves' videos and a Reviews section for feedback and support. Nak has more than 22 000 followers on Instagram, where it posts images, tutorials and sales promotions.

Having an integrated approach to marketing is vital when competing against international companies with sizeable marketing budgets that regularly use traditional and digital advertisements in national magazines and broadcast media. Nak's strategy remains more personal; it is about connecting with people and offering quality products that meet consumer needs.



Nak Hair



Nak Hair

Figure C2.1 Nak was the official sponsor of Channel 9's *The Voice*. The Nak team supplied hair products and styling backstage, including for 2018 contestant Bella.



Nak Hair

Figure C2.2 Nak uses social media sites, including Instagram, to connect with customers and post tutorials and sales promotions.

How important is the total product concept?

Nak offers a range of products targeted both at the salon, such as the soft colour range, and for the consumer to use for at-home hair care. Karen says, 'You have to be constantly moving and making new things, you have to be ahead of the trends'. The Nak range is sulfate-free and paraben-free and includes:

- Signature range – a vegan product collection, featuring sulfate-free and paraben-free ingredients, designed to restore optimum condition to hair, enriched with a vegan complex of coconut oil, aloe vera, hydrolysed rice protein and pear extract and concentrated with sea minerals and sea botanicals. The signature philosophy infuses an abundance of naturally rich ingredients, vitamins and purifying herbal actives that deliver essential protection and conditioning for all hair types.
- Aromas range – a luxe botanicals range that is vegan-friendly and evokes a natural presence on the shelf. Aromas is designed to bestow harmony and wellbeing to the hair with essential oils and vegan botanicals.
- Barber styling range – to meet the growing men's market, Nak's contemporary grooming range has natural extracts of kaolin, lanolin and beeswax to create strong or gritty textures, and cross-polymer technologies to provide stay-put styling control. An extension of this range is the Beard Elixir.
- Scalp to hair range – a scientifically formulated range that is professionally prescribed to target the causes of male and female thinning hair. This range encourages healthier hair production, by treating the scalp with care for thicker, fuller hair.



Nak Hair

Figure C2.3 The Nak barber styling range has a branding message of 'live, work, play' for grooming rituals designed to fit the boardroom and the bike.

Nak has recently completed a series of packaging updates. Karen says, 'Packaging is so powerful ... first impressions have to be good'. An example is the repackaging of Ultimate Potion, which used to be called Sea Potion and was packaged in a grey tube. Nak changed its name, changed the colour of the packaging to aqua and put it in a box, but not one ingredient was changed, and Karen affirms that it went from low sales to one of their best sellers. Now it 'pops' on the shelf; it was always a winner, but the repackaging transformed its sales. Karen states that the key was identifying what wasn't working about the product, and making the change.

Karen is passionate about the Nak brand and explains that where you take the brand is critical – that getting branding right at the beginning will give a business longevity, as will getting the product looking right at the beginning, within budget.

Nak's brand message is 'Only a hairdresser knows'. This relates to consumer perception, and supports salons by communicating to customers that they should ask salons and stylists for guidance. This is a key way of competing against supermarkets and pharmacies. Until recently, 'Only a hairdresser knows' was moulded onto the bottles.

Nak has also recently undertaken a project of brand reimagining, which involved changing the font of its brand name. It wanted a more modern image, so its products are something customers want to have on display, not hide in the cupboard. Packaging now focuses on 'Nak Hair Australia' and has new imagery to keep things fresh.



Nak Hair

Figure C2.4 Ultimate Potion is an example of the power of packaging – from low sales to best seller with a revamp of the packaging.

How does Nak manage its operational strategies?

Karen states that 'Safety and quality is priority number one. At the end of the day, our products have to perform. They can't just be pretty in a tube; they have to work, and people have to fall in love with them'. The quality of products is also reflected in meeting salon stylist and consumer expectations about animal testing and ingredients.

As a small-to-medium enterprise (SME), Nak utilises local contract manufacturing, but selects ingredients carefully to meet requirements. All ingredients selected have previously been evaluated by an expert scientific panel, meaning Nak is assured that safety and standards are met. Nak employs two levels of testing for its products:

- internal quality checks, to make sure the product works as it is meant to. As the founders and operational staff at Nak are also hairdressers, they test products at HQ to ensure the right consistency – it works, lathers and rinses and also smells nice. There is a team who test products in the studio at HQ and then give them to staff and some educators across Australia to test and give feedback. There are multiple testing stages to pass, and if a product does not pass, it goes back to the chemist and they start over again
- independent product testing in France to meet Australian standards and European Union regulations.

This is key to Nak's success in the European market and assures a quality product. While it is an expensive process, Nak commissions Ecomundo, a regulating company that does many of the international brands, to independently test every formulation to ensure that exactly what is in the bottle is written on the label and meets all requirements from a manufacturing point of view. Regulations in Europe are stricter than Australian guidelines, meaning Australian standards are exceeded.



Nak Hair

Figure C2.5 Nak's main distribution centre is based in Brisbane, where a great team coordinate stock management. Orders are despatched from this warehouse to Queensland, New South Wales and Victoria, with bulk transfers shipped to warehouses in Western Australia, South Australia and Tasmania. Containers are shipped to warehouses in New Zealand and the Netherlands.

Is there a role for quality of service?

Nak embraces a holistic approach to quality, with quality of service to salons vital. Nak prides itself on its education focus and support of clients. Karen says Nak is future-ready with a focus on training, embracing technology with online webinar training to meet the market need. This helps reach regional markets and creates efficiencies since, when salons get new staff, they can watch the training videos, rather than Nak sending staff out so regularly – there is no need to send an educator out to train one person. The webinars are proving a success with salons.

Relationship-building and client service through education and training are a key part of the quality strategy and total product offering, combining to create a competitive edge. Nak offers an education platform, including colour training, which is exciting and engaging so people are interested in watching, learning and participating.

Nak is future-ready!

Nak's mission is to build a passionate global hair-care brand that has the Australian way of life at its core. Nak is positioned to create beautiful hair-care products that salon stylists and consumers love. Nak is both on-trend and ahead of trends.



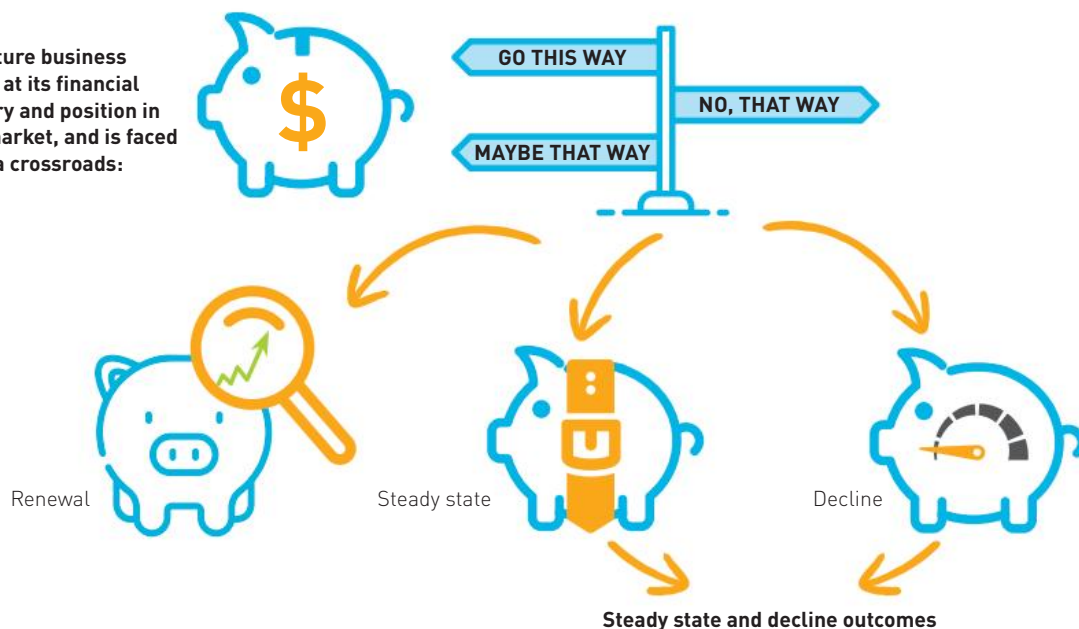
Questions

- 1 Visit the company webpage to **describe** the stages of the business life cycle evident for Nak, including facts and characteristics related to the business.
- 2 **Explain** the relationship between market trends and product development at Nak, including the role of research and development.
- 3 **Explain** the interrelationship between marketing strategies, branding and loyalty at Nak.
- 4 **Explain** the brand strategy Nak employs and how this relates to competing in a hostile competitive market.
- 5 **Identify** the quality strategies Nak employs and **explain** how these relate to long-term achievements through customer satisfaction.
- 6 Give an account of the manufacturing strategy Nak uses and the reasoning behind this approach.
- 7 **Select** data and information relating to Nak's current situation in a competitive hostile environment to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis).
- 8 **Select** data and information relating to competitors to **analyse** the unique selling proposition (USP analysis).
- 9 **Interpret** the relationships, patterns and trends in the SWOT analysis and USP analysis to **draw conclusions** about the implications of strategic planning.
- 10 **Evaluate** marketing and operating strategies for Nak to **make a decision** and **propose** a recommendation using criteria.
- 11 **Create** a written or spoken business report, addressed to the owners of Nak Hair, to **communicate** findings. Include visual representations (graphs, tables, infographics or analytical tools) in your response.



WHAT HAPPENS AT POST-MATURITY STAGE?

A mature business looks at its financial history and position in the market, and is faced with a crossroads:



Repositioning



Merger

“Mergers are like marriages. They are the bringing together of two individuals. If you wouldn't marry someone for the 'operational efficiencies' they offer in the running of a household, then why would you combine two companies with unique cultures and identities for that reason?”

Simon Sinek



Acquisition



Administration



Exit

DID YOU KNOW?



3800 businesses closed around the world in 2018, most of them in the retail sector

HOW CAN A BUSINESS INFLUENCE AND COMMUNICATE DURING POST-MATURITY?



HOW DO BUSINESSES REPOSITION?

New
Old

Repositioning:

a strategy whereby a business attempts to engage with a new or broader target market by offering new products or services, rebranding or updating tactics used in promotion to change how it is perceived in the market



WHAT ROLE CAN SUSTAINABILITY PLAY?





BUSINESS POST-MATURITY

What you will learn

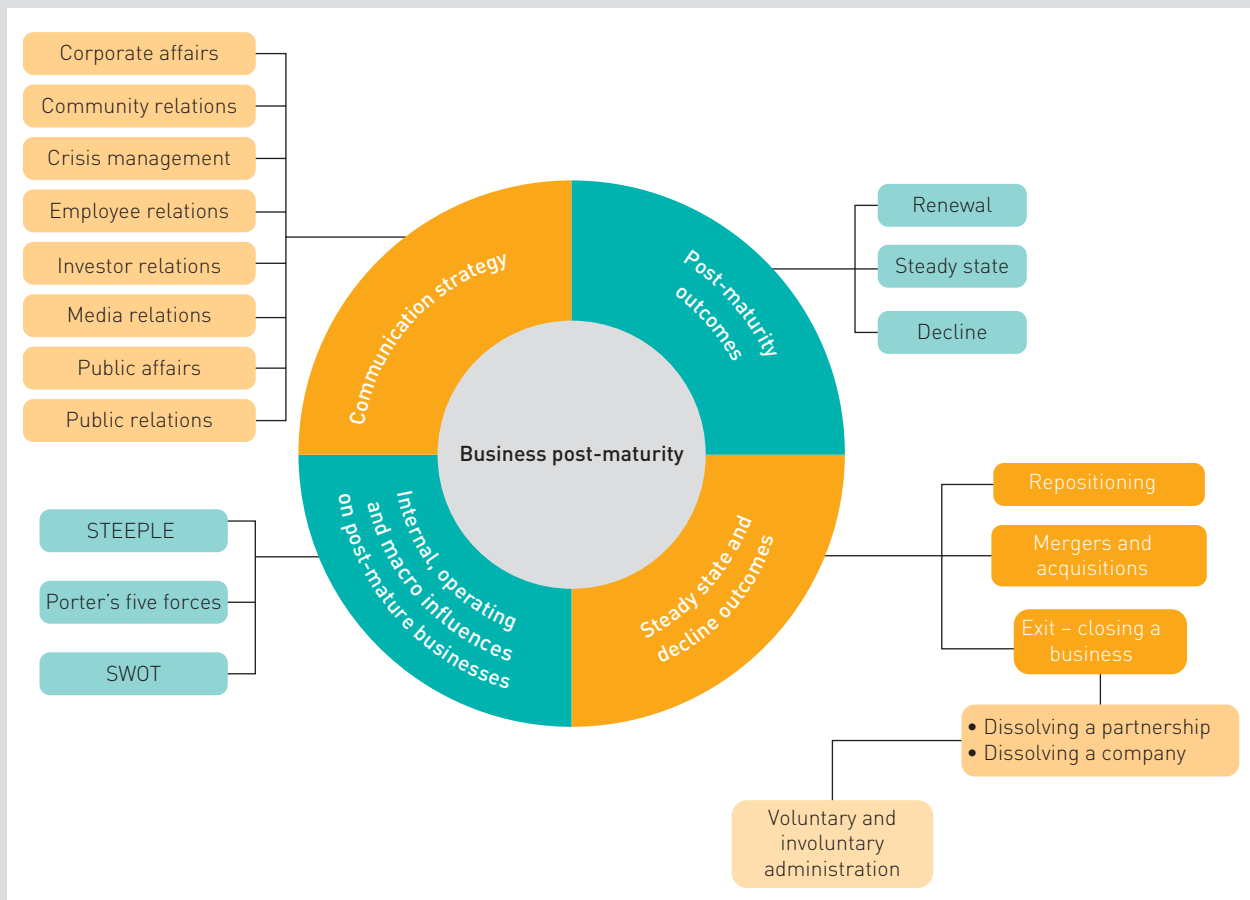
This chapter will explore the strategic decision-making required by businesses that are facing the post-maturity stage of the business life cycle. It will examine the outcomes for a business when in steady state or decline, as well as provide insight into the communications tactics a business could engage with to influence stakeholders and reinforce its reputation in society, or its position in the market.

This chapter will provide you with the opportunity to:

- **describe** business environments and situations relating to the post-maturity stage of the business life cycle
- **explain** outcomes, strategies and processes used by businesses in post-maturity
- **select** data and information relating to post-maturity business outcomes to **analyse** the business situation using STEEPLE, SWOT and Porter's five forces
- **interpret** relationships, patterns and trends to **draw conclusions** about the implications of post-maturity business outcomes
- **evaluate** post-mature business outcomes and 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:

- STEEPLE analysis
- SWOT analysis
- Porter's five forces.



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:
 - initiative and enterprise
 - creativity
 - generating and applying new ideas
 - identifying alternatives
 - seeing or making new links
- communication:
 - effective oral and written communication
 - using language, symbols and texts
 - 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
 - ethical (and moral) understanding
- information and communication technologies (ICT) skills
 - operations and concepts
 - 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: Why do some businesses decide to exit their market?

END OF AN ERA: Why Samantha chose to close her business after 15 years

Samantha Wills

August, 2018

It is with a heavy but knowing heart that I write this letter. As you may have seen in the press this morning, I have made the decision to end this chapter of the brand, and January 2019 will be the final month of trade for SAMANTHA WILLS Jewellery.

You most likely know this story but in 2004, as a then 22 year old, I started SAMANTHA WILLS Jewellery on my kitchen table by following my heart; showing equal parts courage and insanity. It is this same heart that is now telling me that it's time to let go and go out and discover the next chapter for the brand and the next chapter for me personally. I love my business, I love my team, I love where we stand today; but it's time to find a new journey to commence.

We are doing this now because integrity has been one of our core values and I will always live up to this in all that I do. Yes, we are profitable and yes, we are considered successful, but walking away is

what I need to do to be creative again with integrity, passion and energy. It's never been an option for me to sell my brand, to then watch it slowly move away from all that I hold true, and I remain committed to the SAMANTHA WILLS Foundation and to an ethos of kindness, empathy and integrity.

While this is the end of SAMANTHA WILLS Jewellery, it is not the end of the SAMANTHA WILLS brand. What will it be in its next phase? I don't know that yet, but I do know that the truest beginnings can only present themselves when you can be brave enough to close a door to move forward. As it turns out, it is a much more tormenting decision to close a multi-million dollar company than to persist with a small in-debt one, and the spectrum of emotions I have felt in the process of reaching this decision have conflicted me greatly.

I firmly believe that business is what we do, but brand is why we do it. At 22 I knew the what, but now at 36 I understand why.

The SAMANTHA WILLIS brand has lived through our values, our commitment to speaking vulnerably, and the authentic connection with our consumer. This is the reason why we exist, and I am incredibly proud of the relationships and conversation this brand has allowed and the voice it has given me – but the SAMANTHA WILLIS brand is so much more than just myself. Many hundreds of people have touched and contributed to the brand over the years, and for that I will be forever grateful and indebted to each person who I have been so fortunate enough to work alongside. Our focus is to support the current SAMANTHA WILLIS team during the next 6 months, assisting them into the next phase of their careers.

If you like what we do, then please reach out and ask about our team; we are also working to introduce our suppliers and production houses to other jewellery brands in Australia. We are committed to remaining true to our values, and never more so than in this transition process – please reach out if we can help your business through the many contacts we have developed over the years.

I am so proud of this brand, and as with anything, it has celebrated successes, and also experienced failures. I believe sharing these vulnerabilities with transparency is a responsibility to pay forward what my time and experience has taught me. I will continue to share this in my writing and public speaking, as I remain committed to my work with the SAMANTHA WILLIS Foundation in supporting young entrepreneurs, as much about the ins and outs of start-up business as well as being brave enough to make decisions with integrity, truth of heart, kindness and authenticity.

It is the incredible SAMANTHA WILLIS community who have been the heart and soul of this journey, and many of you have been with us since I had a little Bondi Market table with some handmade jewellery

on it. I can never thank you enough for everything you have brought to the SW Team, myself and most beautifully, each other. We look forward to speaking with you over the coming months as we celebrate this final run together, because as you would guess, we are not going out quietly.

With the utmost gratitude,
Sincerely,
Samantha Willis
FOUNDER, SAMANTHA WILLIS PTY LTD

Source: Text © Samantha Willis



Questions

- 1 **Describe** the decision made by business owner Samantha Willis.
- 2 Infer the reasons why Samantha Willis, as an entrepreneur, has chosen to cease trade for part of her business.
- 3 **Select** information to **analyse** the strategies used by Samantha Willis to manage her stakeholders.
- 4 Debate this statement: 'It is always a negative outcome for a business to exit a market.'
- 5 **Evaluate** Samantha Willis's decision to publish this letter online using the criterion of effectiveness.
- 6 **Select** data and information to **explain** the purpose of the Samantha Willis Foundation.

Post-mature businesses

Key learnings

You will learn about businesses by examining:

- the post-maturity stage of the business life cycle
- internal, operating and macro environmental factors impacting upon the post-maturity stage.

As introduced in Chapter 1, a business will progress into the post-maturity stage when demand for its products and services begins to decrease following a period of stability, during which sales had been steady. In many cases, a business can slip into **post-maturity** following a crisis or not responding to changes in the market, but until this point it will consider itself still in either a growth or maturity stage. Hence, when a business arrives at the post-maturity stage it essentially comes to a crossroads, where decisions need to be made about the business's future plans. At the post-maturity stage a business may find itself considering three outcomes:

- **renewal**
- **steady state**
- **decline**.

Each outcome will be introduced, with Chapters 6 and 7 focusing on steady state and decline strategies for a business. Chapters 8 and 9 will focus on renewal and transformation, where change management approaches need to be implemented to effectively give the business new competitiveness in the market.

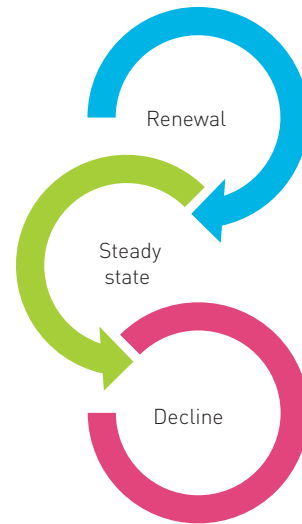


Figure 6.1 The outcomes for a business that is in the post-maturity stage

Characteristics of steady state

A business which operates in a steady state may consider itself a mature business rather than a business in post-maturity. If the business views any change as negative, then it would be fair to describe it as post-mature. However, some businesses are satisfied with their achievements once they reach a certain level and no longer strive for growth or, alternatively, have experienced mild decline but are still viable and profitable businesses. This may be the case for small business owners who are operating at a capacity that meets both business and lifestyle needs – for example, successful small restaurants, independent car sellers, builders, local dentists or beauty service operators. Characteristics that describe a business in the steady state of post-maturity are that:

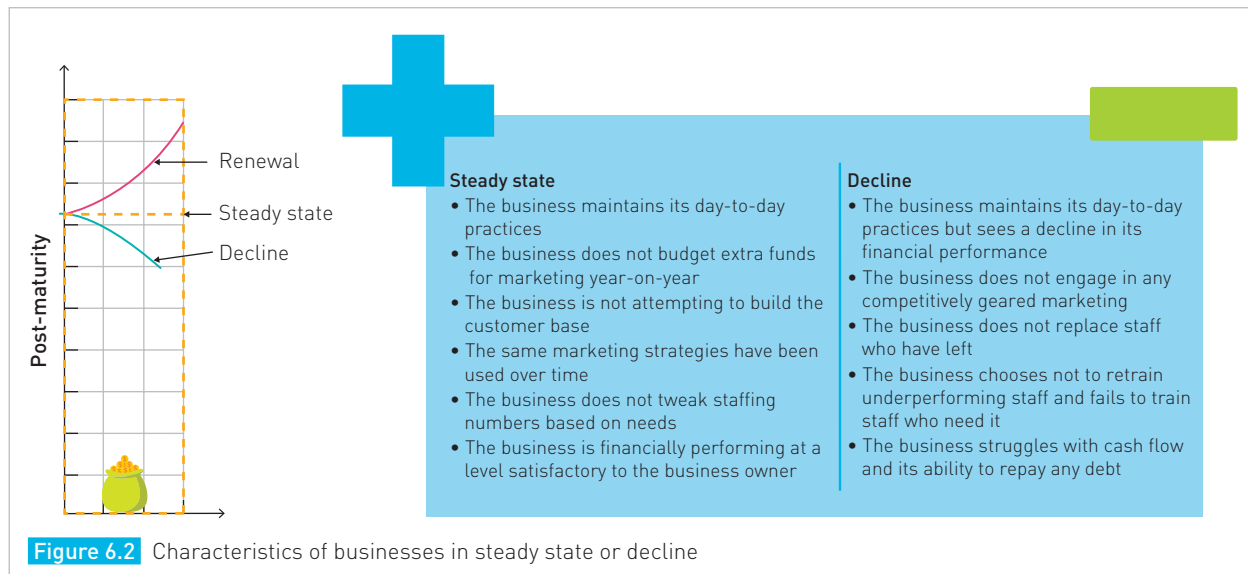
- the business maintains its day-to-day practices
- the business does not budget extra funds for marketing year-on-year and is not striving to build the customer base (current marketing is satisfying the business needs)
- the business monitors its staffing based on business needs and staffing numbers don't tend to fluctuate
- the business is financially performing at a level satisfactory to the business owner (Figure 6.2).

Post-maturity: the stage in the business life cycle following maturity when a business starts to experience a consistent decline in sales or reduced demand from the market

Renewal: an outcome of post-maturity where a business may transform or reposition to ensure the future success of the business

Steady state: an outcome of post-maturity where the business may experience minor decline but is able to maintain this level and continue to trade in the market

Decline: in a business context, decline occurs when the sales reduce or demand decreases for a business and its products or services



Characteristics of decline

When a business shows evidence of decline – that is, a gradual yet significant drop in financial performance – then it becomes very obvious the business has slipped into post-maturity. A business can fall into decline due to internal, operating and macro environmental factors, and if the business doesn't respond correctly, or chooses not to respond at all, then decline is inevitable. Internally, a business may slip into decline if it is not maintaining a high quality of staff or customer service, or if the business owners or management fail to alter their leadership and management styles, and in turn, the culture and structure of the business can fracture. Alternatively, the business owner may be choosing to retire and be actively trying to **downsize** the business.

Businesses that don't respond to changes in the operating environment, such as seeking the most cost-efficient supplier or monitoring competition activity, may also see their financial performance diminish.

Finally, macro environmental factors can have a significant influence on businesses for socio-cultural, technological, economic, environmental, political, legal or ethical reasons. For example, a small real estate agent may slip into decline following an economic downturn, or a small restaurant that doesn't engage with a delivery service may lose customers to competitors. Characteristics that describe a business in the decline state of post-maturity are that the business:

- maintains its day-to-day practices but sees a decline in its financial performance
- does not engage in any competitively geared marketing
- does not replace staff who have left, or chooses not to train staff who need it
- struggles with cash flow and its ability to repay any liabilities or debt.



Figure 6.3 Some department stores, such as David Jones and Target, have closed their instore cafes.

Downsizing: a decision for a business to trade at a smaller capacity, through either having less staff or reducing the range of products and services it offers

While it is generally perceived as a negative for a business to fall into decline, in many cases a declining business may become attractive to another business looking for a merger or acquisition. Alternatively, some businesses only choose to downsize a certain aspect of their business without closing altogether, as is the case for Samantha Wills Jewellery (refer to the chapter opener on page 199) or department stores such as David Jones or Target that close their instore cafes (Figure 6.3). Even Australia Post has seen a decline in its processing of mail, yet still achieves growth in its parcel delivery services as a result of online shopping. In these situations, management will focus on the business activities that are successful and consequently can continue to operate at the maturity stage of the business life cycle.

QUESTIONS 6.1

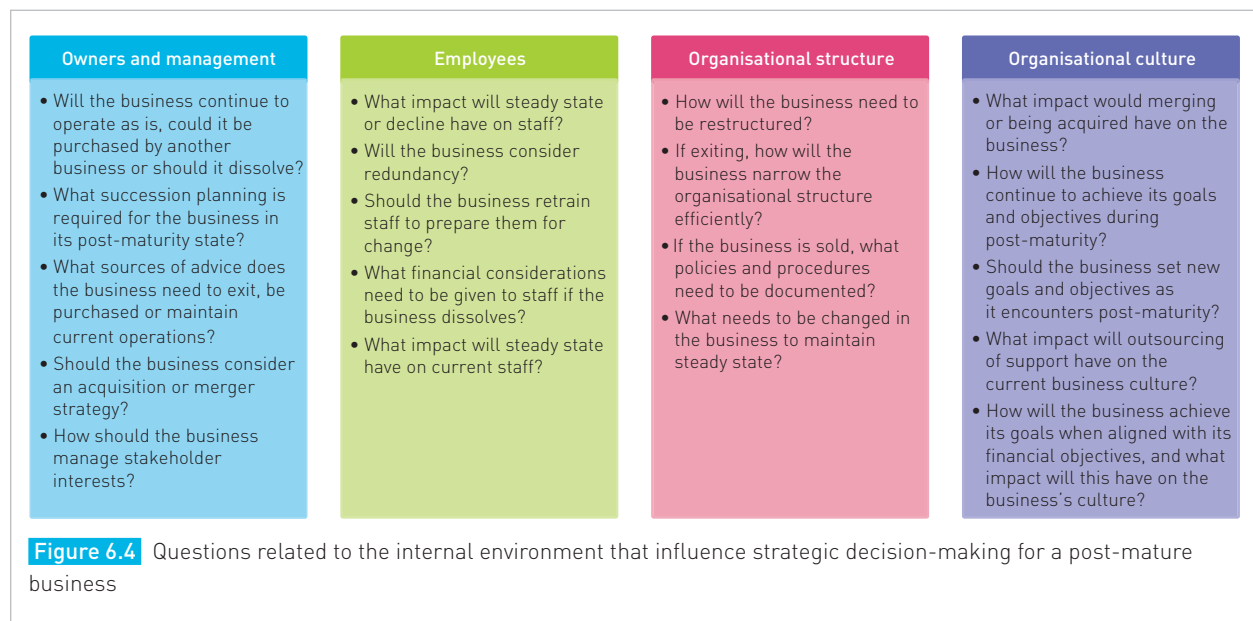


- 1 In a paragraph of 150 words, compare the characteristics of a business in steady state and one in decline.
- 2 **Explain** how a business may experience post-maturity in one part of the business, yet experience growth or maturity in another. Provide examples in your response.

Internal environment factors that influence a business in post-maturity

When a business in post-maturity is required to make a decision for its future, it must consider its internal environment. In steady state, when the business continues to trade, the decrease in sales and demand will impact upon the business's internal stakeholders and culture as adjustments to business practices will need to be made to supplement the decrease in financial performance. If the business is to exit the market, the impact on the internal environment becomes even more significant and a business should implement a **succession plan** for closure to ensure stakeholder interests are managed in the best way possible.

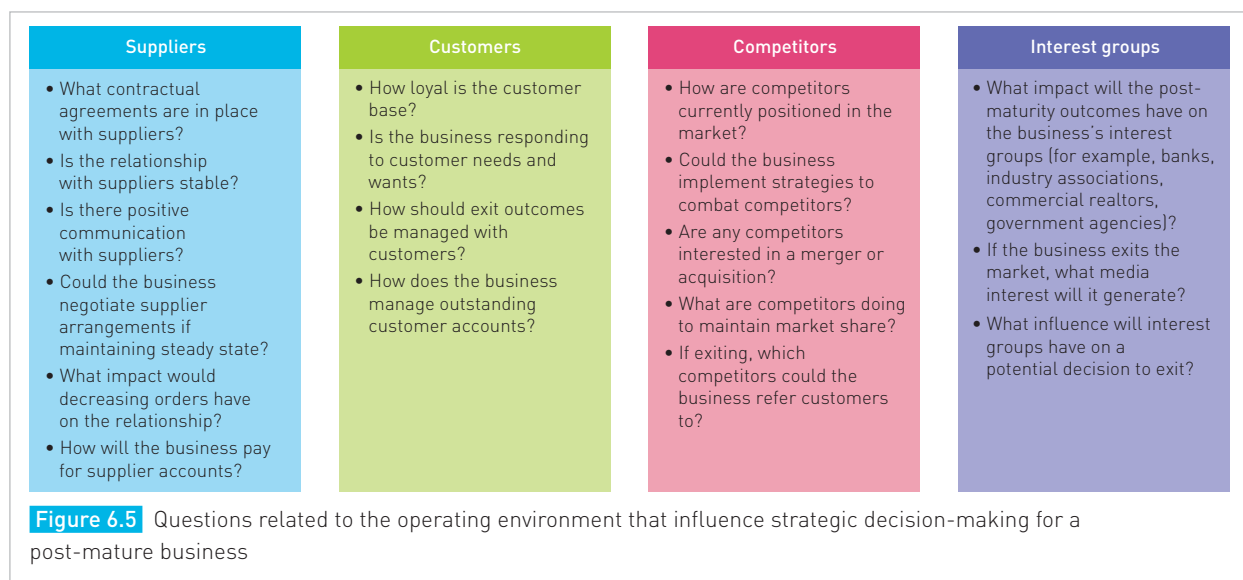
Figure 6.4 identifies the questions that business owners (for a sole trader, partnership or private company) or the board of directors (public company) need to consider about their internal environment at the post-maturity stage.



Succession plan: a process for identifying and developing new managers in a business to replace former managers lost due to restructure or retirement

Operating environment factors that affect a business in post-maturity

When a business enters the post-maturity stage, the impact of the operating environment can heavily influence the decision-making of the business. If relationships are strong, the business may decide that it is feasible to continue to trade and focus on renewal or steady state outcomes; however, if there are inefficiencies or a breakdown in communication, the business may consider whether exiting the market is a more viable option. These decisions are unique to each different business, hence thorough, insightful analysis and evaluation of the business's situation is required before decisions are made.



QUESTIONS 6.2



- 1 **Explain** the strategic planning required by businesses that may be facing post-maturity.
- 2 **Select** information from a local business you are familiar with that may be in a post-maturity stage. **Analyse** the internal and operating factors that have influenced the business falling into this stage of the life cycle.

Macro environmental factors that influence a business in post-maturity

In many cases, a business will enter post-maturity as a consequence of changes in the macro environment, and whether the business has factored these changes into its strategic planning. The changes could relate to new government policies, changes in law, updates in technology, socio-cultural trends and viewpoints, environmental practices or an increased awareness of business ethics. It then becomes the responsibility of the business to respond to these changes positively so the business continues to run in a renewal or steady state. If underprepared, the business may slip into decline. Figure 6.6 identifies the questions a business in post-maturity should consider, using a **STEEPLE analysis**. Later in this chapter, Porter's five forces will be introduced, and this tool provides an interrogation of a business's competitive positioning of goods and services.

STEEPLE analysis: an analytical tool that identifies how different macro factors – socio-cultural, technological, economic, environmental, political, legal and ethical – impact on business



QUESTIONS 6.3



Select data and information from a banking institution that has recently closed a branch in your local area. Conduct a STEEPLE analysis on the bank. Interpret the implications of the macro environment on the banking industry.

GAINING INSIGHT



The end of the video store

One of the most obvious post-maturity declines seen in recent history is the end of the video store. Follow the weblink to read the article 'End of an era as curtain falls on Warwick's last video shop' and answer the following questions.



iStock.com/Jacob Wackerhausen

Questions

- 1 **Explain** how the macro environmental factor of technology influenced the closure of the video store.
- 2 **Identify** the issues faced by people in rural communities who no longer have access to video stores.

Synthesising the internal, operating and macro factors influencing a post-mature business

It is important for businesses to consolidate their analysis of the market and environments in which they operate. For a business in post-maturity the pressure to make decisions for the future only supports the significance of synthesising the information gathered. The ideal tool that can be used to achieve this is a SWOT analysis. Figure 6.7 identifies how different elements from the internal, operating and macro environment can be placed effectively within a SWOT so that a business can consider the 'big picture' when analysing its position in post-maturity.

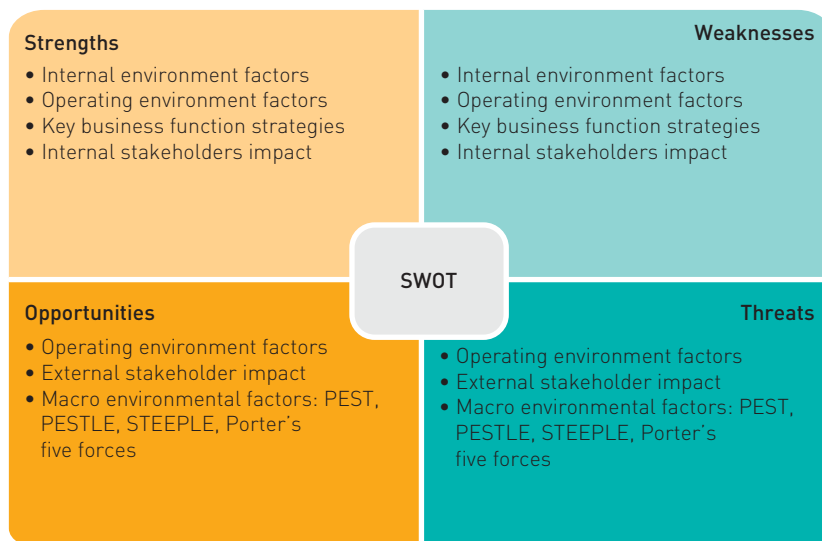


Figure 6.7 Environmental factors, once identified, can be analysed and synthesised in a SWOT analysis.

QUESTIONS 6.4



As part of revision, **explain** in a paragraph how a SWOT analysis is a useful analytical tool to **synthesise** the internal, operating and macro environmental factors influencing a business. Provide examples in your response.

GAINING INSIGHT



Car production in Australia hits decline

Australian car production ends this week. Here's why

Domestic car production faced pressure for decades before caving in to market realities

Car production in Australia will come to an end later this week when General Motors shuts down the Holden Commodore production line, after decades in operation. To be clear, Holden is not shutting down completely – it is merely ceasing car production in Australia. The division will continue to produce cars in Germany and elsewhere for export to Australia. It's a long and indirect journey, which can be said of the decline and death of car manufacturing in Australia itself.

So how did Australia's local car industry fold in such rapid succession, especially at a time when the population of the country and demand for cars seemingly continues to grow?

The answers have more to do with macro-economics and politics than traditional supply and demand. A major factor cited by multiple industry observers is import tariffs; a tremendous number of different automakers export their cars to Australia paying zero or exceptionally low tariffs. This has permitted automakers that do not produce cars in Australia to fill the market with their vehicles, putting Australian-based automakers at a disadvantage due to relatively high labor costs (compared to Southeast Asia, for example).

Those labor costs are another somewhat predictable factor contributing to the decline of local production. The difference between now and 20 years ago is that a number of Asian countries like Malaysia and Thailand shifted from production for local markets to exports to other countries in the region – they gained a tremendous competitive advantage due to lower labor costs.

Once a symbol of Australia's car industry, the ute has been losing ground to larger and often cheaper pickups produced in Asia.

Declining sales volumes for the automakers themselves have contributed to the situation. Free trade agreements signed in the past 20 years have allowed greater numbers of cheaper cars into the country, reducing the market share of automakers producing cars locally. That results in a death spiral: A model line has to crank out at least 50 000 vehicles annually to stay afloat, a number of experts have noted. Once sales of a model drop below a certain mark, the critical parts suppliers won't want to continue making parts for a car, assuring a quick death even if a model is still selling a respectable 30 000 units a year.

A number of smaller factors, such as changes in the types of vehicles that Australians buy, has also hastened the decline of Australian car production. The rapid decline of the big V6-engined sedans as the standard family cars nearly 20 years ago, combined with a hike in fuel prices around that time gave a tremendous advantage to other imports coming into the country. Australian automakers adjusted, but ultimately couldn't keep pace with rapidly changing consumer tastes. The arrival of foreign pickup trucks also dented sales of utes – Australia's longtime favorites – since trucks offered greater payloads with thrifty diesel engines.



Dreamstime.com/Douglas W Fry



Alamy Stock Photo/Jason Freeman

Holden had begun to shift production out of Australia years ago. The 2010 Holden Captiva above, which you may recognize as the sibling of the Chevy Captiva, was produced in South Korea for the Australian market.

At the end of this week when the last car rolls out of the Elizabeth plant it will be a Commodore sedan, which has grown from Australia's bread and butter model for decades into a niche performance car. And the Commodore itself is a perfect reflection of the

route that the Australian auto industry has taken in the last 20 years, becoming smaller and even more specialized until low volumes took their toll.

The Holden plant will follow the shutdown of local Toyota Camry production earlier this month. Holden and Toyota were the last two holdouts still making cars on the continent after Ford left a year ago, bowing to market pressures.

Source: Jay Ramey, 'Australian car production ends this week. Here's why', *Auto Week*, 16 October 2017. © Crain Communications, Inc.

Questions

- 1 **Select** information from the article to **analyse** the strengths, weaknesses, opportunities and threats (SWOT) for Holden.
- 2 **Interpret** the SWOT analysis to **draw conclusions** as to why Holden ended its manufacturing of cars in Australia.

Steady state and decline outcomes

Key learnings

You will learn about strategies for post-mature businesses by examining:

- repositioning
- mergers and acquisitions
- closing a sole trader business
- dissolving a partnership
- voluntary and involuntary administration.

Repositioning: An introduction

A post-mature business that wants to stay in the market and continue trading needs to be strategic in its planning to ensure there is future success. While the core activities of the business may not change, a business may need to consider a **repositioning** strategy to invigorate some new interest in the market – to renew or stabilise its steady state. These strategies are often marketing focused; for example, introducing a new product or service or attracting a new target market through promotion. There are also repositioning strategies relevant to finance, human resources and operations functions and these will be investigated in Chapter 7. Repositioning strategies are popular for businesses at risk of post-maturity as it is not favourable for a business to be considered post-mature in the market.

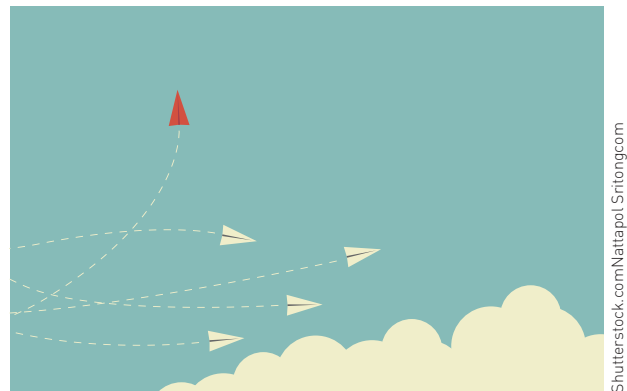


Figure 6.8 Repositioning challenges businesses to think of new ways to operate.

Repositioning: a strategy where a business attempts to engage with a new or broader target market by offering new products or services, rebranding or updating tactics used in promotion to change how it is perceived in the market

Mergers and acquisitions

Many businesses that are in a post-maturity stage attract the eye of a larger business or corporation that may look to merge with or acquire the post-mature business. A **merger** occurs when two businesses integrate with one another to form a new organisation. Together the businesses negotiate how the new organisation will be structured, including its legal ownership and internal and operating environments. An **acquisition** differs in that it occurs when one business purchases another business in its entirety, with both parties agreeing to terms. An acquisition can also be referred to as a takeover. In the current market, however, the term ‘takeover’ is often used to describe a hostile acquisition arrangement, when one business is forced to be sold to another.

Mergers and acquisitions (M&A) allow businesses to capture greater market share, utilise pre-established resources, processes and procedures of the post-mature business and legally obtain the rights to intellectual property. For a business in the growth stage of the business life cycle, this could be a viable strategy to pursue.

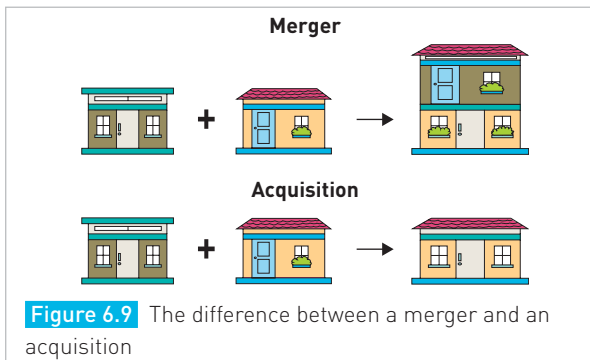


Figure 6.9 The difference between a merger and an acquisition



Figure 6.10 A takeover is perceived as a hostile acquisition – as shown here using the metaphor of a big fish eating a little fish.



Dreamstime.com/Mohamed Ahmed Soliman



Dreamstime.com/Claudiodivizia

Figure 6.11 In 2018, a \$15 billion merger occurred between Vodafone and TPG.



iStock.com/kokkai



Shutterstock.com/TK Kurikawa

Figure 6.12 In 2016, JB Hi-Fi acquired The Good Guys in an \$870 million deal.

Merger: when two businesses come together to operate as one new and larger organisation

Acquisition: when one business purchases another business and takes over responsibility for management and strategic planning

For a business in the post-maturity stage, mergers and acquisitions may allow the business owners to withdraw investment in the business, without the business having to close in its entirety, and can provide opportunities for employees to have their roles transferred into the new business. It can also result in redundancy, which is an unavoidable consequence of a business that is in a state of decline. A business may choose to conduct a Porter's five forces analysis (see pages 216–17) if in a position to acquire, be acquired or to enter into a merger.

Legal considerations for mergers and acquisitions

In Australia, a merger or acquisition cannot occur unless approved by the Australian Competition and Consumer Commission (ACCC). According to the ACCC:

Mergers and acquisitions are important for the efficient functioning of the economy. They allow firms to achieve efficiencies and diversify risk across a range of activities. However, the *Competition and Consumer Act* prohibits mergers that would have the effect, or be likely to have the effect, of substantially lessening competition in a market.

Because of this ACCC objective, businesses can seek advice from the ACCC through an informal merger review. If successful, the ACCC will conduct a statutory test to ensure the merger or acquisition is appropriate, per the requirements of the legislation. Both businesses will have to submit the application to the ACCC and pay the relevant fee, which in some cases can be as much as \$25 000.

QUESTIONS 6.5



- 1 Compare mergers and acquisitions.
- 2 With reference to Figure 6.12, **select** data and information from sources to **explain** why JB Hi-Fi acquired The Good Guys, and why this was not considered a merger.
- 3 **Select** information from the ACCC website to **explain** the review and authorisation requirements for businesses seeking a merger or acquisition. **Communicate** your findings in an infographic.



INQUIRY



RACQ Bank: The result of a merger

In 2016, the Royal Automobile Club of Queensland (RACQ) merged with QT Mutual Bank to offer a new banking service for Queenslanders. Using the inquiry process, **select** information about this merger to respond to the following question: 'Why did RACQ and QT Mutual Bank merge in 2016 based on their stages in the business life cycle?' **Communicate** your response in a 400-word short report.



Figure 6.13 QT Mutual Bank and the RACQ merged in 2016.

SUSTAINABILITY



Flickr has promising future following acquisition

A small family-run firm bought Flickr from Verizon and says it can bring back its glory days

Rachel Sandler

Flickr, the once red-hot photo-sharing site, has withered under the corporate ownership of Yahoo and Verizon. Now Flickr is part of SmugMug, a family-owned online photography firm that just bought it from Verizon. Despite its smaller size, SmugMug is confident it has the right touch to bring back Flickr's glory days.

'We love photographers, we are photographers, we've been catering directly to photographers for a long long time and we think we have the most insight into what photographers want from these platforms,' SmugMug VP of Operations Ben MacAskill told Business Insider in an interview on Friday.

That might seem like a tall order, given that consumer internet brands are notoriously difficult to revitalize once the buzz is gone. And Flickr is competing for consumers against giants like Instagram and Snapchat. But SmugMug, which was founded in 2002 and is still a family-run operation without any venture capital backing, is not afraid.

'We've weathered so many competitors over the years. When we first started, people were asking us why we were competing with brands like Kodak, which really doesn't exist anymore,' MacAskill says.

'It just wasn't the right fit for Yahoo'

Flickr was founded in 2004 and bought by Yahoo for \$US35 million in 2005 after exploding in popularity. The service, which lets users upload and share photos for free, was once a cornerstone of the early internet. But its relevance began to decline – as did Yahoo's – over the years because 'it just wasn't the right fit for Yahoo, they just really didn't want to be in the space,' MacAskill says.

Shortly after Yahoo was acquired by Verizon and merged with AOL, the new owners approached SmugMug about a possible deal to buy Flickr, he says, noting that talks went on for nearly a year.

'We've been friendly with both the Flickr team and the team at Yahoo and then Oath for many many years so it was very natural development to see if we were potentially interested knowing our love of the product,' he said.

MacAskill declined to disclose the price of the deal, but said the company will keep Flickr as an independent and free website. He added that SmugMug does not have plans to lay off any Flickr employees.

So what's the vision for Flickr 2.0?

It's too early to tell what, if anything, will change about Flickr's core service and functionality. But MacAskill did say that SmugMug doesn't want to upend the community on Flickr nor get rid of the photos currently on it. He instead wants to invest in it.

'We just really love the platform,' he says. 'I think it's one of the greatest treasures of the internet.'



Figure 6.14 The Flickr website

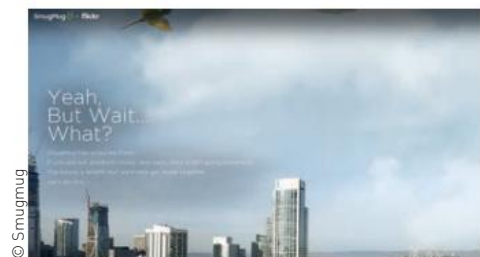


Figure 6.15 SmugMug has a dedicated webpage that informs consumers of the acquisition of Flickr.

Source: Rachel Sandler, *Business Insider Australia*, 21 April 2018. © Allure Media

Questions

- 1 **Describe** the business model for Flickr.
- 2 **Select** information from the article to **identify** the competitors of Flickr and SmugMug.
- 3 **Explain** the reasons why SmugMug chose to acquire Flickr.
- 4 **Evaluate** Yahoo's decision to sell Flickr using the criterion of efficiency.

Exit: Closing a business

If a sole trader or a family-owned or small private company chooses to close the business, it must follow certain steps to ensure the closure meets all legal and regulatory requirements. Firstly, the business owner or owners should seek advice from their business adviser, solicitor, accountant, professional networks and family or friends to affirm their decision. Once this has occurred, the business owner should then:

- set a closing date for the business
- notify the business's accountant and solicitor so they can provide financial and legal support
- give notice of the closure to employees, making sure their legal rights are being met (including notice periods, termination and redundancy payments). Information regarding these rights is available from the Fair Work Ombudsman
- notify suppliers, customers and other stakeholders who will be impacted by the closure and finalise any outstanding payments, bills, orders or contractual agreements. In this context, suppliers can include manufacturers, contractors and commercial real estate agents
- notify the Australian Tax Office to ensure GST, income tax and superannuation obligations are finalised correctly
- cancel the business name with the Australian Securities and Investment Commission within 28 days of the closure
- cancel the business's registration, licences or permits held with federal, state and local government authorities
- begin selling the business's assets, such as inventory, furniture and fittings, motor vehicles, domain names, land and buildings and intellectual property. This process is known as **liquidation**
- organise the storage of business records, which need to be kept in line with the *Privacy Act 1988* and ATO requirements
- close business bank accounts, social media pages, electricity, water and telephone utilities and post boxes.



Business.gov.au – Closing your business

Business.gov.au provides information and advice to business owners about closures, including options for transferring ownership and notifying regulatory authorities.



Fair Work Ombudsman



Figure 6.16 It is important for a business that is closing to tell its customers about the closure.

QUESTIONS 6.6



Create an infographic to **explain** to business owners the actions required when closing a business.

Dissolving a partnership

In addition to the requirements listed in the previous section, 'Exit: Closing a business', if a partnership was to **dissolve**, clauses from the *Partnership Act 1891* (Qld) would need to be followed to ensure legal compliance. If the partnership was set up in a different Australian state, then the business owners would need to comply with that state's requirements. Figure 6.17 identifies the criteria a partnership can meet to dissolve.

Dissolving a company

There are various ways in which a private company can close its doors to trade. In addition to the operational tasks identified previously under 'Exit: Closing a business', a private company needs to deregister with ASIC, provided it meets certain criteria or conditions outlined in Figure 6.18.

Liquidation: a process to finalise a business that is closing. It involves selling assets at a discounted or cheap rate to be quickly converted to cash

Dissolve: in a business context, the way in which a business exits the market or closes down

Deregistering a company is perceived as a voluntary action and this process does not apply if the business is **insolvent** – that is, if the business has failed financially and is unable to pay its liabilities or debts. When insolvency occurs, the company will proceed into either **voluntary** or **involuntary administration**, as it is not legally allowed to continue to trade under normal circumstances.

According to Business.gov.au, a partnership can be dissolved when:

- ☐ one partner gives written notice to the other partner to exit the partnership
- ☐ one or both partners can no longer legally own a business
- ☐ there is a court order
- ☐ there is a death of one of the partners
- ☐ the business has gone bankrupt or insolvent.

Figure 6.17 The criteria or conditions in which a partnership can be dissolved

According to ASIC, the following is required for an application to be accepted:

- ☐ all members of the company agree to deregister
- ☐ the company is not conducting business
- ☐ the company's assets are worth less than \$1000
- ☐ the company has no outstanding liabilities (e.g. debts)
- ☐ the company is not involved in any legal proceedings
- ☐ the company has paid all fees and penalties payable to ASIC.

Figure 6.18 The criteria or conditions required for a private company to deregister

Voluntary and involuntary administration

As mentioned earlier, the process of administration occurs when a company becomes insolvent. Voluntary administration occurs when the directors of the company choose to appoint an **administrator** to take charge of the company. Involuntary administration occurs when a **creditor** (an external stakeholder) files a court order for an administrator to be appointed. The appointed administrator will be an independent, qualified person or party and their role is to investigate and assess the company's financial position, and then report this information



Figure 6.19 Dick Smith stores were closed following administration.



Figure 6.20 Max Brenner entered administration in October 2018.

Insolvent: a classification for a business that is unable to pay back its liabilities (debts) by due dates. The term 'bankruptcy' is only used when referring to an individual and their personal financial circumstances

Voluntary administration: a situation in which the directors of a company in an insolvent financial position appoint an independent, qualified person or party to investigate and assess the financial position of the business

Involuntary administration: a situation in which creditors of a company in an insolvent financial position seek a court

order for an administrator to be appointed to the company to assess its financial affairs

Administrator: an independent, qualified person or third party who is engaged by a business, or ordered by the court, to report on the financial position of the business

Creditor: a person, organisation or business that is owed money by another business. Creditors can include suppliers, financial intermediaries (such as banks) and employees

to both ASIC and the company's creditors (the administrator will invite all creditors to a meeting). Following the investigation, the administrator may propose one of three outcomes for the insolvent company. Table 6.1 identifies these three outcomes.

Table 6.1 The three options an administrator can enforce on a company in administration

OUTCOMES OF ADMINISTRATION	EXAMPLE
Outcome 1: The company may be forced to enter into a Deed of Company Arrangement (DOCA)	The administrator may recommend this outcome to support both the company and its creditors. The DOCA is a binding agreement that outlines how the company's finances will be managed until debts are repaid. The main benefits of a DOCA are that creditors may receive more money back than if the company is forced into liquidation (Outcome 2); and that the company has the opportunity to continue operating in the future. This option will only be finalised if a majority of the company's creditors agree in a vote.
Outcome 2: Order the business to go into liquidation	The administrator may recommend this outcome if the business has little choice but to close and hence all assets are sold quickly, at discounted rates, to recoup funds so that creditors can be repaid some of their money. Again, this option will only be formalised if the company's creditors agree in a majority vote.
Outcome 3: Reinstate control to the directors and allow the company to continue operations	The administrator may recommend this outcome if the company has an ability to recover from its financial difficulties (i.e. its financial position is not dire) and can repay its debts to creditors. This option rarely occurs as evidence would be needed for a business to enter administration in the first place, hence it is likely the business is insolvent, or close to it.

It must be noted that, regardless of which outcome is decided, the creditors of the business may not ever receive the full sum of money they are owed. There are many cases in which creditors only receive, for example, 50 cents for every dollar of debt they are entitled to. The amount repaid depends on how much money the insolvent company owes, and whether it has enough value in its assets to cover the repayment of these debts. This legal stipulation ensures that all creditors are given the opportunity to receive some money back, even if not the full amount. Otherwise, it would be unfair if some creditors received full payment while other creditors received none, and the government might be forced into further legal proceedings if this decision cannot be justified in accordance with the law.

GAINING INSIGHT



Ten Network creditors, staff will be paid out under CBS deal

Ten Network's secured creditors and staff will be paid out in full under the restructuring plan to sell the company to the US broadcasting giant CBS.

Key points:

- Ten employees, secured and trade creditors as well as content providers staying with Ten will get 100 cents in the dollar
- Fox and content providers being cut from Ten's schedule face big losses, while shareholders will get nothing
- CBS has pumped more than \$200m in to Ten to keep it on-air

But key content providers such as production houses on contract to Ten will only be paid in full if they remain with the network.

In a statement, Ten administrators KordaMentha said CBS was working with the Rupert Murdoch-controlled 20th Century Fox to renegotiate its content agreement with the network that is estimated to be worth \$200 million. If a deal cannot be struck, the administrators say CBS will give Fox a one-off payment of up to \$3.4 million to settle outstanding debts.

Under the restructuring, major production houses will be compensated by CBS with Warner Brothers Australia receiving \$2.3 million, ITV Studios \$1.9 million, Fremantle Media \$425 000 and Endemol Shine \$1 million.

The production houses are described as 'critical creditors who provide key content and have an ongoing relationship' with the Ten Network.

Ten Network's secured creditors and staff will be paid out in full under the restructuring plan to sell the company to the US broadcasting giant CBS.

Priority creditors include Ten Network staff who are covered for between \$14.1 million and \$56.2 million, which includes annual and long-service leave entitlements with the upper range for redundancy payments.

CBS emerged as the winning bidder for Ten on August 28 when it entered into a binding agreement to buy the broadcaster's business and assets.

The deal, which is subject to Foreign Investment Review Board approval, is a blow to media magnates Lachlan Murdoch and Bruce Gordon who were seen as leading contenders.

Earlier the Australian Competition and Consumer Commission said it would not oppose the Murdoch/Gordon proposal saying it would not substantially weaken competition in the media sector.

Ordinary shareholders to miss out on payout

The KordaMentha report said it did not identify 'any improper conduct' in the lead-up to the appointment of administrators.

Ordinary shareholders of the Ten Network including the billionaire miner Gina Rinehart will receive no payment under the restructuring deal.

Summary of estimated returns

- Secured creditors (CBA, Lachlan Murdoch, Bruce Gordon and James Packer) – refinanced 100 cents in the dollar
- Employees – 100 cents
- Key content providers who remain with Ten Network – 100 cents
- General trade creditors – 100 cents
- Financial, statutory and other creditors – 34 cents
- Onerous and terminated contracts (excluding Fox) – 10 cents
- Fox renegotiated a payment of up to \$3.4m

Creditors will meet in Sydney on September 12 to vote on a deed of company arrangement which will transfer ownership to CBS subject to Foreign Investment Review Board approval.

Ten was placed into voluntary administration in June after its billionaire creditors Mr Murdoch, Mr Gordon and James Packer backed away from guaranteeing a new \$250 million line of credit.

Source: Peter Ryan, ABC News, 5 September 2017. Reproduced by permission of the Australian Broadcasting Corporation – Library Sales © ABC

Questions

- 1 In a paragraph of 50–100 words, **describe** the business situation.
- 2 **Select** information from the article to **explain** the relationship between acquisitions and voluntary administration.
- 3 **Select** information from the article to **analyse** the advantages and disadvantages of CBS acquiring Network 10.
- 4 **Evaluate** the decision of CBS to offer payment only to those creditors who uphold their contracts with Network 10 using the criterion of competitiveness.
- 5 **Evaluate** the decision of CBS not to provide ordinary shareholders with a dividend using the criterion of stakeholder satisfaction.
- 6 **Select** information from sources to **explain** the impact administration has had on Network 10's shareholders.

QUESTIONS 6.7



- 1 **Identify** which government authorities would need to be informed of the following business cancellations:
 - a business name
 - Australian Business Number
 - licences and permits.
- 2 **Explain** the process of:
 - a liquidation
 - b insolvency
 - c voluntary administration
 - d involuntary administration.
- 3 Compare the process for dissolving a partnership and dissolving a company.
- 4 **Select** information from two online sources to **explain** and validate the criteria that ASIC requires a private company to meet before it can be officially deregistered.
- 5 **Create** a smart art graphic that summarises the outcomes of administration as set out in Table 6.1.
- 6 **Select** information from the examples of Dick Smith Electronics (Figure 6.19) and Max Brenner (Figure 6.20) to **analyse** the administration process each business undertook.

ANALYTICAL TOOL



The tool: Porter's five forces analysis

Porter's five forces is an analytical tool that was developed by US academic Michael Porter in 1979. Porter created the tool to allow a business to analyse its competitive market, and then to assess how the business is positioned competitively, particularly when focusing on goods and services. A business may conduct this analysis at different stages of the life cycle:

- seed stage – when assessing market potential
- growth stage – when the business may be looking at expansion or diversifying its product range
- maturity stage – when the business may be watching competitors
- post-maturity stage – if the business is in steady state or decline but could be renewed through a merger or acquisition, or alternatively might decide to reposition the business or renew.

How to use the tool

To conduct Porter's five forces requires management to have a clear view of the competitive market, and to consider the operating and macro environments.

Porter's five forces considers five key forces, or factors, in its analysis:

- 1 Competition in the market
- 2 Potential of new entrants
- 3 The power of suppliers
- 4 The power of customers
- 5 The threat of substitution.

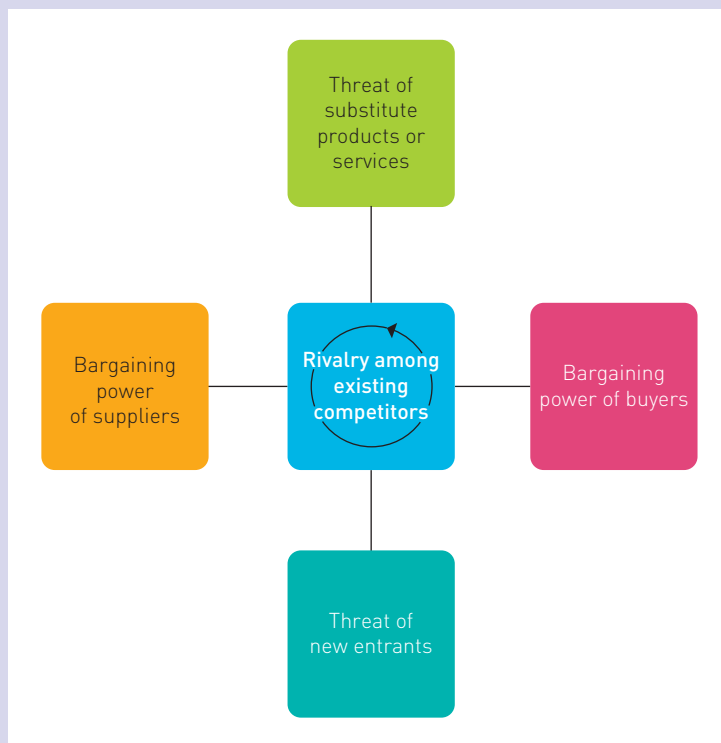


Figure 6.21 Porter's five forces

Michael Porter led a team at the Institute for Strategy and Competitiveness at the Harvard Business School. In Figure 6.22, he breaks down each of the five forces with examples, followed with inquiry questions that can be used for analysis and interpretation.





GAINING INSIGHT



SumoSalad uses insolvency laws to fight Scentre's Westfield

The fight between fast food chain SumoSalad and several Westfield shopping centres over lease payments brings into sharp focus the rising tension between tenants and landlords amid rapidly changing consumer shopping habits.

Luke Baylis, the chief executive and co-founder of SumoSalad, on Tuesday took the extraordinary step of putting two of the 20 companies in his group into voluntary administration in order to force several Westfield centres to the negotiating table.



Jane Dempster/NewsPix

Figure 6.23 Luke Baylis, CEO of SumoSalad, has taken desperate measures to cut the shopping centre rent for 12 stores.

After many failed attempts over the past six months to negotiate cuts in leasing charges Baylis put two companies, Sumo Westfield Leasing Pty Ltd and Sumo Leasing Pty Ltd, into voluntary administration.

These companies hold the leases over about 12 SumoSalad outlets in Westfield shopping centres managed by Scentre Group. SumoSalad has a total of 104 stores and Baylis says the dispute will not affect them trading normally.



Shutterstock.com/Willy Barton

Figure 6.24 Sumo Westfield Leasing Pty Ltd and Sumo Leasing Pty Ltd held the leases over SumoSalad outlets in Westfield shopping centres.

Baylis says the dispute was triggered by the decision of the shopping centres to dramatically expand the number of food outlets within shopping centres.

Talks have failed

He says that over the past three years foot traffic in shopping centres has only risen about six per cent but the number of food outlets has tripled or quadrupled. This has affected the profitability of SumoSalad stores.

'Sumo has been working with landlords over the past few months to negotiate more realistic food court leases for our stores, with no success,' Baylis said in a statement. 'Regrettably, landlords have opened the door to more and more food businesses in recent times, as well as opening whole new eating areas within the same

precinct, which has essentially cannibalised existing tenants.

'One shopping centre went from 34 food outlets to 93 in a three-year period with flat foot traffic growth.

'Our negotiations with landlords have failed to reach an outcome that adequately compensates our franchisees, with landlords now demanding that Sumo and our franchisees collectively pay millions of dollars to surrender the existing shopping centre leases.

'This is an untenable and unfair demand on small business owners, which would send our franchisees in those shopping centres broke.

'Placing the leasing entities into voluntary administration is the only way to protect our franchisees, and we are confident this will help us restructure our leasing entities in a manner that will create more favourable conditions for our franchisees.'

One of the SumoSalad leases affected by Tuesday's decision is in the Westfield shopping centre at Chatswood on Sydney's North Shore.

GPT's similar experience

Baylis said the expansion of the choice of eating venues over the past couple of years had badly affected the SumoSalad outlet in the centre. He says the lease payments must be cut by 30 per cent.

Earlier this year, Scentre Group chief executive Peter Allen said that his company was closely monitoring the rash of new voluntary administrations among retailers. Scentre has avoided exposure to specialty fashion chains that have struggled because of slack consumer demand.

GPT is another shopping centre owner which has experienced difficulties because of companies going into voluntary administration. The collapse of the Top Shop specialty fashion chain impacted upon all the leading shopping centre owners.

The SumoSalad case is different because the overall group remains profitably and continues trading in a range of shopping centres and other outlets including airports.

Baylis said the decision to put two of the 20 companies in the SumoSalad group into voluntary administration was in line with strategic plans by SumoSalad to move stores out of shopping centre food courts into more profitable sites.

SumoSalad is opening franchise outlets in hospitals, airports, service stations and universities. The company has recently entered a partnership with Caltex called Foodiary in Condord in Sydney's west.

Baylis said SumoSalad had been considering its strategic shift away from shopping centre food courts for some time but it had only become a reality following the trialling of pilot sites.

A spokeswoman for Scentre Group said: 'Scentre Group works closely with its retail partners in an effort to resolve trading issues.'

Source: Tony Boyd, *Australian Financial Review*, 13 June 2017.
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Questions

- 1 **Select** data and information from the article and other sources to **analyse** the competitive situation for SumoSalad using Porter's five forces analysis.
- 2 **Interpret** the analysis to **draw conclusions** about competitiveness for mature or post-mature food businesses that trade in a food court environment.
- 3 **Describe** how SumoSalad used administration processes to assist it in exiting its tenant contract.
- 4 **Select** information from the article to **evaluate** the management decisions of SumoSalad using the criterion of effectiveness. **Create** a 150-word paragraph response.

Communications strategies

Key learnings

You will learn about the influences on post-mature businesses by examining:

- **communications**
- **public relations**
- crisis management.

The approaches businesses use to communicate to stakeholders are an integral responsibility of top-level management in business of any size, at any stage of the business life cycle. However, well-known, large businesses are under the most pressure to communicate strategically due to having a large customer base that draws the attention of the media. Furthermore, as social media platforms give more stakeholders the opportunity to publicly share their opinions or perspectives, businesses must have plans and tactics in place, engaging staff with communication experience to influence the dialogue that may occur in the market. Hence communications, in a business context, refers to the strategic planning of the messaging that a business needs to deliver to key stakeholders to ensure the business maintains a positive reputation and is able to achieve its core objectives. Considering the business life cycle, a negative event or poor communications from a business can transfer a business operating in a mature stage into post-maturity, with the risk of decline and significant impacts on the business.

Communications can be further classified into key approaches, depending on the needs of the business or the issues it is dealing with. In a marketing context, communications are often referred to as public relations. The strategies and tactics involved in public relations focus on selling products and maintaining customer



Figure 6.25 The different communications strategy approaches for a business

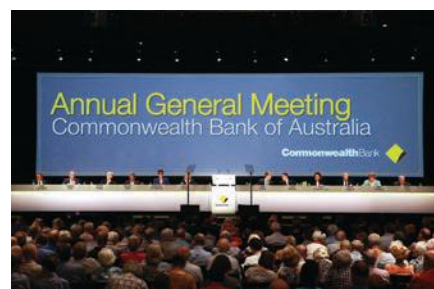
Communications: refers to how a business strategically plans its messaging to satisfy key stakeholders, maintain a positive reputation and achieve its objectives

Public relations: a part of the marketing function that utilises unpaid methods of promotion to engage customers with a business's goods and services. It further focuses on developing mutually beneficial relationships with customers and the media

relationships. Businesses sometimes require a communications strategy when trying to work with government; this is known as public affairs. Businesses also develop communications strategies to manage media interest, investor relations, **corporate affairs**, employee relations and community relations. At their peak, communications strategies are imperative for a business in crisis. Figure 6.25 identifies the different communications strategies that a business may plan for and enact.

Corporate affairs

The most senior managers of large companies, both public and private, have many responsibilities. Top-level executives such as the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer are most frequently managing corporate affairs communications. Corporate affairs refers to how a business wants to be viewed in the market and how it communicates to its highly influential and powerful stakeholders. Executive managers will strategically plan corporate communications in an attempt to control media perception or political response to business decisions. Qantas, Google, Wesfarmers and Australia's 'big four' banks – NAB, Commonwealth, ANZ and Westpac – are just some of the businesses that focus on their corporate affairs image and communications strategy. Corporate affairs strategies are also important to plan for when a business engages in an acquisition or merger as these changes in the market can spark significant interest from the media and other stakeholders.



Claudia Baxter Photography/NewsPix

Figure 6.26 One way in which the Commonwealth Bank engages in corporate affairs is through its annual general meeting.

INQUIRY



Corporate affairs communications and the banking royal commission

In late 2017, the Prime Minister of Australia, Malcolm Turnbull, established a Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry following speculation that Australia's biggest banks were misleading customers. Using the inquiry process, **select** information that **describes** how one of Australia's big four banks has responded to findings from the banking royal commission by answering this question, 'How has one of the big four banks used corporate affairs communications to respond to the banking royal commission?' **Communicate** your findings in a short presentation.

The ABC News website provides an archive of articles relating to the banking royal commission.



Community relations

Community relations is applicable to businesses of all sizes and stages of the life cycle as it focuses upon stakeholder engagement and satisfaction. From day to day, a business will manage its stakeholders through policies and procedures relating to issues such as the handling of customer queries and complaints. However, a business embarking on a project should formally establish a communications strategy for community relations, as stakeholder interests could interrupt or delay the project. This is most commonly seen when a business hosts a large-scale event outside the scope of its normal operations, or embarks on a new building or construction project. In these scenarios, businesses often have to consider the interests of neighbours and customers, who might well respond negatively to the project. Hence it is essential that the communications strategy considers how the business should:

- listen to stakeholders
- invite feedback
- implement solutions that minimise disruption.

Such communication strategies also apply to government and not-for-profit organisations.

Corporate affairs: an area of communications in which well-known large public and private companies monitor how they are perceived in the market. Their decisions often attract the interest of highly influential or powerful stakeholders such as the media and government

INQUIRY



Investigating the use of communications strategies

Consider an event or project occurring in your local area that requires a communications strategy for community relations. **Select** information from a range of primary and secondary sources to **evaluate** how effectively the organisation has communicated its strategy, considering two stakeholder interests. **Communicate** your response in a paragraph of 200–300 words.

GAINING INSIGHT



Media release: Stage 3 of Emu Park Village and Foreshore Revitalisation Project open for community feedback

As Stage 3 of the Emu Park Village and Foreshore Revitalisation Project begins to ramp up, the community is being invited to provide feedback on the latest concept plans for the redevelopment of Kerr Park.

The \$4.5 million partnership project is proudly funded by the Queensland Government in association with Livingstone Shire Council and Emu Park Bendigo Community Bank.



Mayor Bill Ludwig said with road-works and street-scaping well underway the next focus of works will be on the transformation of Kerr Park with a signature playground, shelters and enhanced green space areas.

'Community feedback and input from the Emu Park Community Reference Group will be an integral part of realising the optimum outcome from this stage of the overall Master Plan,' Mayor Ludwig said.

'I must commend the Queensland Government, State Member Brittany Lauga and Emu Park Bendigo Community Bank for their ongoing support and financial contributions towards this hugely important project for both our community and the region.'

Deputy Mayor Nigel Hutton said Alderson & Associates Landscape Architects have done a brilliant job in developing the concept plans and the landscaping elements of the project.

'With the benefit of feedback from the community this unique and innovative design will

ultimately create a destination drawcard for locals to enjoy and builds on the Emu Park village centre Master Plan,' Cr Hutton said.

Assistant Minister for Education and Member for Keppel Brittany Lauga said she was extremely proud to be part of delivering this vital project to the community.

'Funded under the Building Our Regions (BOR) program, this critical infrastructure project will meet the specific social needs of our community while supporting the region's economic development, including generating jobs during the construction phase,' Mrs Lauga said.

'Emu Park is already a naturally stunning part of our region and this vital investment will not only enhance its beauty but also build infrastructure for the future growth and liveability for this section of the Capricorn Coast.'

Emu Park Lions Club has also been successful in receiving \$35 000 in funding under the Queensland Government's Gambling Community Benefit Fund for health and fitness equipment to be installed on the foreshore as part of the project.

Source: Livingstone Shire Council, 21 August 2018



Questions

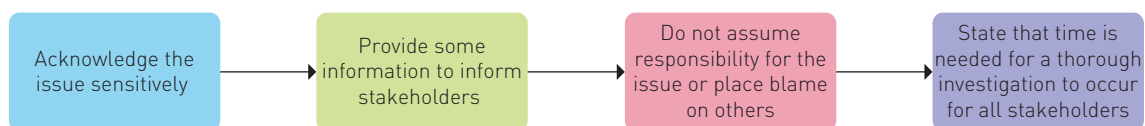
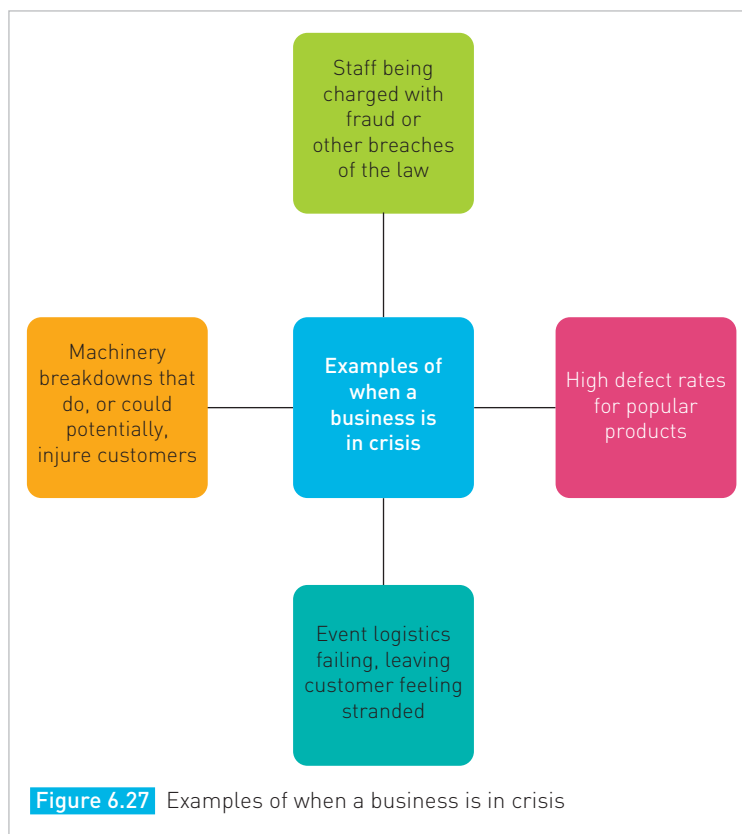
- 1 **Identify** the stakeholders impacted by Stage 3 of the Emu Park Village and Foreshore Revitalisation Project.
- 2 **Describe** the characteristics of Stage 3 of the project.
- 3 **Select** data and information to **analyse** the STEEPLE factors influencing this project.
- 4 **Interpret** the analysis to **draw conclusions** regarding communications strategies for repositioning projects.
- 5 **Evaluate** the media release using the criterion of stakeholder satisfaction.

Crisis management

The greatest fear for a business is for a **crisis** to unfold. A crisis for a business can be any situation that threatens harm to a business and its staff or customers, which consequently can damage the business's reputation and have a negative financial impact. Examples include staff being charged with fraud or other breaches of the law, high defect rates for popular products, poorly executed event logistics, and machinery malfunctions that do, or could potentially, injure staff or customers (Figure 6.27).

In many such cases, while the business is trying to form a strategy, customers or other stakeholders will use social media to broadcast the news, which exacerbates the crisis and increases pressure on the business to respond quickly. Therefore, **crisis management** is required. Crisis management consists of controlling the business's message carefully and, in its initial stages, acknowledging the issue, providing information to stakeholders, but not assuming responsibility for the issue or placing blame (Figure 6.28).

During a crisis, a business may risk losing customers, shareholders and staff, which can leave the business in an unstable position, impacting upon all four key functions, and, if not managed correctly, pushing the business into post-maturity and decline. Hence meeting **ethical standards** is paramount. A business should in its strategic planning anticipate any



Crisis: any situation that threatens harm to a business and its staff or customers, and that consequently can damage the business's reputation and have a negative financial impact

Crisis management: the strategies a business will implement in response to a serious issue or event and the way it is addressed with stakeholders, most often through the media

Ethical standards: the principles a business should abide by in order to maintain positive relationships with stakeholders – handling information sensitively, being moral and satisfying community expectations

potential crises, form a crisis team and develop response systems, including initial statements that are ready to enact if required. The business must then ensure that any future public relations efforts maintain sensitivity to the issue and promote positive values for the community to respond to.

Major crises in which crisis management strategies have been used include the loss of life after the malfunctioning of the Thunder River Rapids ride at Dreamworld in 2016; the ball-tampering scandal during the Australian cricket team's tour of South Africa in 2018; and, also in 2018, Facebook's sharing with Cambridge Analytica of data that was subsequently leaked. In these examples, the pressure for the business to respond quickly was intense, and it was subsequently debated how effectively crisis management had been used to handle these issues.



Shutterstock.com/wellphoto

Figure 6.29 A business must be ready for intense media interest when a crisis unfolds.

INQUIRY



Investigate a crisis

Select information from a business that has been in crisis to **analyse** the pros and cons of how the crisis was handled. **Interpret** the pros and cons to **draw conclusions** on communications strategies for businesses.



iStock.com/catchlights_sg

Figure 6.30 The malfunction of the Thunder River Rapids ride at Dreamworld is likely to be one of the biggest crises faced by an Australian business in the 21st century.

SUSTAINABILITY



Outsourcing crisis management

While many businesses will engage their communications teams or departments to step in at these times, crisis management is an area in which outsourcing is commonly used. In these cases, businesses will engage a communications or consulting firm to help them strategically plan their message. The advantages of outsourcing crisis management are that the consulting firm has staff who specialise in handling crises, who can provide an unbiased, objective view, advise how the media should be handled and protect top-level management.



Shutterstock.com/Rynio Productions

Questions

- 1 **Select** information to **create** a list of five consulting firms that provide crisis management support to businesses.
- 2 **Explain** the relationship that exists between outsourcing communications and sustainable business practices.

QUESTIONS 6.8



Describe a scenario when a business was in crisis due to:

- a staff being fraudulent or otherwise breaking the law
- b high defect rates of a product
- c a failure in event logistics
- d machinery breakdowns that harmed people or had the potential to do so.

Employee relations

Employee relations refers to organisation-wide communication with staff, delivered from top-level management of the business, about business issues. For large or multinational companies, it is important that executive management strategically plan its employee relations communication so that the information shared is clear and unambiguous and pressure is not placed on middle management to handle the subsequent queries. Hence, any communication that is organisation-wide needs to promote productivity and job satisfaction in the business. If the executive management team needs to share unfavourable news with staff, it too should focus on information, and should be followed up with a communication strategy to middle management about how the business needs to proceed. This example is applicable if redundancies need to be made or part of a business is being closed down. Employees may also ask a trade union to represent them if negotiations are required or disputes need to be mediated.



iStock.com/kasto80

Figure 6.31 In a communications context, employer relations refers to the sharing of information from top-level management to the entire business.

Investor relations

For public companies with many shareholders or private companies with corporate backing, investor relations are an essential part of the communications strategy. As investment is linked with money, shareholders will be sensitive to the actions a business might take, and will react quickly if these pose a risk to their investment. This can be seen on the stock exchange where share prices fluctuate from day to day. Investors want to know executive management value their interests, and this can be achieved through investor relations. Information that should be communicated to investors includes:

- the financial performance of the business
- that decisions surrounding debt and equity finance are justified
- that forecast growth is reflected in increased revenue
- how net profit may be distributed through dividends or appropriately reinvested in the business.

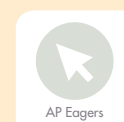
Strategies to deliver this information include publishing financial reports for investors and calling quarterly or annual meetings for shareholders where the chief financial officer and other members of the executive management team can deliver their reports and then be available to answer any questions.

INQUIRY



How does AP Eagers manage its investor relations?

AP Eagers is a leader in the Australian automotive retail industry. Using the inquiry process, **select** information from the company's most recent annual report to **describe** its key sections. **Evaluate** the annual report and its role in communicating investor relations using the stakeholder satisfaction criterion. **Create** a paragraph response of 200–250 words.



Media relations

Large public or private companies, government departments and not-for-profit organisations that are well known can attract constant media interest. These businesses must ensure they have a communications team available to handle media queries at any time. Media relations refers to the strategy by which a business or organisation develops relationships with, and communicates with, journalists to ensure that any published news remains as favourable to the business as possible. Generally, media relations activity peaks when a business is making public announcements in relation to its objectives. The business may create media releases to inform journalists of upcoming change, or call a press conference if the chief executive officer would like to comment on camera to the media. It is often through media relations that a business spokesperson is quoted in a newspaper article or appears on camera in a news segment.

EMERGING TECHNOLOGIES



A media release from Telstra

Telstra turns on 5G on the Gold Coast

Telstra today announced it had switched on 5G technology across selected areas of the Gold Coast, making Australia's largest and fastest mobile network the first in the country to be 5G ready.

Telstra CEO Andrew Penn said this was just the beginning of Telstra's roll out of 5G technology, with more than 200 5G-capable sites planned to be live around the country by the end of 2018.

'Today's switch on demonstrates Telstra's commitment to mobile leadership in Australia and will support the ongoing testing of next generation mobile technologies in Australian conditions to support the early commercial deployment of 5G mobile services,' Mr Penn said.

'Telstra has already achieved a number of significant milestones in preparation for 5G. In February we launched Telstra's 5G Innovation Centre on the Gold Coast which has since been home to several world and Australian firsts including the world's first precinct of 5G-enabled WiFi hotspots, Australia's first 5G Connected Car, and the world's first end-to-end 5G non-standalone data call on a commercial mobile network.

'Today we have switched on 5G-capable sites on the Gold Coast, which enable us to test 5G pre-commercial devices in real world conditions and use unique innovations like our Connected Car to test our 5G footprint. It also means we can connect compatible commercial 5G devices for customers in 5G areas as they become available.

'We know mobility is key for our customers, and that's why we are focussed on delivering a 5G mobile service first and foremost.

'Over the coming months we will continue expanding our 5G coverage with plans to roll out to more capital cities, regional centres and other high demand areas.'

Telstra's rollout of 5G is underpinned by around \$5 billion in mobile network investment over the three years to 30 June 2019, consistent with previous guidance, to enhance the capacity, capability and reach of Telstra's network.

This investment is a key element of Telstra's T22 strategy, which will help Telstra to lead the Australian market by simplifying its operations and product set, improving customer experience and reducing its cost base.

Mr Penn said Telstra's ongoing network investments were critical as it prepared to lead the market and win in 5G, ensuring Australians were among the first to benefit from the new technology.

'Our T22 strategy will be underpinned by our aim to have the largest, fastest, safest, smartest and most reliable next generation network, and these ongoing investments will ensure we continue to deliver market leading innovation in networks,' Mr Penn said.

'Telstra has a history of innovating and adopting the next generation of wireless technology ahead of the curve. With our mobile network now 5G ready in selected areas, we will continue deploying the technology and developing innovative services and use cases for our customers.'



Shutterstock.com/TK Kurikawa

Source: Media release, 15 August 2018, Telstra, <https://www.telstra.com.au/aboutus/media/media-releases/Telstra-turns-on-5G-on-the-Gold-Coast>. © Telstra Corporation Ltd

Questions

- 1 Explain the purpose of this media release.
- 2 Describe the emerging technologies that Telstra is rolling out to its network.
- 3 Analyse the media release to identify where Telstra has been portrayed positively.
- 4 Interpret the media release to draw conclusions about how businesses communicate information to the public.
- 5 In a paragraph, evaluate the quality of Telstra's media release using the criteria of effectiveness and competitiveness.

Public affairs

As businesses operate within a country's legal system, they sometimes need to engage with governments to influence their decision-making on policy. This process, known as **lobbying**, falls within the communications approach known as **public affairs**. 'Public affairs' refers to how businesses communicate and lobby the government for change – hoping this will ensure the continued success of the business in a market.

In Australia, certain communication or lobbying that occurs between business and government needs to be placed on the public record with the Register of Lobbyists. This is to ensure that fair dealing occurs and that neither business nor government enter into agreements based on bribery or coercion. Lobbying is perceived as an activity that is fundamental to a democratic society, provided it remains ethical.

Visit the website of the Department of the Prime Minister and Cabinet for more information on the Lobbying Register.



GAINING INSIGHT



Kindergartens lobbying for extended government subsidies

Kindergartens are lobbying the Government to extend subsidised pre-school programs to all Australian three-year-olds, arguing it would help solve Australia's literacy numeracy crisis.

A new analysis of NAPLAN data by Goodstart Early Learning, the country's largest childcare operator, shows the reading and numeracy scores of Year 3 children significantly improved after universal kindergarten was introduced.

In 2013, only 52 per cent of Australian children who sat NAPLAN in Year 3 had attended a pre-school program.

By 2017, when that proportion had risen to 92 per cent, NAPLAN reading and numeracy results had improved across the country by an average of 12 points.

In Queensland, which also introduced Prep and raised the starting age for Year 1, the results were most significant.

The proportion of Year 3 students in Queensland who participated in a pre-school program rose from 32 per cent in 2013 to 97 per cent in 2017, and reading and numeracy scores increased by an average of 16.5 points.

Goodstart Early Learning's advocacy manager John Cherry has seized on the data to call on the Federal Government to extend subsidised pre-school to the second year before school.

'Evidence from around the world shows that access to two years of early learning in the years before school can double the impact on educational outcomes in school,' he said.



iStock.com/svetikd

Figure 6.33 Kindergartens are seeking extended government subsidies.

Goodstart Early Learning, along with kindy giant C&K, is ramping up pressure on both sides of politics ahead of the Longman by-election in two weeks, to fund two years of early learning for children.

Karen Thorpe, of the University of Queensland's Institute of early learning and science, said research showed early learning programs had an impact in improving children's academic outcomes.

'The thing that makes the difference isn't that they learn the reading, writing and arithmetic, it's that they are learning those skills of sharing, getting on in groups, organising themselves, and regulating their behaviour so they are ready for school,' she said.

Alys Gagnon, executive director of lobby group The Parenthood, said pre-school was vital in ensuring children didn't start school behind their peers.

Lobbying: actions taken by a business in an attempt to influence government on policy decisions and ensure a favourable result for the business

Public affairs: the communication relationship between business and government, which can include working collaboratively on projects or lobbying to influence government policy

Shannon Ross said her eldest daughter Tarni-Rose, 5, adjusted well to school after attending Goodstart Early Learning in Caboolture since she

was in the nursery. 'Having the kindy and pre-kindergarten programs definitely helped with the transition,' she said.

Source: Lauren Martyn-Jones, 14 July 2018. © the Courier Mail. The use of this work has been licensed by Copyright Agency except as permitted by the Copyright Act, you must not re-use this work without the permission of the copyright owner or Copyright Agency.

Questions

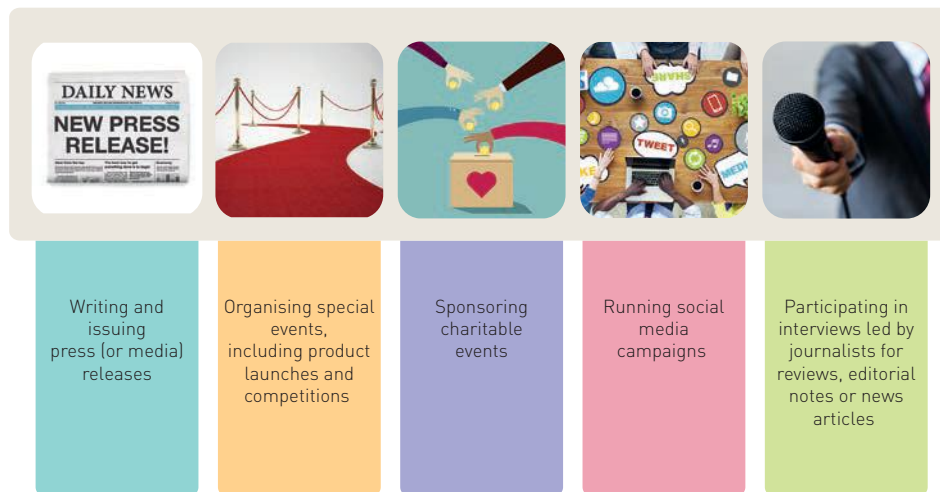
- 1 **Describe** the business situation.
- 2 **Explain** how the article relates to public affairs.
- 3 **Explain** the relevance to the business of having data as part of its lobbying strategy.

Public relations

As the marketing function has evolved over time, so has the way in which businesses communicate with customers about their products and services. While most people are familiar with advertising (which is a paid form of promotion), public relations (PR) focuses on utilising unpaid methods of promotion as part of the marketing mix, to engage and persuade consumers about the business's goods and services. The way public relations specialists do this is through storytelling and by building networks with media, who broadcast content about the business in their news cycle. The goal of public relations is to build mutually beneficial relationships between the business and its market, while enhancing and controlling the business's reputation.

Public relations departments use a range of tactics to promote the business's goods and services in the market. These are:

- writing and issuing press (or media) releases
- organising special events, including product launches and competitions
- sponsoring charitable events
- running social media campaigns
- participating in interviews led by journalists for reviews, editorial notes or news articles (Figure 6.34).



Left to right: iStock.com/bqblue, Shutterstock.com/hakusanto, iStock.com/Bablab, Shutterstock.com/Rawpixel.com, Shutterstock.com/Twinsterphoto

Figure 6.34 Tactics undertaken by public relations to engage consumers and the media

Outcomes for successful public relations

While the focus of public relations is mainly on attracting customers to the business's goods and services (as opposed to engaging other stakeholders), the success of PR is measured by how well it persuades the media to publish information about the business to the market. If successful, the business can:

- achieve a positive relationship with the media
- enhance visibility to customers
- spark new investor interest
- satisfy community interests
- overcome crises in a timely way.



Note that, while this text distinguishes between public relations and communications, many businesses refer to communications and PR as one and the same.

The Public Relations Institute of Australia was created to support public relations professionals in Australia by promoting best practice, career development opportunities and networking opportunities for members.

How public relations responds to unfavourable social media

A business's reputation can suffer if it is not managed correctly, particularly if a customer uses social media to complain publicly about the business and its products and services. If not handled quickly by a public relations team, a customer's post can go viral and attract the attention of other media. To prepare for these scenarios, the public relations team must strategically plan for such events so that the business is able to control the dialogue. They need to be able to respond to customers quickly with a solution and ensure the media is aware of this before they broadcast or publish the issue as a news story.



Figure 6.35 Outcomes when public relations strategies are successful

QUESTIONS 6.9



- 1 **Select** information from sources to **describe** an issue that went viral due to a customer complaint and how the business responded. **Interpret** the implications of social media for a public relations department.
- 2 Complete the following table to **explain** the different approaches to communications.

Communications approach	Definition or explanation	Strategies used to communicate
Corporate affairs		
Community relations		
Crisis management		
Employee relations		
Investor relations		
Media relations		
Public affairs		
Public relations		

Chapter 6 review

This chapter introduced the outcomes for a business in post-maturity. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

6.1 Short items

- 1 **Explain** the three outcomes for a business that is in post-maturity.
- 2 **Explain**, in chronological order, the entire process a partnership needs to follow in order to exit the market and close.
- 3 **Explain** voluntary and involuntary administration for a company.
- 4 **Explain** the purpose of Porter's five forces analysis and how it can inform a SWOT analysis.
- 5 **Discuss** the relevance to businesses of strategically planning different communications strategies.

6.2 Interpretive items

Create feasibility report extracts (i.e. paragraph responses in genre) to respond to the following.

- a **Describe** the post-maturity features of a business in your community that you can investigate.
- b **Select** data and information from the business and other sources to **analyse** the STEEPLE factors impacting on the business.
- c **Interpret** the analysis to **draw conclusions** about the options for businesses facing post-maturity.
- d **Evaluate** three communication strategies the business could implement in order to reposition, using the criterion of effectiveness. **Propose** a recommendation.
- e **Evaluate** the feasibility of the business being merged or acquired, using the criterion of competitiveness. **Propose** a recommendation.

6.3 Extended-response items

In 2014, Virgin Australia acquired Tigerair Australia, and since then it has made strategic decisions to bring Tigerair out of its quick slide into post-maturity. **Create** a spoken or multimodal presentation, 4–5 minutes long, to respond to the following questions relating to Virgin Australia's acquisition and the subsequent repositioning of Tigerair.



Shutterstock.com/John Mackintosh

- a **Select** data and information about Virgin Australia Holdings' acquisition of Tigerair and **analyse** using Porter's five forces. This inquiry question may assist in your analysis: 'Why, based on Porter's five forces, did Virgin Australia choose to acquire Tigerair?'
- b **Interpret** the relationships, patterns and trends in the Porter's five forces analysis to **draw conclusions** about the acquisition of businesses at risk of post-maturity.
- c *Business Insider* published an article, 'What it's like to fly on Tigerair, the cheapest airline in the world', in 2018. Using the *Business Insider* article and other sources, **describe** the communication strategies Tigerair has used to promote its repositioning since acquisition.



Article –
Tigerair

7

FUNCTIONAL AND SUSTAINABLE REPOSITIONING

What you will learn

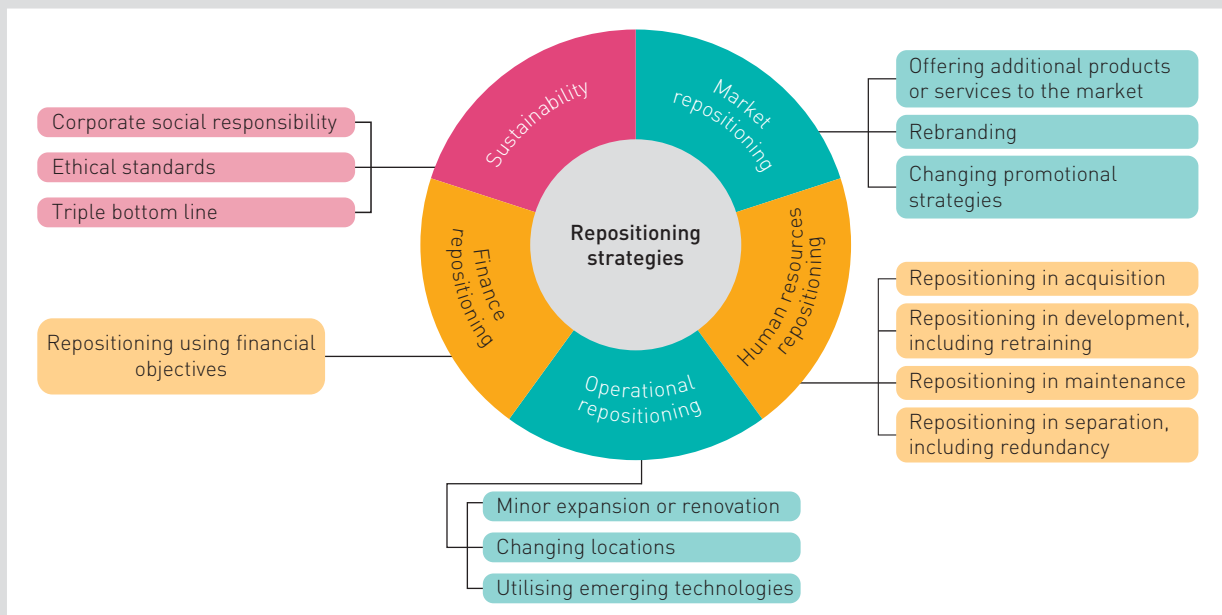
This chapter will explore the repositioning strategies businesses use in the post-maturity context. These strategies can be functional and relate to changes in marketing, human resources, operations and finance; or linked to sustainability, corporate social responsibility and business ethics. Repositioning strategies are effective for businesses wanting to make small yet impactful changes in the business, which don't require organisation-wide transformation. They may assist a business in moving from decline to steady state, or from steady state to renewal.

This chapter will provide you with the opportunity to:

- **describe** business situations relating to repositioning a business at the post-maturity stage of the business life cycle
- **explain** strategies, processes and systems relating to repositioning for post-mature businesses
- **select** data and information relating to repositioning to **analyse** the business situation using STEEPLE, SWOT and Porter's five forces
- **interpret** relationships, patterns and trends to **draw conclusions** about the implications of repositioning strategies
- **evaluate** business repositioning 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:

- STEEPLE analysis
- SWOT analysis
- Porter's five forces.



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:
 - initiative and enterprise
 - creativity
 - generating and applying new ideas
 - identifying alternatives
 - seeing or making new links
- communication:
 - effective oral and written communication
 - using language, symbols and texts
 - 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
 - ethical (and moral) understanding
- information and communication technologies skills:
 - operations and concepts
 - accessing and analysing information
 - being productive users of technology.

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

GAINING INSIGHT



Repositioning the perception of gas in the market

FOCUS QUESTION: How can businesses use repositioning to improve their reputation?

Made Possible by Gas is an initiative of the Australian Petroleum Production Exploration Association (APPEA).

Leaving aside the 44 000 families that have a loved one directly employed or whose job is supported by the Queensland natural gas industry, the \$108 billion of economic activity that the industry has been responsible for driving in the state since 2011, or what it means for the 4.5 million Australian households and businesses to have access to a reliable supply of natural gas, so much more is Made Possible by Gas.

It's one of those adulthood tasks we can't escape ... a trip to the supermarket to stock

up on the essentials. The next time you cruise the aisles, dodging screaming children and unconsciously singing along to the bland music, you can entertain yourself by spotting how many items on your shopping list are made possible by gas.

The basket case

It's not on your list, but unless you have enormous hands you're going to need a trolley or a basket to get your shopping done. Both of these supermarket essentials are made possible by gas.



Made Possible by Gas

The majority of trolleys used in Australia are made from zinc-plated steel, with plastic components. Coating the steel helps protect the metal from corrosion. To plate the steel, it is dipped in molten zinc, which is heated up using natural gas to reach the required temperatures.



iStock.com/Kwangmoozaa

The plastic handle, child seat and edges on your trolley, like your shopping basket, [are] made from polypropylene. Like most plastics, this is made from natural gas, which is processed at a cracker plant to make ethylene – a starting point for a huge variety of plastic products.



Shutterstock.com/lakoburito

Getting fruity

Supermarkets put the fruit and vege near the entrance, so all of that bright and colourful produce makes you feel happy and healthy. What you may not have guessed is that all of that fresh produce is made possible by natural gas.

Natural gas is the primary feedstock for the production of nitrogen-based fertilisers – the most commonly used fertiliser in the Australian agricultural industry. The Australian agricultural industry uses about 1.6 million tonnes of urea (which is produced from natural-gas made ammonia)

each year. It is used to grow grains, cotton, fruit and vegetables and improve pasture and grow feed for the beef, dairy, pork and lamb industries.

And even if you splash out for the expensive all organic produce, it still makes it to your table using natural gas. That's because fencing, irrigation, greenhouses, netting to protect produce, and farm vehicles are all made possible by gas.



iStock.com/VLG

Heading down the shopping aisle

As you make your way through the centre of the store, almost every single thing you pop in your basket is made possible by natural gas. Whether it's the plastic wrapped loaf of bread, your cereal box, the tubs of yoghurt, cans of soft drink, bottle of milk, or toilet paper – chances are your food or items are wrapped up in packaging that is manufactured or made by natural gas.

As we know, anything wrapped in plastic, or featuring a plastic lid is made from natural gas or petroleum byproducts. But natural gas also plays a role in manufacturing tin cans, glass jars and even cardboard boxes.

Natural gas is the only fuel that can reach the temperatures required to make aluminium for cans. It is required to fire the kilns and furnaces used to make glass jars. And Australia's packaging giants make cardboard boxes in plants that run off natural gas.

All of this packaging helps keep your food safe on the long journey between the farm, the factory and your kitchen. The good news is a lot of this packaging can now be recycled either through council programs, or soft plastic collection points at major supermarkets.

Check out the chips ... and bag 'em up!

The humble cash register has come a long way ... in part thanks to natural gas. The next time

you weigh up your bananas at the self-service check out, remember you can do that thanks to the fibreglass circuit board that is manufactured using natural gas.

Chances are the reusable shopping bag you put your bananas into is also made possible by gas. The majority of 'green' bags available at the



iStock.com/McIninch

shopping centre are made from polypropylene, while calico bags are made from cotton which is fertilised by natural gas.

Your weekly shop is just one of the many routine things we do without realising how much is made possible by gas.

Source: madepossiblebygas.com.au

Questions

- 1 **Explain** the repositioning strategy used by Australian Petroleum Production Exploration Association.
- 2 **Describe** the features of the Made Possible by Gas campaign.
- 3 **Identify** the macro environmental factors that have influenced this campaign.
- 4 **Interpret** the article to **draw conclusions** about the target market.

Functional and sustainable repositioning

Key learnings

You will learn about repositioning a business by examining:

- repositioning strategies for businesses in post-maturity.

As introduced in Chapter 6, a business that risks slipping into post-maturity may decide to reposition in order to renew or operate at a steady state. Repositioning is a strategy whereby a business attempts to engage with a new or broader target market by offering new products or services, rebranding or updating tactics used in promotion to change how it is perceived in the market.

There are many reasons why businesses choose to reposition, with most objectives linked to achieving business goals (Figure 7.1) – that is, to:

- increase profitability
- gain market share
- provide employment opportunities
- satisfy or meet society's needs and wants
- become more sustainable
- achieve growth.

Repositioning does tend to have a marketing focus as the purpose of repositioning is to attract consumer attention. However, all functions – human resources, operations and finance – can implement their own repositioning strategies to assist a business in achieving renewal or be able to operate in steady state, rather than decline.



Figure 7.1 Businesses will implement repositioning strategies to assist them in achieving business goals.

Market repositioning

Key learnings

You will learn about post-maturity businesses by examining:

- repositioning strategies for the marketing function
- rebranding.

A business will implement repositioning strategies to attract a new or broader target market. By doing so, the business may attract new customers to the business, gain notoriety and increase competitiveness in the market.

Ways in which the marketing function can achieve this include:

- offering additional products or services to the market
- rebranding
- changing promotional strategies.

Offering additional products or services to the market

The most effective way for a business to reposition is to offer something new to consumers that satisfies their needs and wants. A business that offers a more diverse range of products or services can capture the interest of consumers and give them an alternative to consider. Strategic planning is required for this, particularly for a business in post-maturity as its former financial performance may limit growth opportunities or cause investors to see it as risky. However, a business may only need to make small repositioning changes to reap the results of its change. Table 7.1 provides some examples of additional products and services that can be offered to consumers based on the size of the business. Ultimately, there are countless product- or service-led repositioning opportunities available to businesses (vertically and horizontally).

Table 7.1 Examples of additional products and services that a business might offer

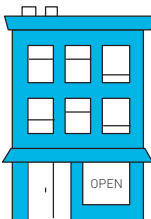
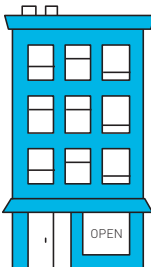
BUSINESS SIZE	ADDITIONAL PRODUCTS OR SERVICES
Micro-business 	• A game developer may introduce a free trial version of their app to consumers, or strategically plan for 'in-app purchases' to be implemented into the game at pivotal points • A home maintenance service may introduce gardening work and furniture assembly to its scope • A market stall owner may set up an online store using a platform such as Etsy or eBay • A phone repair business may choose to sell phone cases and other accessories in the store
Small to medium-sized business 	• The owner of a cafe that opens for breakfast and lunch may extend the cafe's trading hours for dinner, offer seasonal menus, open a children's play area or become niche at providing a particular product, e.g. acai bowls • A house cleaning business with a high number of staff may offer window washing or other domestic services • A florist may expand its delivery area, offer a same-day service or sell homewares and gifts • A fruit and vegetable shop may add a delicatessen or cafe counter to its business
Large business 	• A supermarket may offer catering services, home delivery and insurance to its offerings • A travel agency may develop networking partnerships with new airlines or hotel chains locally, nationally or internationally • A specialty clothing retailer may introduce maternity or children's wear to its product range or introduce a new brand to the store • A business may introduce a loyalty card program or open new stores or offices in untapped locations



Figure 7.2 Retail and food businesses add playgrounds for children to their stores as a repositioning strategy.

Assemble-it



 A woman with red hair tied back, wearing a blue polo shirt with a red lanyard, pointing her right index finger upwards. She is smiling.

There's no more fighting over flat packs with your partner and no more stressing over missing screws and bolts.

With the Officeworks Assemble-it service, we, with the help of Hunter Leisure, ensure your newly purchased furniture is built hassle-free.

For a small fee you can arrange for a furniture specialist to visit your home or office and take your flat-pack purchase to fully assembled furniture in no time. It's a small price to pay for a happy household or business!

[Shop furniture range](#)

Figure 7.3 Officeworks used a repositioning strategy by offering an assembly service to rival similar services offered by competitors.

INQUIRY



Hungry Jack's goes vegan

Hungry Jack's has introduced a vegan burger to its menu range. Using the inquiry process, develop a key question and sub-questions, then **select** information to **analyse** the macro environmental factors that influenced this repositioning strategy.



Figure 7.4 Hungry Jack's has used a repositioning strategy by introducing a vegan burger to its menu.

GAINING INSIGHT



Hog's Breath launches new quick service dining concept

Australian restaurant chain Hog's Breath has launched a new quick-service dining concept.

Called 'Hog's Express', the new dining option will largely serve burgers, alongside a small range of other foods including salads, wings, squid and Hog's Breath curly fries.



Figure 7.5 A Frosty Boy – Hog's Express ice cream available at the first Hog's Express dining outlet, located at Myer Centre Food Court in Brisbane.

The first of the new concept stores opened late last week and is located in Brisbane's Myer Centre Food Court.

Hog's Express will use online and self-ordering technology to help ensure food is delivered quickly. Free soft drink refills are also part of the new QSR concept, along with modern twists on soft serve ice cream.

Working in conjunction with Frosty Boy, Hog's Breath has created Pink Himalayan Rock Salt and Charcoal flavoured soft serve options, catering to those after the latest dessert trends.

Hog's Express Myer Centre General Manager, Geoff Hargreaves, said that soft serve fits well into the Hog's Express grab-and-go concept.

'Frosty Boy has provided us with a unique customisation that is tailored for Hog's Express and its future roll out across Australia,' Hargreaves said.

'We predict Frosty Boy's soft serve will be a hit, plus its vibrancy and taste will attract a range of new customers, while simultaneously engaging our current clientele.'

Source: Andrea Hogan, *Australian Food News*, 11 December 2017, www.ausfoodnews.com.au

Questions

- 1 **Select** information to **analyse** how Hog's Breath has:
 - a repositioned by adding products and services to the business
 - b attempted to attract a new target market.
- 2 **Interpret** your findings from Question 1 to **draw conclusions** on repositioning strategies.
- 3 Nationally, Hog's Breath has closed at least three of its traditional restaurants – 'Hog's Breath Cafe' – since 2017. **Evaluate** management's decision to reposition the business with 'Hog's Express' using the criteria of efficiency and competitiveness. **Create** two paragraphs to **communicate** your response.

Rebranding

Another way in which businesses reinvent themselves in a market is through rebranding. This can be done by a business in the maturity stage by responding to a long-term strategic plan, often scheduled every seven to 10 years. It can also happen in post-maturity if the business needs to change the way it is perceived, from being an 'old' or 'mediocre' business to one that has a new, exciting and fresh approach. Rebranding can also occur following a change of business ownership as a result of a merger or acquisition, or if a business expands internationally and needs to appeal to the global market. In some cases, rebranding is a consequence of legal regulation requiring a business to respond when there is a conflict with another business in the market. The same applies for a business that



Figure 7.6 Rebranding requires strategic planning if it is to be executed correctly.

chooses to rebrand; management must ensure the new branding does not adversely affect another organisation. If done effectively, and if it is embraced by consumers and the market, rebranding can set a business up for financial and market success. A business can rebrand by:

- updating the business name
- introducing a new logo or trademark (Figure 7.7).

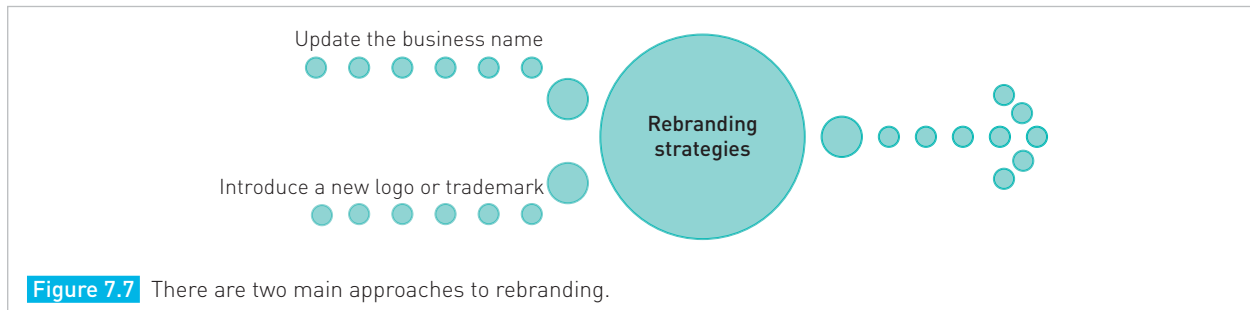


Figure 7.7 There are two main approaches to rebranding.



Figure 7.8 Suncorp rebranded in 2018.



Figure 7.9 The former Suncorp branding

Examples of businesses that have rebranded over time can be seen in Figure 7.10.

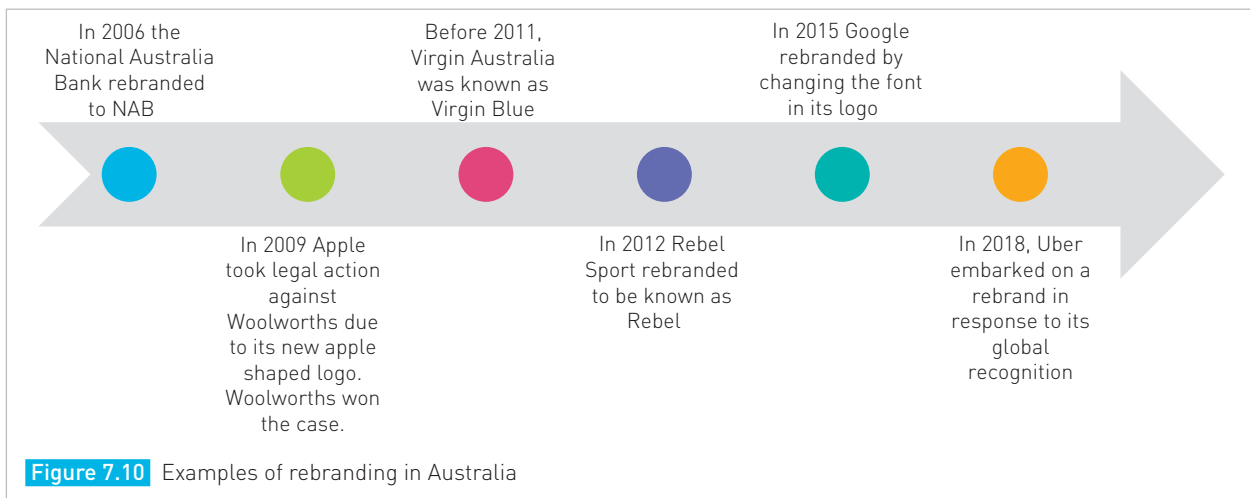


Figure 7.10 Examples of rebranding in Australia

The difference between rebranding and repositioning

Rebranding is not the same as repositioning, although rebranding can be a direct outcome of a management decision to reposition a business in the market. As mentioned previously, repositioning can affect all four business functions, whereas rebranding will always be the responsibility of the marketing function. If a business chooses to reposition, it is often helpful to rebrand as it will attract consumer attention. A business that has rebranded can begin promoting its repositioning strategies to a more attuned and curious market.

QUESTIONS 7.1

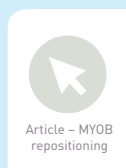


- 1 **Explain** the purpose of rebranding for a post-mature business.
- 2 **Create** a paragraph response that compares rebranding with repositioning.
- 3 Referring to Figure 7.10, **select** data and information for one of the businesses listed and **create** a short class presentation to:
 - a **describe** the characteristics of the rebrand
 - b **explain** why the rebrand occurred
 - c **evaluate** the business's decision to rebrand using the criterion of competitiveness.

GAINING INSIGHT



MYOB repositions to change its consumer perception

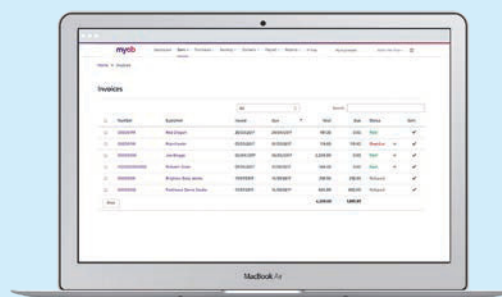


Article – MYOB repositioning

MYOB is a widely used accounting software program that is using repositioning strategies to refresh its brand. Follow the weblink and read the article 'How MYOB's marketing leader is repositioning the brand strategy' to answer the following questions.

Questions

- 1 **Describe** the internal and operating environment factors that have influenced the rebranding and repositioning approach of MYOB.
- 2 a **Explain** the rebranding strategies used by MYOB.
b **Select** information from the article and other sources to **analyse** MYOB's market position using Porter's five forces.
c **Interpret** the Porter's five forces analysis to **draw conclusions** about the rebranding approaches taken by MYOB.



MYOB Essentials software. © MYOB Australia Pty Ltd

- 3 **Interpret** the strategies MYOB used to respond directly to macro environmental pressures.

GAINING INSIGHT



Foxtel's rebranding following the growth of streaming services

Foxtel rebrands and officially launches Foxtel Now after conceding brand was seen as 'aggressive'

Foxtel is attempting to reposition as a brand and content platform for everyone, 'not just the privileged few', with new logos, branding and the official launch of streaming service Foxtel Now.

Conceding that the brand's previous logo with big block capital letters and burnt orange colouring was 'almost like when someone sends you a text message all in capital letters', Foxtel CEO Peter Tonagh said the brand had been seen as 'quite aggressive, quite arrogant, quite elitist' for some time.

The new branding – created in collaboration with design agency Maud – which rolls out on Sunday with a national advertising campaign by TBWA,



Shutterstock.com/Kaspars Grivalds

Figure 7.11 Foxtel has rebranded itself after launching its streaming service, Foxtel Now.

including a wrap around all News Corp papers, has removed the capitalisation, with 'the key message being that Foxtel is for everyone', Tonagh said.

Managing director of customer and retail Mark Buckman said the rebrand marked an important day in Foxtel's history, as it moved away from its legacy issues.

'For the first time in 22 years, we're going to be going to market with a very different looking Foxtel,' he said. 'But when you think about all of the great content, all of the great technology changes, the launch of the IP product, we almost have to take a different position to market.'

'And as PT [Peter Tonagh] said, one of the things that we've dealt with over the last little while has been at Foxtel there has been a very masculine, very shouty, retail capital letters kind of brand. And that served us well for quite a long time, but with all of these changes in the industry and going on inside Foxtel, in order for people to think, feel and speak differently about us, we have taken the move to reimagine what Foxtel might be.'



Figure 7.12 Foxtel still provides traditional pay TV.

The new, less masculine and aggressive branding, he said, was part of Foxtel's efforts to appeal to more people and become a more relatable and accessible product and brand.

'At the heart of that is the fact that we believe that great content, and the great content that we have from Australia and around the world, shouldn't be reserved for the right of the privileged few, but should be at the heart of it available for everybody.'

This, he said, extends beyond the subscription-based television services' content offering – and would be reflected in the company's culture and dealings with customers.

'A brand is much more than a logo and a word mark. It's about every experience and every interaction that our customers have with us – whether it's the way that we speak to our customers in our call centres, so the language will be fresh,

approachable, direct, simple, as opposed to long conversations that can go on forever,' he said, noting that this also applied to how technicians installed IQ boxes, the company's sponsorship deals and 'of course the way we treat each other as colleagues inside the company'.

Foxtel Now

Today also marked the official launch of Foxtel Now, the company's streaming service which comes about after rumours of the demise of the Foxtel Play brand.

Tonagh said despite perceptions players such as Netflix had a better movie selection, and that Stan heavily invested in original content, Foxtel's offering was strong and its content unparalleled.

'There is no doubt in my mind that our most core strength is around content,' he said. 'And I think we have over many years built up a position where we have enviable level of content.'

Foxtel, he said, needed to spruik its content proposition to consumers more effectively, so they know what they're getting in an age where competition, content and service offerings are increasing.

'Those days [where we have purely exclusive content] have gone because clearly there is now much more competition. There is more content that is available. And what that leads us to is a need to really double down on the content that we think really makes a difference to our subscribers and spend more on that, while spending less on other content. I think in the nature of that, it's probably worth noting that each year, we spend over \$1.6 billion on content. If you think about it, that's 16 times what Fairfax and Nine said they were going to invest in Stan. So it's a massive investment. For us it's not a question of needing to spend more money on content, it's a question of how do we spend that money to get the best value out of it?'

Delivering this content to audiences who want it will be Foxtel's key focus, he said – not chasing down pirates who access it by other means.

'Despite everyone focusing on my personal passion for piracy and focusing on court cases and other things, the most important thing for us is not about taking people to court for piracy, it's about making the product accessible in a timely basis at an affordable cost. That's the first step. After that then we focus on education, thirdly we focus on court cases. But really, making that content accessible is the most important thing,' he said.

Explaining how Foxtel Now stands apart from the soon-to-be defunct Foxtel Play, the company said: 'Foxtel Now is a new evolution of the Foxtel Play streaming service and features low-priced and flexible bundles that ensure subscribers have greater freedom and access to sign up to Foxtel's

incredible content with no set-up costs and the ability to cancel at any time.

'Foxtel Now arrives with the widely anticipated addition of HD streaming on select devices, combined with a brand new user interface, plus the ability to stream Foxtel Now to the big screen via Google Chromecast.'

Tonagh said the time was right to relaunch the streaming service.

'Over the past few months we've introduced some fantastic new changes to our subscription streaming service including lowering the entry point to \$10 per

month and launching on Telstra TV. As part of the evolution of our streaming service, we felt the time was perfect to relaunch the service as Foxtel Now.

'Foxtel Now represents our most flexible and affordable entertainment service and brings with it HD streaming, a great new look and feel and the freedom to jump in and out based on your viewing preferences.'

Source: Vivienne Kelly, 'Foxtel rebrands and officially launches Foxtel Now after conceding brand was seen as "aggressive"', *Umbrella*, 6 June 2017. © 2008–2019 Focal Attractions Pty Ltd.

Questions

- 1 **Select** information from online sources to then **describe** the characteristics of Foxtel's new logo compared with its previous logo.
- 2 **Select** information from the article to **analyse** the STEEPLE factors that have impacted on Foxtel.
- 3 **Interpret** the STEEPLE analysis to **draw conclusions** about the repositioning strategies
- 4 **Evaluate** Foxtel's rebranding and repositioning decisions using the criterion of stakeholder satisfaction.

Changing promotional strategies

Another way a business can reposition is by changing its promotional strategies or approaches. The ways in which businesses choose to promote their products can have a significant impact on how consumers perceive the brand and could engage a broader target market. Examples of how businesses can reposition using promotional strategies include:

- creating a catchy, memorable slogan
- using new or diverse celebrity endorsements based on the preferences of the desired target market
- trying new promotional methods such as radio advertising for geographical reach
- running an interactive campaign such as a competition utilising social media platforms.



Ryan Pierse/Getty Images Entertainment

Figure 7.13 Garnier, a French cosmetics brand, has repositioned in Australia by using TV and radio presenter Carrie Bickmore in its celebrity endorsement.



David Parry/PA Wire via AAP Photos

Figure 7.14 From 2009 to 2013, Tourism Queensland ran the 'Best Job in the World' competition, repositioning itself to appeal to a global target market of adventurers. As part of the marketing campaign, a pop-up surf lifesaving club (pictured) was set up in London.

How to get the rebranding process right

At first glance, rebranding a company is fun, new, and exciting. If you have any experience in branding, however, you quickly realize that the fun parts – choosing colours, logos, and fonts – are a very small portion of an effective rebrand. In order to rebrand a company effectively, you need to have a strong understanding of the process of branding in addition to a keen eye for visual assets.

Getting the rebranding process right

So how do you get the rebranding process right, especially if you've never done it before? You likely have a branding firm helping you with the nitty-gritty details of the rebrand such as visual elements and messaging, but who can help you make sure that the rebrand is implemented successfully within your company? Here's a basic outline to follow when rebranding a company for the first time:

1 Always start with research

Before you even consider a rebrand, start with research. Don't jump into anything too hastily. Make sure that you understand your brand, your customers, and your market better than anyone else. You'll likely get some help in this department by your branding firm, but you should make sure that you're just as informed as they are. Make sure you research all of the following:

- your current customers' wants, needs, and opinion on your company
- your company's current brand assets
- your competitors' products, services, and public sentiment
- your employees opinion of the company and its brand
- what lost prospects think of your company and its brand
- what community and thought leaders think of your company and its brand.

2 Communicate effectively with all stakeholders

All it takes to screw up implementing a rebrand is one director with an axe to grind. Prevent this by effectively communicating with all relevant stakeholders throughout the entire process. From the very beginning of the rebrand, you should communicate all of the following in writing to all stakeholders:

- timeline
- budget
- key objectives
- relevant research as to why you're making the decisions you're making
- changes in competitive positioning
- implications for their specific department.

This will help keep everyone in the organization on the same page and assist you later when you roll out the brand.

3 Document everything

Remember when I said you should communicate in writing? There's a reason for that. You need to make sure that you have documentation on everything you do during the rebrand process. It's vital that you have this information in case something goes awry. In the ever-changing world of rebranding a company, the last thing you can afford to do is leave specific changes or decisions undocumented. We recommend using a tool like Evernote complemented with an inbox folder for all things brand related.

4 Plan the roll out well

No sense investing the money in a new brand if you're not going to roll it out effectively. Start by getting your employees excited so they can act as brand advocates. This can be done in several ways – and best practices vary by size of your organization – but regardless of what tactics you choose, getting this stage right is essential to success. A few ways companies successfully roll out new brands include:

- internal PR campaigns – featuring meetings, videos, and emails to employees announcing the change
- external PR campaigns – featuring earned and paid media mentions, emails to client lists, and rich media assets on their social media and blog
- launch parties – inviting clients, employees, the press, and the community to come to your space or a rented venue to hear more about the new brand that you're launching.

Each brand roll out is different. Make sure to hire a professional branding firm to help you manage your brand roll out effectively.

5 Defend the brand – lest it die

The final – and most critical – component of the rebranding process is ongoing. Once you've built and launched a new brand, you need to defend it at every turn. People will want to mess with your messaging, corrupt your color palate, and lose your logos, but you need to stand firm with the decisions you made. If you can't defend your brand after it launches, you're losing the most valuable asset your brand has – continuity.

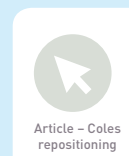
Source: Daniel Herndon, CEO, MilesHerndon, 28 July 2016, <https://milesherndon.com/blog/rebranding-process>. MilesHerndon is a branding and advertising agency in Indianapolis, IN, USA. They consult established companies on brand strategy, development and marketing. <http://milesherndon.com>.



Coles repositions its promotional campaign

Coles and Woolworths are mature businesses that continually strive for growth. They use repositioning strategies in their promotion to try to attract new customers to the business. Follow the weblink to

read the article 'Coles ditches "down, down" for a new slogan' and answer the following questions.

**Questions**

- 1 Create** an infographic that compares the Coles and Woolworths slogans.
- 2 Explain** the impact that Coles and Woolworths slogans have had on each business's financial performance.
- 3** Coles and Woolworths would not be considered post-mature businesses, but they use repositioning strategies. **Interpret** this statement to **draw conclusions** about the business life cycle.

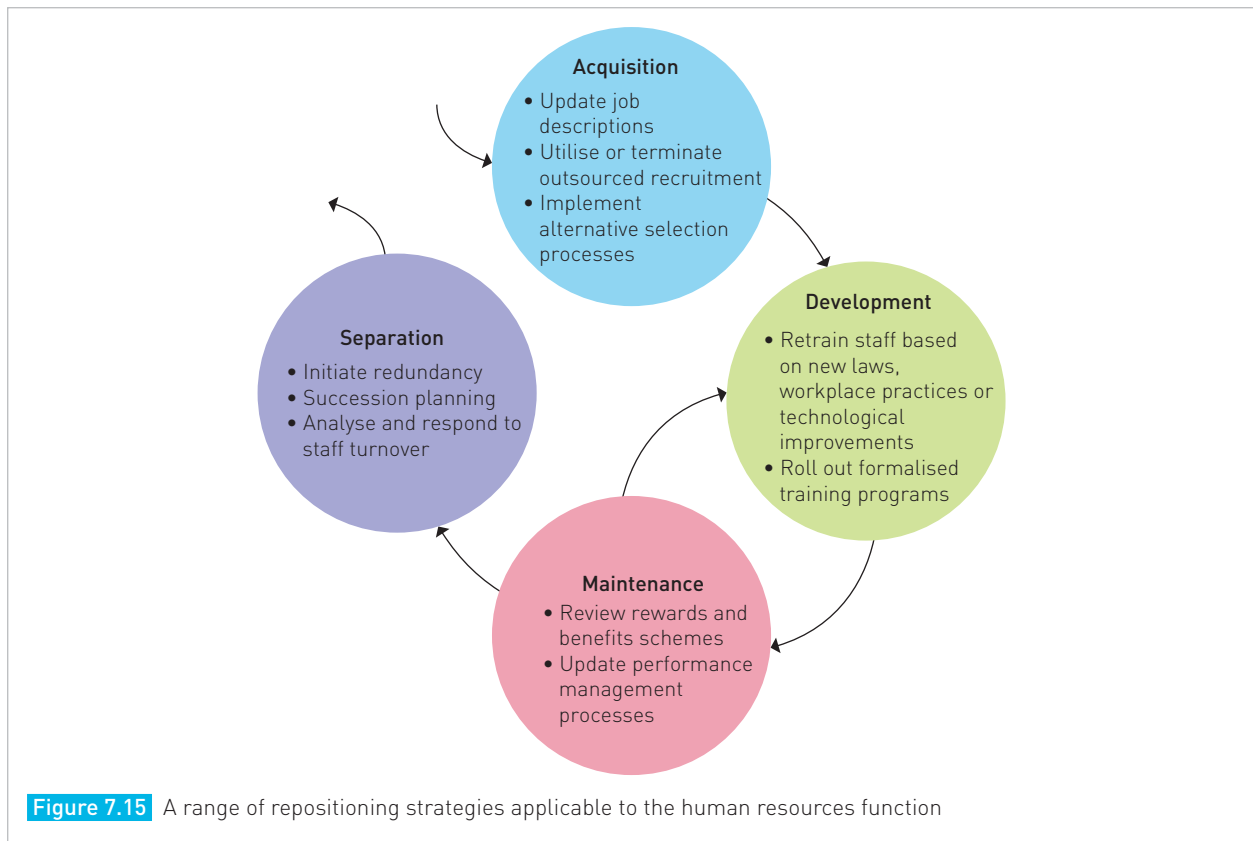
Human resources repositioning

Key learnings

You will learn about post-maturity businesses by examining:

- repositioning strategies for the human resources function
- retraining and development
- redundancy.

When a business considers updating its human resources structures, this can be referred to as 'people-led repositioning'. The motives for a business to reposition its human resources is often less focused on consumers, and more on achieving effectiveness and efficiency in the business by responding to internal environment influences. The operating environment can also influence human resources repositioning as businesses want to attract highly skilled and talented staff, and repositioning can allow this to occur. The range of repositioning



strategies used in human resources can be best linked to the employment cycle (Figure 7.15). When a business embarks on organisation-wide change in human resources, this becomes part of its transformation, and change management strategies need to be implemented. This will be investigated in Chapters 8 and 9.

Repositioning in acquisition

With some strategic repositioning comes the opportunity to adjust the culture of the business by adopting new strategies in job design, recruitment and selection. In job design, asking staff to participate in a consultative process to update or formalise position descriptions may allow staff to reflect upon their work positively. Further, the business may be able to formalise additional responsibilities given to staff, or identify gaps where new roles may need to be created.

In recruitment, a business could investigate alternative methods of advertising roles by increasing internal methods or, externally, by using recruiters or online career databases. This allows human resource specialists to oversee the recruitment and selection of applicants. On the other hand, if a business in post-maturity has been dissatisfied with its outsourcing strategy, it could reposition by recruiting and selecting in-house, which again could change the culture of the business.

In selection, a business can reposition by formalising selection processes, or relaxing them, based on its needs. In this case, opportunities for repositioning can include:

- adding selection criteria to job applications
- seeking consultation from a range of staff when short-listing applicants
- using different interview approaches such as formal, panel or group interviews, asking candidates to pitch as part of the interview process or altering the process using technology workflows and applications.

When considering the range of strategies to be implemented, a business should consider its acquisition objective to 'recruit and select talented, proficient staff whose values align with those of the business'.



Figure 7.16 In order to reposition, a business may alter its selection strategies by consulting with more staff.

Repositioning in development, including retraining

The objective for the development stage of the employment cycle is to ‘develop staff professionally and foster productivity and leadership’. Therefore, when a business enacts change that impacts on staff, retraining may be required. Retraining can be perceived as a repositioning strategy since a business may gain a competitive advantage by having staff who are qualified or proficient in the latest customer service approaches, legal compliance, software updates or sales strategies. Like any training instigated by a business, it must be strategically planned and cost-efficient, and must add value to the business. Hence, a business needs to consider whether training should be internal or externally delivered, and which methods will bring the best outcome – such as formal qualifications, workshops, conferences or online modules. When a business embarks on an organisation-wide training plan that transforms the business, change management strategies will need to be implemented to ensure stakeholder satisfaction. In these instances, the communication strategy of employer relations becomes essential to successfully rolling out the new program.

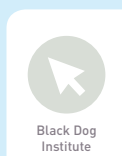


Figure 7.17 Retraining is a human resources repositioning strategy.

GAINING INSIGHT



Retraining is a positive step forward



The Black Dog Institute and the University of New South Wales conducted a world-first study into the impact mental health training for managers had on the NSW Fire and Rescue Service. Follow the weblink to read the article and respond to the following questions.

- 1 **Describe** the study undertaken by the Black Dog Institute and the University of New South Wales.
- 2 **Identify** the success rates of the study.
- 3 **Interpret** how this study could assist a business in post-maturity.

Repositioning in maintenance

When a business is in post-maturity, its repositioning strategies will focus upon reducing costs and building productivity and satisfaction among staff so that the business can achieve steady state or renewal outcomes rather than decline. A way of achieving this is to review the rewards and benefits offered to staff, to see whether the rewards and benefits build staff morale, add value to the business and are efficient. The business should consider offering greater **intrinsic rewards** and benefits. These reward staff for their commitment to the business and recognise the quality of their work through building connection and relationships. This can be demonstrated by all staff and not just management. As intrinsic rewards are linked to job performance, they can heighten productivity if executed correctly. **Extrinsic rewards** and benefits are the tangible awards that staff receive, such as pay rises, bonuses and **fringe benefits**. These add costs to the business and are issued by management. A business

Intrinsic rewards: intangible recognition of staff performance and achievement focused on connection and relationships

Extrinsic rewards: tangible recognition of staff performance and achievement focused on offering pay increases and bonuses

Fringe benefit: a benefit provided to an employee in addition to their salary or wage

in post-maturity would benefit from planning strategically to introduce more intrinsic rewards and benefits into its everyday operations to ‘maintain, motivate and support staff by providing benefits and opportunities for achievement’.

Small-scale changes in performance management procedures can also be classified as a repositioning strategy if the business is updating policies and procedures that will generally be accepted by staff without concern. However, if a business chooses to implement a brand new performance management system, transformation and change management strategies are required. Whether the change is complete or just a repositioning strategy, it is at this point the communication strategy of employer relations becomes very important. Staff should be kept informed through formal channels of any changes taking place in regard to performance management. This is particularly important for a business in post-maturity, as staff are often aware of the business’s financial performance and the strain it can have on a business.



Figure 7.18 A business may need to reposition its rewards and benefits schemes when in post-maturity to achieve efficiency.



Figure 7.19 Intrinsic rewards and benefits focus on intangible recognition of staff.



Figure 7.20 Extrinsic rewards and benefits are tangible and can include being given a pay rise.

Repositioning in separation, including redundancy

A business may encounter post-maturity if it does not effectively manage its separation strategies. There are three main ways a business can reposition, and these include initiating redundancies, succession planning and responding to an analysis of staff turnover (Figure 7.21).

Redundancy occurs when a business reduces costs or alters organisational structures by ceasing employment contracts with staff. Rather than being a reflection of an employee’s performance, the strategy focuses on running the business more efficiently. When redundancies are offered, the business has legal obligations to meet under the *Fair Work Act 2009* to protect the business and ensure the employee is treated fairly.

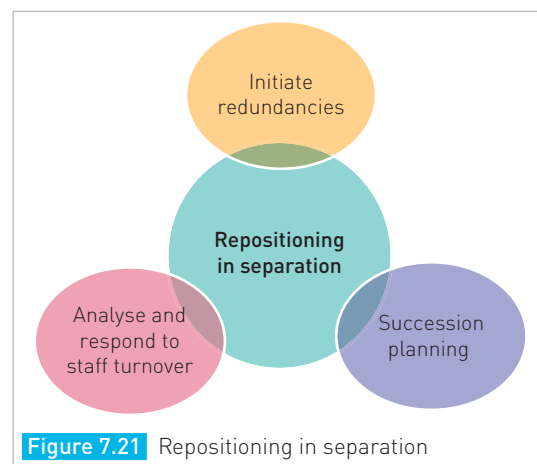


Figure 7.21 Repositioning in separation

Redundancy: an employer-directed separation strategy that occurs when a business reduces the number of employees because a position is no longer required

These include providing the relevant payout from the 10 National Employment Standards. When a recognisable or large business issues redundancies, communication strategies are paramount so as to control their message to stakeholders – in particular, employees and investors. Further crisis management and community relations teams may need to be ready to respond to media interest about why the redundancies have occurred.

The following information is from the website of the Fair Work Ombudsman. The website also includes a redundancy calculator so that employers can ensure employees are paid out appropriately.



Redundancy

Redundancy happens when an employer either:

- doesn't need an employee's job to be done by anyone, or
 - becomes insolvent or bankrupt.
- Redundancy can happen when the business:
- introduces new technology (e.g. the job can be done by a machine)
 - slows down due to lower sales or production
 - closes down
 - relocates interstate or overseas
 - restructures or reorganises because a merger or takeover happens.

What's a genuine redundancy?

A genuine redundancy is when:

- the person's job doesn't need to be done by anyone
- the employer followed any consultation requirements in the award, enterprise agreement or other registered agreement.

When an employee's dismissal is a genuine redundancy the employee isn't able to make an unfair dismissal claim.

A dismissal is not a genuine redundancy if the employer:

- still needs the employee's job to be done by someone (e.g. hires someone else to do the job)
- has not followed relevant requirements to consult with the employees about the redundancy under an award or registered agreement, or
- could have reasonably, in the circumstances, given the employee another job within the employer's business or an associated entity.

Source: 'Redundancy', www.fairwork.gov.au. © Fair Work Ombudsman, www.fairwork.gov.au. CC-BY-3.0 AU licence

GAINING INSIGHT



Stronger local journalism for state and territory audiences



iStock.com/kokkai

The ABC has announced a proposal to reshape its eight capital city newsrooms to deliver more in-depth coverage and a faster breaking-news

service to local audiences across TV, radio, web and mobile.

'As Australia's major public broadcaster, the ABC is continuing to provide news on traditional platforms at the same time as developing our digital presence to be as accessible as possible for all Australians. While our newsrooms do great work, the current structures do not fully support our people to meet modern audience needs.'

'Reshaping our newsrooms involves challenges. Overall, it is anticipated around 20 positions would become redundant, and we know this would be painful. Against this, new senior editorial roles would be introduced to add to the expertise and skills in the newsroom. At the end of this process

we anticipate having the same number of editorial employees.'

Proposed changes include:

- Reshaping the editorial leadership and newsroom structure
- Creating some new editorial roles and changing others to better integrate digital and broadcast responsibilities
- Streamlining workflows to enable local newsrooms to be more responsive to news as it happens, with the Brisbane digital newsroom to become a centre of innovation.

The proposed changes directly respond to changing audience demands. While broadcast

audiences soften, in the past two years the ABC News audience on web and mobile grew by 12 per cent to almost 5 million Australians a month. The smartphone audience jumped almost 30 per cent.

Australians overwhelmingly trust ABC News for accurate and independent reporting that reflects their communities and brings their stories to the nation. The ABC's responsibility to provide this valued service increases as other media withdraw from local news.

Consultation on the proposal begins with unions and employees today.

Source: Sally Jackson, ABC News Media Release, 30 April 2018. © 2019 ABC

Questions

- 1 **Describe** the features of the ABC branch that is in post-maturity.
- 2 **Analyse** the environmental factors that influenced the ABC News decision to issue redundancies.
- 3 **Interpret** the impact of using redundancy as a repositioning strategy.
- 4 **Evaluate** ABC News's decision to offer redundancies using the criterion of effectiveness.
- 5 **Propose** an alternative human resources repositioning strategy that the ABC could have implemented.
- 5 **Explain** the relationship between redundancy and operations management using ABC News's decision as an example.

A positive repositioning strategy for a business can be succession planning. This occurs when a manager, on either receiving a promotion, leaving the business or choosing to retire, begins to mentor and train a subordinate or employee in his or her role. Succession planning encourages leadership within the business and reduces the risks of any change being disruptive to the business in the long term.

The third way a business can reposition in separation is to analyse staff turnover rates and then respond by implementing changes. A business's reputation can be altered by the number of staff who leave a business over a set period of time, as a high turnover suggests disharmony and poor organisational culture. Businesses that fail to recognise why staff leave fall into post-maturity if they are no longer able to maintain their best staff or attract new, highly qualified staff to the business. To address this, a business could conduct exit interviews or investigate the workload and culture evident in certain departments, and then implement other human resources strategies to reposition the business's practices.



Figure 7.22 A business can implement succession planning as a repositioning strategy.

QUESTIONS 7.2



- 1 **Explain** the purpose of repositioning for the human resources function and its relationship to human resources objectives.
- 2 Conduct an interview with a manager of a business and **select** information to **describe** two scenarios when the business used human resources repositioning strategies.
- 3 **Analyse** the positive and negative outcomes of a business repositioning its human resources across all stages of the employment cycle.
- 4 **Select** data and information from online sources to compare the most recent updates in human resources software. **Interpret** the impact of using software for a business in post-maturity.

Operations repositioning

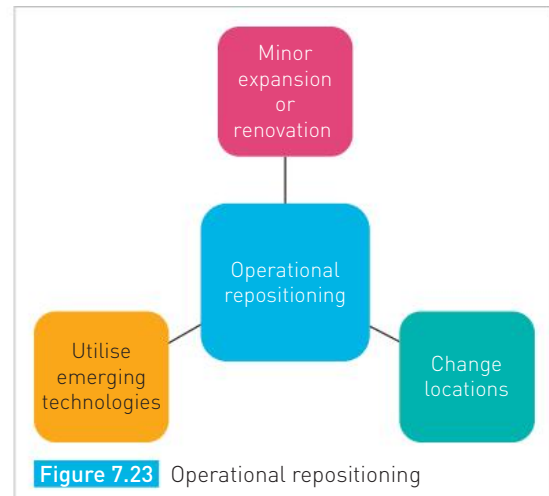
Key learnings

You will learn about post-maturity businesses by examining:

- repositioning strategies for the operations function
- the influence of emerging technologies.

Operational repositioning focuses on building on productivity, with a focus on minimising costs, meeting demand, utilising technology and improving quality. These changes impact on the production process by adjusting the inputs and processes used by businesses. Hence, they can be referred to as 'process-led' or 'infrastructure-led' repositioning. The ways in which an operations function may reposition include:

- minor expansion or renovation
- changing locations
- utilising emerging technologies (Figure 7.23).



Minor expansion or renovation

A business may reposition by simply expanding on a small, yet significant scale. For example, a cafe with only indoor space may investigate footpath dining options – almost considered essential for Queensland and its climate – or renovate its current space to update the kitchen with the latest technology and make more space available for customers. Other examples include service stations that add more bowzers, banks that install more ATMs, a law firm that acquires more office space and a caravan park that builds new cabins or bathroom precincts and provides more powered sites for campers. A fresh update by a business can attract consumer interest and, if done effectively, can allow the business to move out of its decline state.

SUSTAINABILITY



Aldi store layout



Aldi has recently repositioned by updating its store layout and using more energy-efficient materials. Follow the weblink to read the article 'Popular Toowoomba Aldi reopens after closure' from *The Chronicle*, and respond to the following questions.



Shutterstock.com/Catrin Haze

Questions

- 1 **Describe** the operational changes made to the Aldi store in Toowoomba.
- 2 **Analyse** the macro environmental factors that influenced Aldi to update its store layout.
- 3 **Create** a paragraph response to **explain** the relationship between sustainability and repositioning, using Aldi as the example.

Changing locations

Another operational repositioning strategy a business could adopt is to change locations while continuing to operate using the same processes. There can be many advantages of changing locations, including increased street presence or foot traffic, better facilities or reduced rent. Changing locations can also bring risk, such as loss of visibility or failure of the new facilities to provide the same reliability as the former location. The operations management team needs to plan strategically for this change by analysing risks and evaluating alternatives.



Shutterstock.com/Bibit Unggut

Figure 7.24 Businesses can reposition by moving locations.

GAINING INSIGHT



Cotton On Group expands mega stores: Is this mimicking other brands?

The head of retail at youth brands network Cotton On Group says apparel is no longer king. But as the company focuses on opening more 'mega stores' encompassing all of its lifestyle brands, one expert warns price is still the most important factor in capturing consumers.

Natalie McLean, who heads up retail strategy at the nation's third largest privately owned retailer, has told Fairfax this week that many categories other than clothing have been outperforming for the retailer.

Despite this, the company's focus will be expanding its network of one-stop shops. These include products from the company's imprints Cotton On, Cotton On Body, rubi shoes and Typo.

There are currently 90 mega-stores in Australia, as well as sites in Malaysia, New Zealand and South Africa. McLean told Fairfax Cotton On will close up standalone stores when leases finish in favour of opening new mega-store formats in future.

The news comes as other bricks-and-mortar stalwarts announce radical changes to their floor designs. Last week, department store Myer shared news that it would be trialling 'off price' discount floors within some of its stores to capture bargain-hunting shoppers.

Cotton On's decision to bring together more brands into one space might seem like a forward-looking strategy to capture customers. However, Paul Harrison, professor of marketing and consumer behaviour at Deakin University, tells SmartCompany it's likely this is a tactic to fight the fact that shoppers already expect a diverse product experience in all stores.

'What we're seeing is basically a reflection of what everyone's trying at the moment,' Harrison says.

In the homewares and lifestyle retail space in particular, there are already competitors who offer one-stop shops for clothing, lifestyle and consumer goods in one space. Harrison says in the race to take customers away from the competition, Cotton On's mega-store strategy looks to keep customers in one place for as long as possible in an otherwise fractured retail market.

'All they're doing is to a certain degree copying Muji, copying Kmart, and making things a bit more of a 'lifestyle' kind of thing. They're responding to the market,' he says.



iStock.com/Nils Versemann

Maintaining the 'Cotton On segment'

IBISWorld's 2017 report into the discount department store space found incumbents would be challenged by online competitors in the next 12 months. However, sales in the \$10.6 billion industry are dominated by the product categories Cotton On is looking to grow.

Sales of clothing, footwear and accessories make up 29% of overall sales in the discount retail market, while furniture and homewares make up 20% and stationery six percent.

Retail experts have previously told SmartCompany Cotton On's strength has come from the company's speed to market and product range.

Harrison agrees, and says while the format of stores is an important sales tactic, the most important thing for the brand moving forward will be the price and appeal of its product for its core base: the 'stylish young segment' of Australian shoppers.

'Maybe they [the customers] are in their first jobs, at uni, house sharing,' he says.

The Cotton On core market, which includes a large percentage of 'people starting out in life' don't tend to care so much about store layouts as much as they do about price and whether the products work for them, he says.

Keeping that customer base on board as competitors continue to flood in will be about resisting the temptation to jump into a higher-end offering. 'Pricing is always going to be an issue. If Cotton On try to be too premium, they will lose that segment.'

The company is now more than a quarter of a century old, but Harrison believes shoppers care less about how Cotton On changes its format compared with years gone by, and more about the products on offer.

'It's a younger target market, and a very broad segment, and generally they are not hung up on what Cotton On "was" in the past. The critical thing is, "do the products actually suit what they want to buy?"'

Source: Emma Koehn, *SmartCompany*, 18 September 2017.
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Questions

- 1 **Identify** how the Cotton On Group has embarked on a repositioning strategy.
- 2 **Select** data and information from the article to **analyse** the strengths, weaknesses, opportunities and threats (SWOT) for the Cotton On Group.
- 3 **Interpret** the SWOT analysis to **draw conclusions** about the repositioning strategy.
- 4 Interrogate the article to **evaluate** the Cotton On Group's repositioning strategies using the criterion of stakeholder satisfaction, focusing on management and customers.

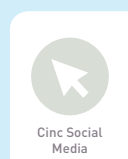
Utilising emerging technologies

It is an expectation today that businesses should evolve and adopt new and emerging technologies into the business in order to foster competitiveness in the market. There are many businesses in the post-maturity stage that slip into steady state or decline because they fail to utilise technology to their advantage. The most simple of examples are businesses that fail to implement electronic funds transfer at point of sale (EFTPOS) into their business, thus limiting their appeal to potential customers. EFTPOS technology is not considered new or emerging – it was first around in the 1980s but its impact on businesses conducting sales today is obvious. Fast-forwarding to today, different businesses (depending on their industry) can use emerging technologies to save themselves from post-maturity. Examples include cafes and food outlets using food delivery or online ordering apps, retailers partnering with 'buy now, pay later' credit providers, manufacturers using 3D printing for prototyping, and builders providing virtual tours of homes.

GAINING INSIGHT



Cinc Social Media is a driver in helping businesses reposition



Businesses that don't keep up with technology can fall behind. Kate Wilson, founder of Cinc Social Media, uses her experience and skills in the digital landscape to help businesses reposition using technology. With a background in journalism, politics and communication, Kate provides coaching and consulting services to businesses. She sat down for an interview. Her business is based in Brisbane.



What do your clients generally need help with?

Everything. The majority of my work is developing social media content, managing or creating websites, graphic design work, social media strategy and training. Alongside that, I have organised a one-day music festival, designed billboards, created illustrations for a textbook, filmed and edited videos and type-set a book. Whatever the clients need me to do, I usually can help.

What qualifications do you have?

I have a Bachelor of Journalism from QUT. When I was studying back in 2002 to 2004, online journalism was a 'shiny new thing' that hadn't been developed yet – there were no rules or expectations. Obviously, technology has changed so much since then. I don't have any social media qualifications because it simply didn't exist back then. I fell into the industry by being the youngest person in the office when they wanted someone to do 'that Facebook stuff'. I learnt social media marketing, graphic design and video skills as I needed them on the job, and now I use all of those skills every day in my own business.



Cinc Social Media

Figure 7.25 Kate Wilson

How have you assisted clients to reposition using digital platforms?

I have clients who have run a small business for decades but approached me for help to streamline their operations as they become older and can't throw as much time and energy into the business. I've used online tools to help them restructure, automate, and fix problems like old websites that weren't working properly. I've also introduced them to the concepts of advertising, social media and digital marketing.

I showed one client that everything she was doing manually could be automated – that companies can dispatch books to her customers and a properly set-up website could process payments rather than having to rely on manual bank deposits. It's not ground-breaking stuff, but it was a new way of working her business.



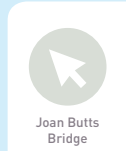
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Figure 7.26 Cinc Social Media helps businesses develop online sales and automation processes.

Another client, Joan, from Joan Butts Bridge, has been teaching people how to play the card game bridge for the past 30 years. She had a website, but the sales function wasn't working properly. She also

offered some basic lessons online for free, but few people were looking at the lessons. Since then we have developed an online school of bridge. For a subscription fee, people can log in and access bridge lessons and play games online. A new lesson arrives each week, and members can access a library of past lessons. The Online School of Bridge has delivered a new source of income for Joan and has changed the way she runs her business. In the past, Joan would have to travel to bridge clubs around Australia to teach lessons. Now she has thousands of people paying to log in and access bridge lessons online.

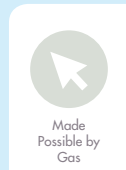
For these clients, it was a new way of working their business.

**Figure 7.27** Joan Butts Bridge has repositioned using digital platforms.

From a repositioning perspective, I consulted and produced content for Made Possible by Gas campaign (see pages 231–3). Research had told us that, while people use gas to cook and heat their homes, they don't like the gas industry. This campaign was created to shift their understanding away from 'Gas is drilling and people in high-vis vests', to 'Glasses, smart phones and clothing are all made possible by gas – either as an ingredient or part of the production process'.

Usually, the gas industry is very focused on promoting the economic benefits it delivers, such as creating jobs and supporting communities. This campaign focused on the benefits of gas and its use in everyday life. It was also quite cheeky, which set it apart from other campaigns.

The platforms used included blog posts, Facebook and Instagram advertising and some radio. Market research after the campaign showed we had successfully shifted the conversation for our target audience. Also, people who worked in the gas industry or adjacent to it felt confident to speak up for the industry, meaning they had become advocates for the brand. This was a huge step forward as people are often embarrassed or reluctant to say they work in the gas industry for fear of harassment or criticism online.



What advice would you give to businesses trying to engage with social media?

Consistency is key. A lot of my clients had put social media on the bottom of their to-do list. They do everything else first and then think 'Oh, I haven't posted to Facebook' and then share a bunch of posts at once. The use of social media has to be regular and consistent to get results. That is why clients contact me. They need someone to help them stay focused, set deadlines, or just do the work for them. Social media is important as it allows businesses to show some personality, as opposed to a website which generally focuses on the goods and services on offer.

Why do you believe it is important for businesses to seek out consulting services?

To save time and utilise expertise. Some of my clients know what they need to do on social media, but they lack confidence to do it, so I supply training for that. Consultants can also provide a new skill set, resources or equipment. Often, it's not practical for a business to employ someone to manage their graphic design or social media if they only need them occasionally. If a business only needs someone to manage social media for a few hours a month, then they should outsource it.



Figure 7.28 Social media needs to be consistent to be successful for a business.

Questions

- 1 **Describe** how automation has assisted Cinc Social Media with its clients who are at risk of post-maturity.
- 2 **Select** information from the interview to **analyse** opportunities that were turned into strengths for Joan Butts Bridge.
- 3 **Explain** the benefits of a business using consulting services when at post-maturity, using Cinc Social Media as an example.
- 4 **Evaluate** the repositioning that occurred for Joan Butts Bridge using the criteria of efficiency and stakeholder satisfaction.

GAINING INSIGHT



Skip: Meeting society's needs through online ordering

What is Skip?

Skip is an online pre-order and payment service. Skip provides your customers with intuitive online ordering using a smartphone or any web browser. Interested? Sign up now or request a call back below.



SIGN UP NOW (15 mins)



REQUEST A CALL BACK

How Skip works for you

- ✓ Helps improve your customer service
Enjoy shorter queues and faster fulfilment times
- ✓ Improve staff efficiency
Intuitive dashboard helps manage order and offers live reporting
- ✓ Increase revenue and provide VIP customer service
Enjoy exposure to Skip's growing network of users
- ✓ Offer quick, secure online cashless payment
Take the payment out of your customer interaction

Figure 7.29 Online ordering, such as Skip offers, is allowing businesses to provide more convenient services to the market.

Select information from the Skip website to **describe** the process a business needs to follow to implement Skip. **Evaluate** the use of Skip for a small business

in post-maturity using the criterion of efficiency.

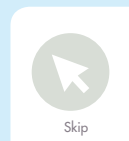


Figure 7.30 Afterpay also allows retailers to attract customers and avoid decline by offering an alternative payment solution.

INQUIRY



In 2018, Instagram added shopping posts to its application. **Select** data from a range of sources to respond to the following question: 'What evidence can I find that shows that the latest shopping posts on Instagram are helping Australian businesses increase sales?'



iStock.com/stockcam

EMERGING TECHNOLOGIES



Virtual reality: Imagine being able to explore a new house without leaving your couch



Shutterstock.com/SFIO CRACHO

Figure 7.31 A VR headset in use

When you think of virtual reality, you think of fancy headsets used for gaming and entertainment, but what if the technology could be applied to make life decisions, such as building a house, easier?

That is one hope of architecture firm Ridley and Co, based in Sydney, which has a dedicated VR lab.

'Day to day we create 3D models of buildings and we use those models for documentation for builders to be able to build and [we thought] why can't we chuck the buildings into the app and actually walk around, and that was the beginning for me in terms of my interest,' Mr Singh told ABC News.

Mr Singh formally trained as an architect and is now working as project coordinator for Ridley.

'[We are] putting the model into a gaming engine and allowing people to actually immerse themselves within it,' he said.

'Recently we took the model we were working on here in Sydney and the guys in Manila modelled it up in very high detail.

'We put it into a gaming engine, and putting consultants inside, and he was blown away, he was walking around, teleporting around the model, looking at aspects of design, way more spatial awareness as well.'

Assists planning and remote buyers

The technology can help people envision what their house will look like, and also help with planning – for instance, how much sunlight and at what angle the sun may shine through a window.

For buyers overseas, it offers a chance to virtually experience and explore homes without physically being there. Real estate brokers have increasingly turned to VR to market houses using mock-ups.

Mr Singh was interested in VR and undertook a virtual reality design course through Academy XI.

‘That was my first exposure to VR and that’s essentially when I started to realise the power that this platform, this technology could have in the construction industry in what we do in day to day in projects from the beginning of the design of a project all the way through to the construction of the project,’ he said.

Though relatively nascent, the VR sector has increasingly entered the mainstream market, with PlayStation, HTC and Samsung all providing products in VR technology.

Headsets can still be expensive, with some costing in the thousands of dollars, but technology analyst firm Telsyte has forecast that by 2020 around 22.3 per cent of households would own a VR unit.

Juan Gonzalez, growth marketing lead at Academy XI, said different platforms – including Facebook, WordPress and YouTube – are allowing people to share and consume VR more and more.

‘Part of the main thing we’re trying to teach people is user centric design, and to really build empathy into the businesses and products into whatever they do, it’s about people first,’ Mr Gonzalez said.

‘We are at the point now where even the little guy can punch above their weight and get their message across, because we can make people experience stuff and that is something we haven’t had the power to [before].’

Source: Thuy Ong, ABC News, 20 January 2017. Reproduced by permission of the Australian Broadcasting Corporation – Library Sales. © ABC

Questions

- 1 **Describe** the repositioning strategy used by Ridley and Co.
- 2 **Evaluate** the use of virtual reality in architecture using the criteria of effectiveness and stakeholder satisfaction.

The relationship between operational and human resources repositioning strategies

There is a relationship between operational repositioning and human resources repositioning because changes made in the production and transformation process impact on staff. For example:

- if the business introduces new technologies to the business that reduce the need for staff
- if the business is suffering decline in an area of the business and chooses to shut it down
- if changing locations increases a business’s efficiency
- if a business is undergoing an organisational restructure and succession planning is needed.

In these instances, the operations management team need to work with the human resources management team to make sure any redundancies, changes in departments and succession plans are reasonable and that staff are looked after in the best way possible.

QUESTIONS 7.3



- 1 **Explain** the importance to businesses of using repositioning strategies if faced with post-maturity.
- 2 **Explain** how repositioning can be used by businesses that are not in post-maturity.
- 3 **Select** data or information from two businesses in your local area that have repositioned to **identify** the strategy used and **analyse** the environmental factors that may have contributed to the repositioning.
- 4 **Explain** how technology applications are helping businesses to reposition.

Financial repositioning

Key learnings

You will learn about post-maturity businesses by examining:

- repositioning strategies for the finance function.

The responsibilities of the finance function are to strive to achieve the objectives of profitability, growth, liquidity, solvency and efficiency in a business. By working towards these objectives, a finance function, at its top level of management, is always investigating and acting upon repositioning strategies that will ensure the business meets its objectives. Further, any repositioning that is desired by marketing, human resources or operations functions always needs to be approved by the finance function. Essentially, the finance function is the gatekeeper for a business utilising repositioning strategies. This can put them in a challenging position if the business is facing post-maturity. A business may want to tighten its finances through tough sales periods but, in order to achieve steady state or renewal, the finance function needs to support the other business functions in implementing repositioning strategies that help the business achieve success. Examples might include outlaying funds for a new promotion campaign, coordinating redundancy payouts, utilising new software and technology into the business or absorbing the expense of moving to a new location. If the business decides to close, the finance function will be given significant responsibility to ensure it does so in the best financial position for its owners and investors. Figure 7.32 identifies the ways in which finance can instigate repositioning strategies based on its objectives.



Figure 7.32 The finance function may reposition based on its objectives. These changes can affect the other key business functions.



Figure 7.33 The finance function needs to carefully consider the costs and expected return of using repositioning strategies for a post-mature business.

QUESTIONS 7.4



- 1 **Explain** the relationship between finance and the other key business functions when considering repositioning.
- 2 **Explain** the relationship between growth and solvency for a business in post-maturity.
- 3 **Propose** a list of questions the finance function should ask if wanting to **analyse** a repositioning strategy against the five objectives.

Sustainability

Key learnings

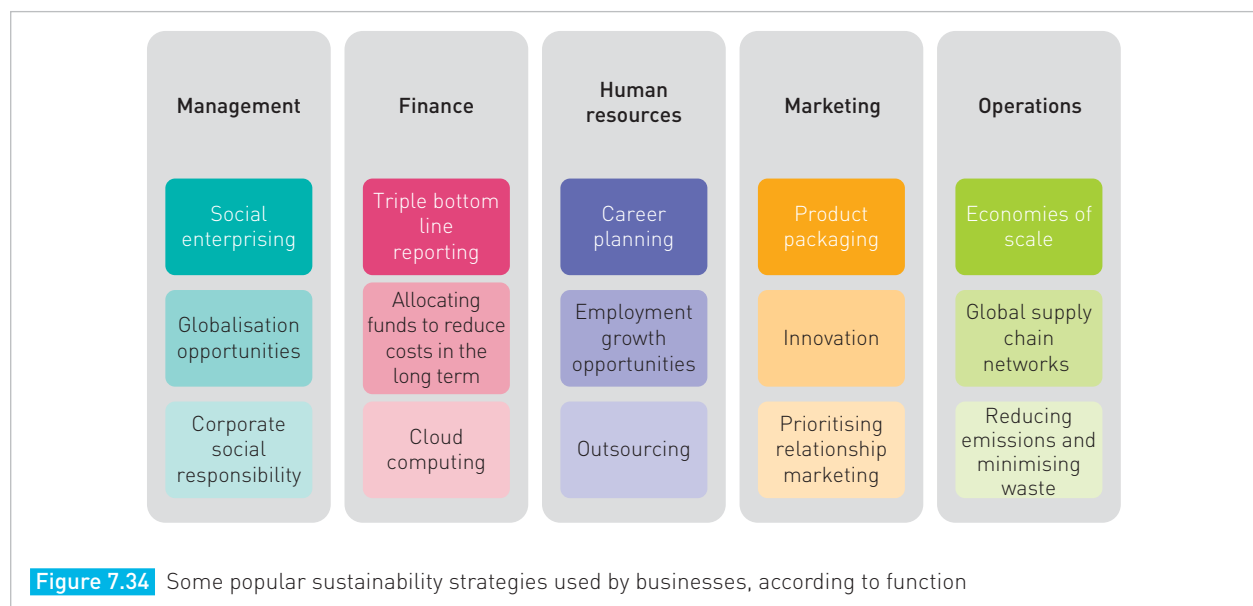
You will learn about repositioning strategies for post-mature businesses by examining:

- sustainability
- corporate social responsibility
- business ethics
- triple bottom line.

Due to advances in science and technology, people of the 21st century are socially and environmentally aware of the impact that humans have on the world. This growing understanding has influenced businesses to reshape how they operate to become more sustainable. In a business context, **sustainability** occurs when an organisation strives to meet its current needs while considering future generations in its strategic planning. Sustainable practices can be organisation-wide and are not limited to the four business functions or levels of management. Some of the most popular sustainability strategies include:

- corporate social responsibility
- ethical trade
- environmental strategies such as the use of renewable energy sources, CO₂ emissions reductions and recycling.

These can be effective repositioning strategies or be implemented as entire business transformation (see Chapter 9).



Sustainability: the capacity to endure

As the term ‘sustainability’ is broad, this text will focus on three key areas of business sustainability: **corporate social responsibility**, business ethics and the triple bottom line. Current literature shows a relationship and similarities between these three contemporary concepts.

Corporate social responsibility

Australia operates within a capitalist system whereby businesses lead trade within a country (private sector), with the goal of making a profit, rather than being controlled by the government (public sector). Aligning this with sustainability, consumers prefer to support businesses that show care for and contribute positively to society, rather than exploiting society, and do so by role-modelling ethical practices in their day-to-day operations. This expectation of businesses is commonly referred to as corporate social responsibility (CSR).

In 1991, Archie B. Carroll, a professor of business management, developed the ‘corporate social responsibility pyramid’ to represent the different levels of social responsibility of business. His research indicated that a business can exercise CSR in four main ways: economically, legally, ethically and philanthropically.

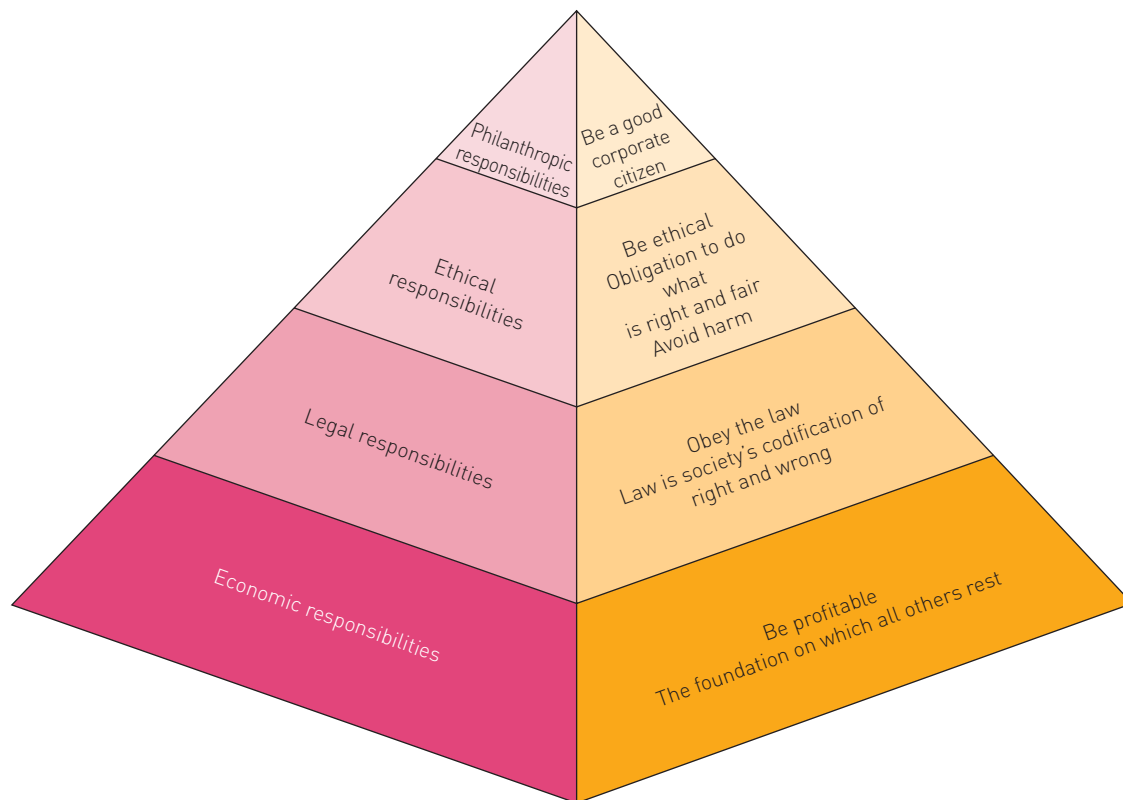


Figure 7.36 Carroll's CSR pyramid

Corporate social responsibility: the obligation for businesses to contribute positively to society in economic, legal, ethical and philanthropic ways

Economic responsibility

The first level of Carroll's CSR pyramid reflects a business's economic responsibility. As entrepreneurs start businesses with a goal to provide products and services to a market, economic responsibility is linked to the business conducting trade in order to make a profit. This means that a business should strive to:

- strengthen its business over time (for example, through innovation, growth or gaining market share)
- earn a profit each year
- maintain competitiveness in the market
- operate efficiently and prioritise this as an objective
- increase the share price or return on investment for shareholders.

For a post-mature business, conducting an audit of the criteria above should indicate if there are any gaps that might prevent the business achieving steady state or renewal. The business may then be able to develop a relevant repositioning strategy to boost its activity and its financial results. Choosing to ignore economic responsibilities could see a post-mature business fall into decline.



Figure 7.37 Profit and growth are linchpins for a business in meeting its economic responsibility.

Legal responsibility

The next level of the pyramid acknowledges that a business has a responsibility to operate legally, even though its economic goal is to achieve a profit. This relates to ensuring it meets its obligations under federal law, including registration; reporting to ASIC; meeting taxation and privacy obligations; following the Australian Consumer Law; and adhering to import and export legislation, among others. At a state level, the business should comply with fair trade and workplace health and safety requirements. Locally, the business must ensure that it operates within the parameters of council-issued licences and permits. Ultimately, the business must be perceived as being law-abiding in order to be also viewed as being economically responsible.

For a business at risk of post-maturity, failure to meet legal requirements, or involvement in a legal dispute, could lead to decline, as might be the case if quality management fails in the business. Alternatively, a business that was experiencing growth may slip into maturity or post-maturity due to a drop in consumer confidence.

Ethical responsibility

The third level of the pyramid relates to a business's responsibility to be ethical. **Ethics** in a business context relates to a business aligning its values and principles with the norms, expectations and standards of society, operating in a fair and just way and promoting those practices in the market. It focuses on enhancing relationships with stakeholders, most notably those from the internal environment (owners and managers; employees) and the operating environment (suppliers; customers; competitors and interest groups) in a highly regarded way that goes beyond legal obligation. A business that meets its ethical responsibilities will conduct its strategic planning by considering the influence and interest from society. Businesses that advocate for ethical standards in their industry often earn a reputation for being **moral** and thus can appeal to new customers. Examples of ethical responsibilities include fair trade movements and 'going green' initiatives where businesses actively seek solutions that sustain humanity.

Ethics: principles that guide the way an individual or an organisation such as a business acts

Moral: knowing the difference between actions that are right and those that are wrong

SUSTAINABILITY



What is the Fairtrade Mark?

The Fairtrade Mark is the globally recognised label that adorns Fairtrade Certified products.

The familiar blue and green logo symbolising a farmer in a field, known as the Fairtrade Mark, is a registered trademark owned by Fairtrade International (also known as Fairtrade Labelling Organisations International or FLO). Every time you choose a product carrying the Fairtrade Mark you are making the choice to give a fair go to farmers, workers and their communities in some of the world's poorest countries.

At Fairtrade we work in partnership with these farmers to provide fairer prices, better terms of trade and additional funds for business and community development such as education, healthcare and environmental sustainability. This leads to better working conditions and enhanced investment in quality.

For a product to display the Fairtrade Mark it must meet the international Fairtrade social, economic and environmental standards which are set by the certification body Fairtrade International. These standards are agreed through a process of research and consultation with key participants in the Fairtrade scheme, including producers themselves, traders, NGOs, academic institutions and labelling initiatives such as Fairtrade Australia & New Zealand.

A key goal of the Fairtrade system is to promote fairness and justice in trade through increased transparency. Products carrying the Fairtrade Mark are independently certified along the supply chain to ensure they have been sourced according to the Fairtrade Standards.

Farmers, workers and traders in the country of origin are audited by FLO-CERT (a separate international certification company), while traders and licensees in Australia and New Zealand are audited by FLO-CERT or Fairtrade ANZ. This process includes regular reporting of Fairtrade sales and on-site audits. Together these procedures ensure full supply chain transparency and provide assurance to customers that products carrying the Fairtrade Mark are Fairtrade.

All products bearing the Fairtrade Mark contain ingredients that have met strict Standards throughout their supply chain. These Standards are established through consultation with stakeholders across the system, including farmers and workers, traders, NGOs, academics and labelling organisations such as Fairtrade Australia and New Zealand (Fairtrade ANZ).

The Fairtrade Mark can be used on:

- products that have been certified and audited as adhering to Fairtrade Standards
- promotional materials used to advocate for and promote the purchase of Fairtrade products.

The Fairtrade Program Mark is another way of engaging with Fairtrade cocoa, sugar and cotton farmers to sell more of their crops on Fairtrade terms, meaning more Fairtrade benefits for their farms and communities.

Globally, more and more businesses are committing to buying sustainable cocoa, sugar and cotton for use across complete product ranges, or even their entire businesses. The Fairtrade Sourcing Program is an additional way for businesses to source Fairtrade, and runs in parallel to the existing Fairtrade Mark. This approach was launched to help cocoa, sugar and cotton farmers to increase their market access. It enables Fairtrade to work with businesses on an ingredient-by-ingredient or commodity-by-commodity basis and ensure better outcomes for more producers.



Source: <http://fairtrade.com.au>. © Fairtrade ANZ

Questions

- 1 **Explain** what the Fairtrade symbol represents and how the right to display it can be acquired.
- 2 **Select** information from the article to **classify** the internal and external stakeholders impacted by Fairtrade.
- 3 **Interpret** the implications of a post-mature business implementing Fairtrade as a repositioning strategy.

The story of Starbucks Coffee in Australia is an example of ethical responsibility assisting a business from decline. In the mid-2000s, Starbucks had entered the Australian market and tried to grow 'too big, too soon'. However, the business invested in research and persevered in the Australian urban market, and with the help of a widely promoted Fairtrade campaign has recovered and is a successful business operating in the Australian market.

INQUIRY



Starbucks: Corporate social responsibility

Collect data and information to **analyse** the corporate social responsibility activities of Starbucks. **Interpret** Starbucks' CSR activities to **draw conclusions** about the relationship between CSR and business post-maturity. **Create** a paragraph response of 150–250 words to **communicate** your findings.



Shutterstock.com/Nils Versemann

Figure 7.38 Starbucks is a business that fought post-maturity by focusing on its corporate social responsibilities.

Ethical standards



Australian
Medical
Association
Code of
Ethics

Further to meeting ethical responsibilities, some industries or sectors have ethical standards that must be adhered to. Such is the case for medicine: doctors must comply with the Australian Medical Association (AMA) Code of Ethics.

The Queensland College of Teachers (QCT) also has a code of ethics for educators.

These policies help associations such as the AMA and QCT govern their members; hence it could be argued that meeting ethical standards is the bridge between legal responsibilities and ethical responsibility in Carroll's CSR pyramid for some industries and occupations.



Queensland
College of
Teachers
Code of
Ethics



iStock.com/alvarez



iStock.com/michaeljung

Figure 7.39 Medical practitioners and teachers must abide by codes of ethics in their occupation.

In other instances, some businesses may internally promote ethical standards as part of their policies and procedures manual to ensure all staff in the business treat stakeholders in the same manner. This could be an effective strategy for a business in post-maturity if its decline is a result of customer dissatisfaction and the business responds by putting a policy in place to improve customer service. If done effectively, ethical responsibility could revive a business into renewal.

Philanthropic responsibility

The fourth layer of the pyramid suggests that a business can choose to be philanthropically responsible. **Philanthropy** focuses on the charitable giving of a business to support society and its welfare. Philanthropic activities undertaken by businesses include fundraising, sponsoring community events, managers or employees volunteering or donating work hours to a cause, and providing work experience opportunities. Some philanthropy relates to the business directly – for example, Specsavers raises funds for the Fred Hollows Foundation (Figure 7.41). But there doesn't need to be a link made between the business's operations and its philanthropy – for example, Virgin Australia is a national partner of the Starlight Children's Foundation.



Starlight
Children's
Foundation



Figure 7.40 The four elements of philanthropy are giving, fundraising, volunteering and supporting.

Philanthropic responsibility is an optional element of CSR when compared to economic and legal responsibility (though ethical responsibility is becoming more prominent and is likely to be considered a norm in the future). Businesses that do not exercise a philanthropic responsibility are not perceived as lacking values or morals; rather, philanthropy is a way in which a business can show that, while profit is vital, supporting community can also be achieved. As an influence on repositioning, promoting its corporate social responsibility could allow a business to attract new customers. A global study by Union and Webster in 2017 identified that 77 per cent of consumers would pay more money to a business that demonstrates community responsibility. In Australia, the *Giving Australia 2016* report stated that businesses gave \$17.5 billion to non-profit organisations in the 2015–16 financial year, of which:

- \$7.7 billion was given from community partnerships
- \$6.2 billion was donated
- \$3.6 billion was invested in non-commercial sponsorships.

Figure 7.42 identifies the benefits for a business that takes on philanthropic responsibilities.

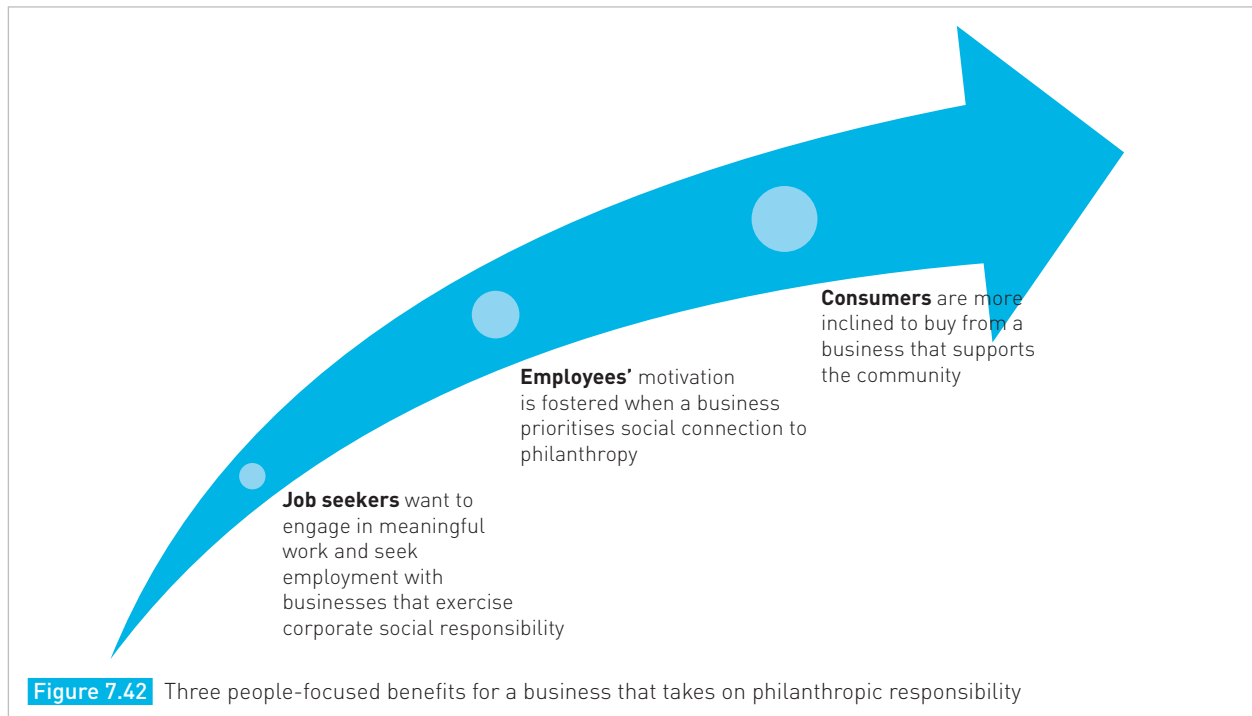


Specsavers is proudly partnering with the The Fred Hollows Foundation to restore sight to those blinded by poverty alone.

Related links

Figure 7.41 Specsavers' philanthropic responsibility can be seen through its support of the Fred Hollows Foundation.

Philanthropy: charitable giving by a business to society by donating finance, time or resources



Popular and successful philanthropic activities seen in Australia include the establishment of the Ronald McDonald House by McDonald's, the Indigenous round initiated by the National Rugby League, the Kmart Wishing Tree Appeal and the Westpac Rescue Helicopter Service. In Australia, the number of businesses that engage in some sort of philanthropic CSR continues to grow.



Figure 7.43 The Kmart Wishing Tree Appeal supports the work of the Salvation Army.

NewsPix/Tait Schmaal

GAINING INSIGHT



The Indigenous round in the NRL



Read the article on the NRL's Indigenous round and **select** information to **identify** the range of philanthropic activities the NRL has adopted in support of Indigenous Australians.



Phil Hillyard/Newspix

Figure 7.44 Each year, the NRL initiates an Indigenous round, in which all teams wear Indigenous-inspired jerseys.

GAINING INSIGHT



Philanthropy statistics in Australia



Follow the weblink to the 'Giving Australia 2016 business giving and volunteering overview' published by Philanthropy Australia, and **select** data and information to answer the following questions.

Questions

- 1 Explain** the relationship between philanthropy and a business's reputation according to the Giving Australia report.
- 2** Compare how small to medium-sized businesses differ from large businesses in their modes of giving.
- 3 Interpret** the trends that are occurring in business philanthropy in Australia and its influence on repositioning.

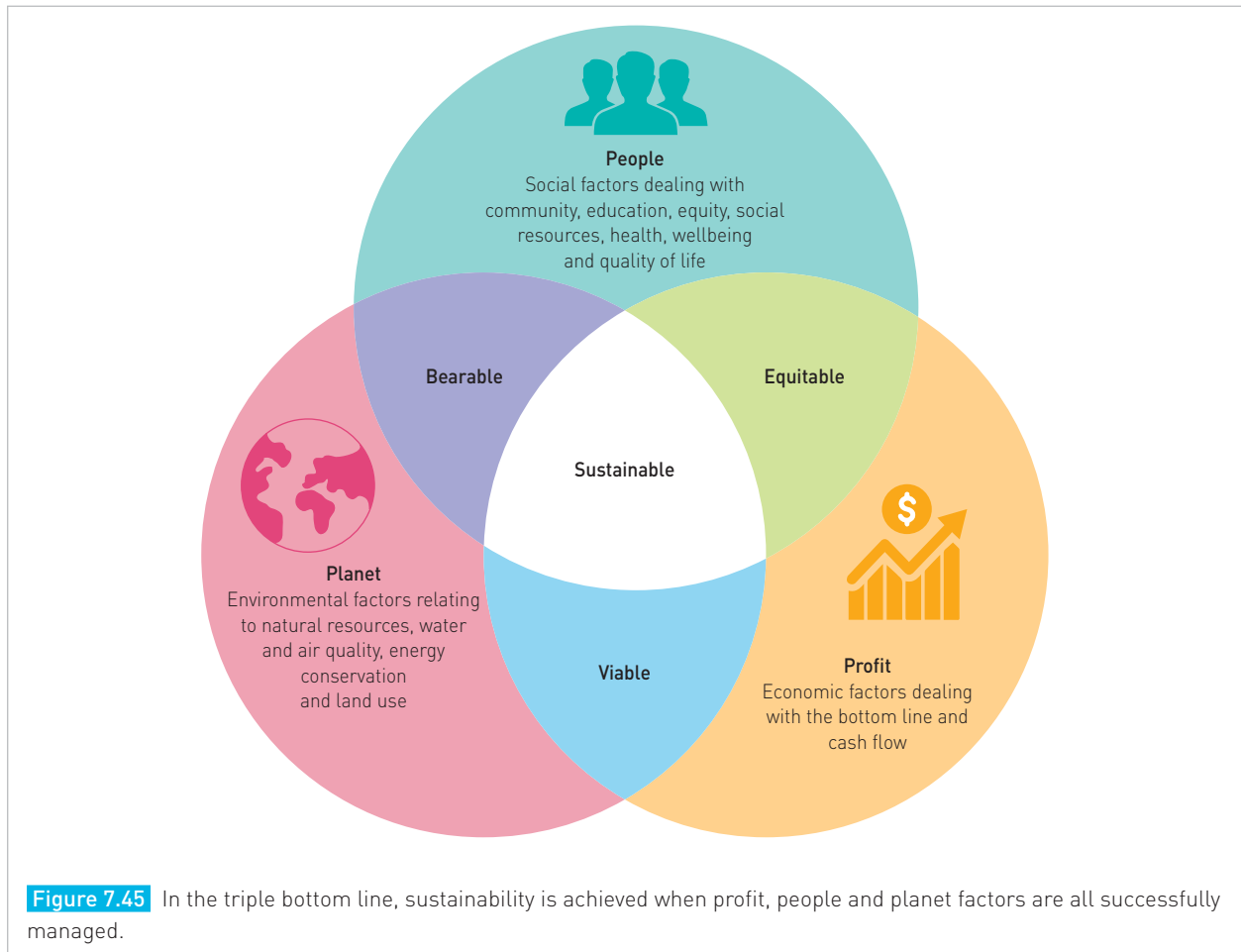
QUESTIONS 7.5



- 1 Create** a list to **analyse** which internal, operating or macro stakeholders influence the four types of corporate social responsibility. An example is given for you.
Among the stakeholders who influence a business's economic responsibilities are its shareholders because they want a return on their investment, which is achieved by the business earning a profit.
- 2** There are some criticisms of Carroll's CSR pyramid. **Select** information to **analyse** the positive and negative viewpoints about the pyramid. Based on your analysis, **evaluate** the use of Carroll's CSR pyramid using the criterion of effectiveness.
- 3 Explain** the relationship between ethical responsibilities and repositioning strategy.
- 4 Select** data and information about the McDonald's philanthropic activity McHappy Day and **evaluate** using the criterion of stakeholder satisfaction, focusing on the impact for staff, customers and management. This activity can be written, completed in small groups, or split into three to form a debate.

Triple bottom line

Each year, a business must report its financial results to its investors. With the expectation that businesses are embedding sustainable business practices and exercising corporate social responsibility, executive or top-level management of the business may set objectives related to the accounting framework known as the **triple bottom line**. The triple bottom line concept was developed in 1994 by John Elkington and refers to a business reporting its financial results (profit – the traditional ‘bottom line’) as well as measuring its social (‘people’) and environmental (‘planet’) performance over a 12-month period. The use of the triple bottom line could be a repositioning strategy for a business as it is suggested that if a business is successful in all three pillars, it has achieved sustainability (Figure 7.45).



The ‘people’ pillar, related to social performance, is linked to community and the ways in which the business supports humanity. Factors on which performance is based could include:

- monitoring the number of employees
- providing a diverse range of roles
- minimising the gender pay gap
- providing training and education
- offering flexible working arrangements.
- philanthropic corporate social responsibility.

Triple bottom line: an accounting framework that broadens a business’s focus from only the financial bottom line to include social and environmental considerations

The business might gauge its success based on the performance of competitors or against living standard indicators or other indexes.

The 'planet' pillar relates to environmental performance and focuses on how the business is managing its consumption of natural resources by achieving set targets. Examples can include:

- carbon emissions
- electricity and water usage and costs
- successful implementation of solar technology
- minimising the volume of waste
- recycling initiatives
- planning for how land is used
- reducing safety incidents.

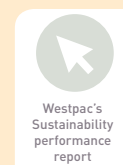
There are currently no universal standards in place to measure the triple bottom line, but many businesses will assign a dollar value to their social and environmental performance, or compare themselves against other published indexes used in economics. Some governments around the world tax businesses for exceeding environmental targets; hence some businesses use this as a measure of success. Regardless of these challenges, as society demands that businesses become more sustainable, businesses are being innovative in their reporting of their performance in order to satisfy their investors.

INQUIRY



Westpac's sustainability performance

Westpac has been a leader in engaging with sustainability and the triple bottom line in the Australian banking industry. **Select** data and information from Westpac's 'Sustainability performance report' to **analyse** how the bank is implementing triple bottom line strategies. Working in pairs or small groups, **create** a presentation of your findings.



QUESTIONS 7.6



- 1 Referring to Figure 7.45, **explain** the terms 'bearable', 'equitable' and 'viable' and the interrelationships that exist within the triple bottom line.
- 2 **Select** information from this text to **analyse** the sustainable repositioning strategies for a post-mature business. **Create** a table like the one below. An example has been provided under each heading.

Repositioning strategies					
Sustainability	CSR – economic responsibilities	CSR – legal responsibilities	CSR – ethical responsibilities	CSR – philanthropic responsibilities	Triple bottom line
• Minimise waste	• Satisfy a consumer need or want	• Support staff through obliging with redundancy requirements	• Pay a fair price to suppliers	• Sponsor a community event	• Provide education and training to staff

Chapter 7 review

This chapter investigated the influences and strategies surrounding repositioning for a range of businesses, including those in post-maturity. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

7.1 Short items

- 1 **Explain** the concept of repositioning for a post-mature business.
- 2 **Explain** the strategies a business can use to reposition through:
 - a marketing
 - b human resources
 - c operations
 - d finance.
- 3 **Explain** how sustainability is an influence for a business that is repositioning.
- 4 **Explain** the relationship between sustainability and corporate social responsibility.

7.2 Interpretive items

Create feasibility report extracts (i.e. paragraph responses in genre) to respond to the following.

- a **Describe** the features of a large business that is at risk of post-maturity.
- b **Select** data and information from the business and other sources to **analyse** its corporate social responsibility activities using Carroll's pyramid.
- c **Interpret** the analysis to **draw conclusions** about sustainable businesses.
- d **Evaluate** two functional repositioning strategies the business could use to introduce a sustainable repositioning strategy.
- e **Evaluate** the feasibility for a post-mature business of engaging in philanthropic work using the criteria of stakeholder satisfaction and effectiveness. **Propose** a recommendation.

7.3 Extended-response items

Create a short report to respond to the following.

- a **Describe** the features of a business that has recently used a marketing repositioning strategy.
- b **Explain** the marketing repositioning strategy used and provide examples.
- c **Select** data and information about the business and **analyse** using a SWOT analysis.
- d **Interpret** the relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the importance of repositioning for a business.



Case study 3: Repositioning a business

Myer: Has it slipped into post-maturity?

Myer is an iconic Australian brand, the ultimate department store selling a wide range of men's, women's and children's designer and mainstream clothing, shoes, accessories, cosmetics, homewares, kitchen, electrical and bedding. And if you've had the joy as a child of seeing the Myer Christmas window displays, you will recognise the Myer brand. Offering products that use competitive, psychological and premium price-points, there are 62 Myer stores in Australia, located in most capital cities and major regional centres. This number sits on the smaller scale for an Australian retailer, according to data provided by the Shopping Centre Council of Australia (Source 1), which means most people in rural and regional Australia are required to travel to visit a store.



Shutterstock.com/TK Kurikawa

Figure C3.1 The Queen Street Mall entry to the Myer store in Brisbane's CBD

While Myer is achieving success through online sales, its physical shopfronts have struggled financially, experiencing a consistent decline in sales (Source 2). Bowing to pressure, Myer appointed a new chief executive officer and has made three rounds of redundancies (Source 3). This is likely as a strategy to achieve steady state rather than decline, but the business is fighting to bring its customers back.

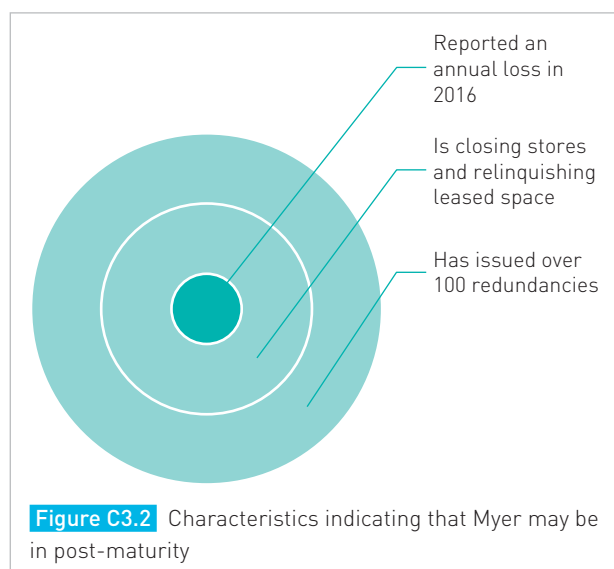


Figure C3.2 Characteristics indicating that Myer may be in post-maturity

Source 1

According to the Urbis Australian Shopping Centre Industry report (August 2015) there were 1753 shopping centres in Australia which exceeded 1000 square metres of gross lettable area (GLA). These comprised:

- 67 regional shopping centres (i.e. those that include at least one department store);
- 286 Sub-regional centres (i.e. those that include at least one discount department store as the major anchor tenant);
- 1104 neighbourhood or supermarket-based shopping centres (i.e. those that include at least one supermarket as the major anchor tenant); and
- 107 CBD centres.

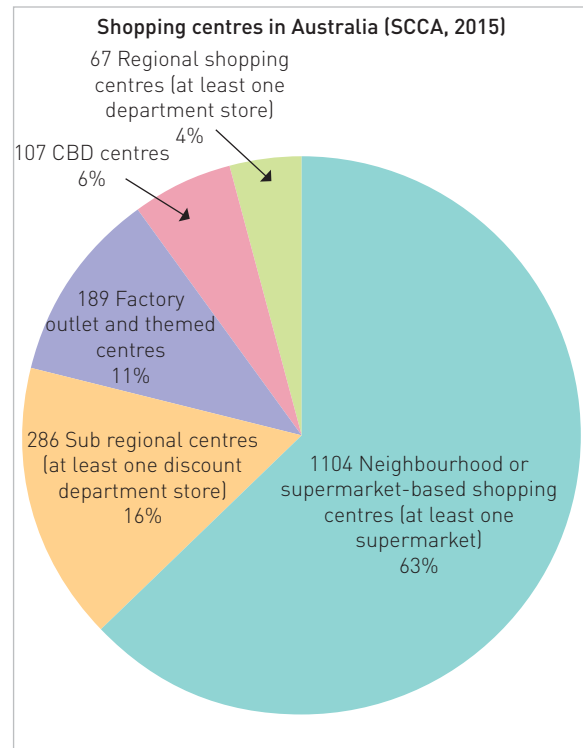
This number also includes 189 factory outlet centres and themed centres which are often categorised as shopping centres because they have adopted the shopping centre format (that is, usually a single, enclosed centre which houses a number of retailers). Note: This data excludes Homemaker/ Large Format Retail centres.

These shopping centres contain more than 65 000 speciality shops. The advantage for retailers who lease space in shopping centres is that customer foot traffic can be much higher and more concentrated than in other retail locations. Leasehold also has the advantage that retailers don't have to utilise capital to buy freehold, thereby reducing their property risk.

This means the real estate risk is being carried by the investors in the shopping centre, not by the retailer.

Source: 'Key facts', © Shopping Centre Council of Australia

For more information, check the Shopping Centre Council of Australia's website.



Source 2

Myer posts 'disappointing' \$486 million loss, as CEO admits 'shareholders deserve better'

Struggling department store chain Myer has reported an annual loss of \$486 million.

It is the company's first loss since it listed on the Australian share market in 2009 – and a significant downgrade from its \$12 million profit in the 2016–17 financial year.

The biggest impact to the results was to Myer's brand name and goodwill, which was written-down by \$515.3 million.

Chairman Garry Hounsell and newly appointed chief executive John King expressed their disappointment at the results.

'These results are obviously disappointing and shareholders deserve better,' Mr King said in a statement.

Also contributing to its weak result was a 48 per cent drop in pre-tax earnings, down to \$55.4 million – and a 3.2 per cent slide in total sales to \$3.1 billion.

Its earnings margin also suffered, falling from 3.33 per cent to 1.79 per cent in the past financial year.

One bright spot was that Myer's online sales rose 34.1 per cent to \$192.5 million.

However, Myer still relies predominantly on customers visiting its physical stores to make purchases – as online sales accounted for just 7.7 per cent of its total sales.

'The 2018 financial year results are disappointing,' Mr Hounsell said.

'When it became apparent to the board that the execution of the strategy was not going to deliver an improved financial performance, we made the decisive move to make significant leadership changes.'

Back in February, the retailer sacked its then-chief executive Richard Umbers for failing to turn the company around.

It also hired new chief merchandise officer Allan Winstanley and chief financial officer Nigel Chadwick.

Mr King started his job as the new Myer CEO in June, and was previously the head of UK department store House of Fraser.

The company was booted out of the benchmark ASX 200 index in March, due to its plummeting share price.

Myer's total market value is around \$330 million, close to its record low.

Its share price had fallen 8.1 per cent to 40 cents at 11:25am (AEST).

'The outlook for Myer remains highly challenging,' Citi's retail analyst Bryan Raymond said in a research note.

He said a 'return to sales growth and improved earnings realisation is likely to prove difficult', and that the bank retains its 'sell' rating.

'The sales outlook will remain volatile, as the business transitions towards less discounting, more profitable sales.'

Source: David Chau, ABC News, 12 September 2018. Reproduced by permission of the Australian Broadcasting Corporation – Library Sales. © ABC



Figure C3.3 Myer continues to achieve consistent growth in its online sales, up 34.1 per cent, though it only accounts for 7.7 per cent of the total business's sales.

Source 3

'How shopping centres are changing to fight online shopping' is an analytical, thought-provoking article written by Jason Pallant and Sean Sands that reflects upon the changing retail environment and mentions Myer in its analysis. It has an interactive retail profit margin graph and some key findings from the article are summarised in Figure C3.4.



The
Conversation
– Shopping
centres



Figure C3.4

Source 4

Myer CEO to cut head office jobs but keen to retain stores

Myer staff are bracing for more job cuts as new chief executive John King reduces duplication and layers of management in the retailer's Melbourne headquarters while strengthening expertise in areas such as marketing.

Investors say Mr King, a former chief executive of British department store chain House of Fraser, is preparing to hire another three or four experienced retailers who worked with him in the UK and the US.

This follows the appointment in May of former House of Fraser, Sears and Kmart executive Allan Winstanley as Myer's new chief merchandise officer to oversee merchandise buying and planning.

At the same time, Mr King is planning to significantly reduce staff in Myer's Docklands head office, where employee numbers have been reduced about 30 per cent during the past few years, enabling Myer to cut its rental costs by handing over four floors to co-tenant Latitude Financial Group.

Mr King warned staff shortly after taking the helm to be prepared for significant changes and to be 'challenged' in the way they operated.

'He is looking to significantly reduce the number of people in head office, he thinks head office is significantly over-engineered,' a source told *The Australian Financial Review*.

'But the timing is not short term, it could be three to six months away.'

Sources dismissed speculation Mr King is planning to slash head office numbers as much as 50 per cent and shift remaining employees to Myer's flagship Bourke Street store, saying there was not enough space to accommodate staff.

However, they said there was scope for Myer to give up more floors in the Docklands building, which is owned by Lendlease, or to move to cheaper office space closer to Bourke Street.

'With \$3.2 billion in sales and earnings of \$300 million a year Myer could afford those layers but with sales of [\$2.6 billion] and earnings of \$200 million it can no longer afford them,' a source said.

Myer shed about 50 head office jobs a year ago and another 50 in January under former chief executive Richard Umbers. More have departed in recent months, particularly from functions such as marketing, publicity, payroll and sponsorships.

Last month Myer confirmed it had abandoned its Birdcage marquee for the 2018 Melbourne Cup spring racing carnival. However, it remains the exclusive fashion partner of the Victoria Racing Club and the Melbourne Cup carnival and has retained naming rights for the Myer Fashions on the Field competition.

Investor angst

Mr King has also indicated to investors he is disinclined to exit leases because all of Myer's remaining stores are earnings (EBITDA) positive at store level.

This is despite the fact that Myer has previously said it planned to close or shrink about 19 underperforming stores.

Mr King hopes to slowly shrink the retailer's 62-store network by closing stores when leases expire. Three stores closed in 2017 and another four are set to close in 2018 and 2019.

This strategy would negate the need to raise hundreds of millions of dollars of new capital to compensate landlords, but could test the patience of Myer shareholders, who are keen to see a return to profit growth after a 50 per cent slump in underlying profits in five years.

Myer declined to comment.

According to consensus forecasts, analysts are expecting full-year underlying earnings (EBIT) to fall about 46 per cent to \$57 million, implying a small loss in the July half.

Mr King has been spending two or three days a week in Myer stores and two or three days in head office as well as meeting suppliers and shareholders.

It's unclear whether Mr King has met Myer's second-largest shareholder, Solomon Lew's Premier Investments, which has threatened to call an extraordinary general meeting to oust the entire board and appoint its own representatives.

Sources said Mr King is confident trading will improve over the next few quarters, helping to keep major shareholders on side.

The tide may be turning for department stores, judging by the latest sales at Myer's arch rival David Jones.

In a trading update on Thursday, South African parent Woolworths Holdings said David Jones' total sales rose 2.2 per cent in the June half and same-store sales rose 2.7 per cent.

This followed a 3 per cent slump in total sales and a 3.3 per cent fall in same-store sales in the December half, when David Jones' earnings fell 38 per cent. Total sales for the year finished 0.9 per cent lower despite a marginal (0.1 per cent) increase in net retail space and 21.4 per cent growth in online sales.

Despite the rebound in second-half sales, Woolworths said disruption from the implementation of new inventory and online systems, repositioning the foods business and relocating David Jones' head office from Sydney to Melbourne had squeezed gross margins and increased costs.

Source: Sue Mitchell, AFR, 19 July 2018. © The Australian Financial Review. The use of this work has been licensed by Copyright Agency except as permitted by the Copyright Act, you must not re-use this work without the permission of the copyright owner or Copyright Agency.

Source 5



AFR article
– Myer

The article 'Myer plunges to \$486m loss but debt refinanced and covenants eased' identifies the repositioning strategies planned by Myer from 2018 onwards.

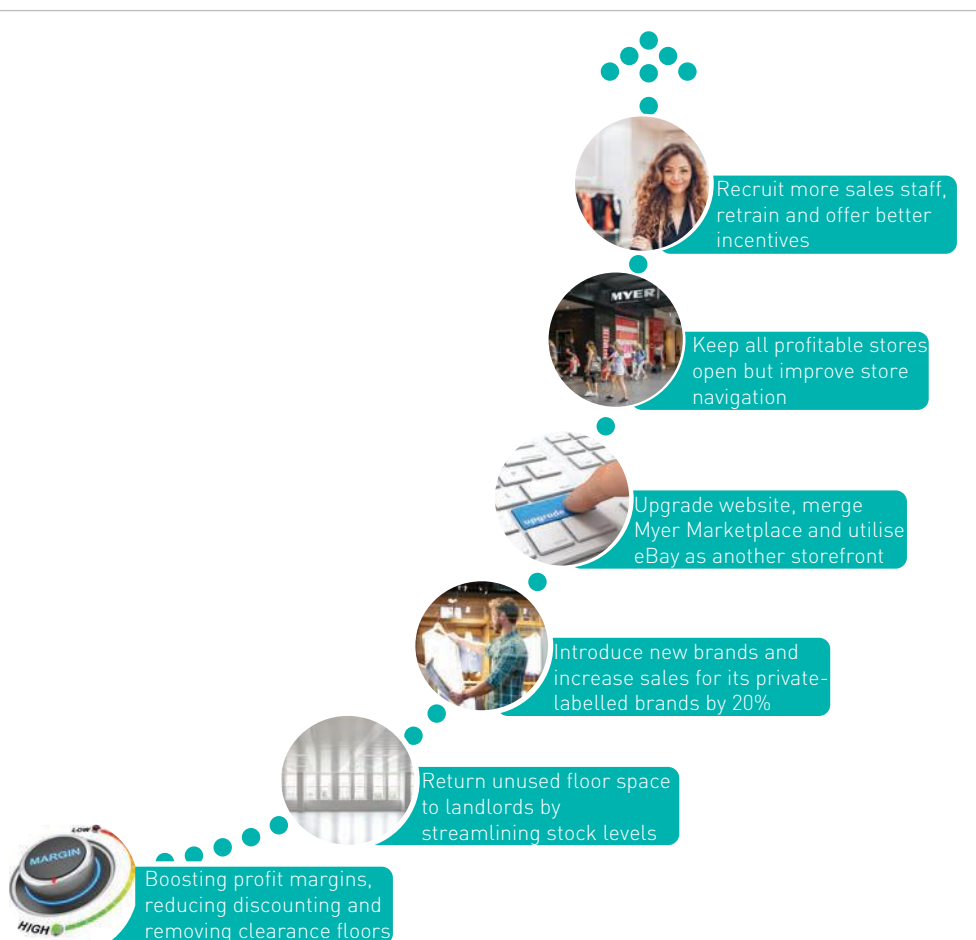


Figure C3.5 The Myer CEO is using repositioning strategies that align to the financial objectives of profitability and efficiency.

Follow the link to see how Myer has upgraded its website.



Myer
website
upgrade

Top to bottom: iStock.com/pixelfit, iStock.com/kokkai, Shutterstock.com/mstanley, Shutterstock.com/y mimagephotography, Shutterstock.com/Monkey Business Images, Shutterstock.com/Sarawut Aiemsinsuk

Questions

- 1 **Create** paragraph responses to:
 - a **describe** the internal environment factors that are impacting on Myer and its need to reposition
 - b **describe** the operating environment factors that have influenced Myer and forced it to reposition.
- 2 **Explain** the following, using information from the case study as examples:
 - a post-maturity and its relationship with decline
 - b redundancy
 - c sales training and its relationship to repositioning
 - d foot traffic
 - e goodwill and its relationship to post-maturity
 - f earnings margin
 - g head office
 - h profit margin
 - i administration
 - j landlord
 - k private labels
 - l profitability and its relationship with renewal
 - m efficiency and its relationship with post-maturity
 - n incentives and their relationship to human resources.
- 3 **Explain** in detail each of Myer's repositioning strategies and **analyse** the pros and cons. **Create** your response using paragraphs and tables.
- 4 a **Select** data and information from the article to **analyse** Myer's macro environmental influences using STEEPLE.
 b **Interpret** the STEEPLE to **draw conclusions** about Myer's slip into post-maturity.
- 5 a **Select** data and information from the case study to **analyse** the impact of competition on Myer using Porter's five forces.
 b **Interpret** Porter's five forces to **draw conclusions** about Myer's financial situation and repositioning strategies.
- 6 **Evaluate** Myer's post-maturity situation using the criterion of effectiveness.
- 7 **Evaluate** Myer's financial performance using the criterion of stakeholder satisfaction, including shareholders and customers. **Propose** recommendations for how Myer can re-engage each stakeholder.
- 8 **Select** three repositioning strategies for Myer, **explain** the function responsible for the strategy and **evaluate** using the criterion of efficiency. **Propose** an order in which these repositioning strategies should be executed.

Unit

4

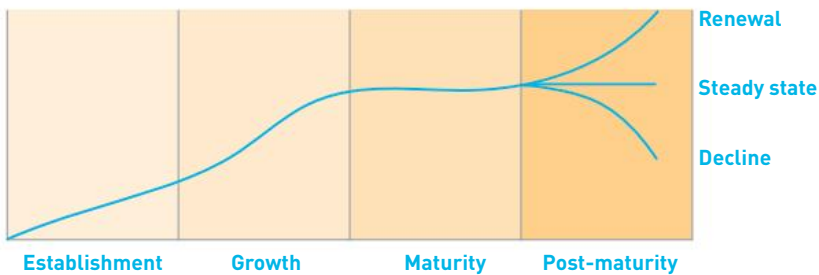
Business evolution

Topic 2

Transformation of a business

CHANGE MANAGEMENT

POST-MATURITY STAGE



Change management
improvement Successful changes
Successful Implementation work new
Strategy Vision Team new

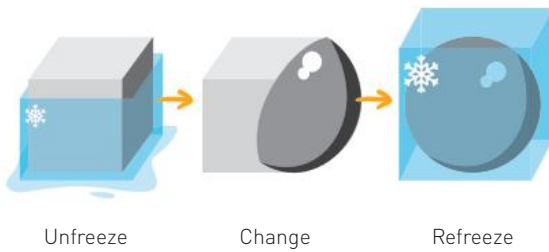
THEORIES AND MODELS

KOTTER'S 8-STEP MODEL

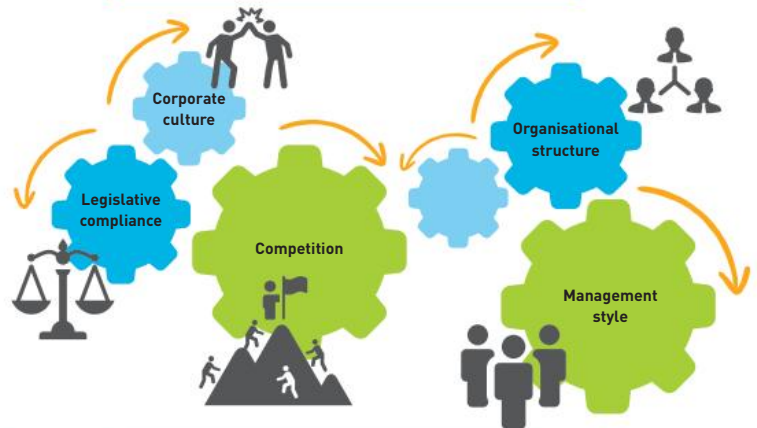
8 steps for leading change



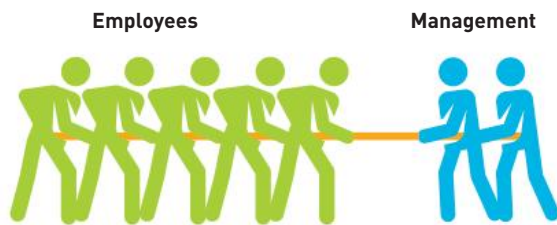
LEWIN'S 3-STEP MODEL



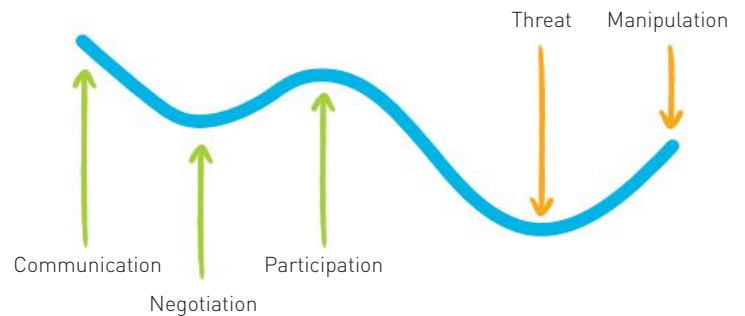
DRIVERS OF CHANGE



RESISTANCE TO CHANGE



OVERCOMING RESISTANCE TO CHANGE



RENEWAL OUTCOMES



MANAGEMENT STRATEGIES





CHANGE MANAGEMENT

What you will learn

The world is changing much more rapidly than most people realise. We are exposed to new ideas, new technology and new ways of doing things. We live in an innovation-driven world where there is perpetual progress and change.

Change in business is also inevitable. The business world is a dynamic and evolving environment that experiences rapid change. Being willing and able to adapt to change is a quality any successful business needs. A business should embrace change, for change is an opportunity to evolve and grow. Without change, a business would lose its competitive edge and fail to meet the needs of consumers.

In this chapter, the focus will be on post-mature businesses. A business in the post-maturity stage of the business life cycle could experience three options:

- *steady state* – sales remain plateaued, the business neither expands nor declines
- *decline* – decreased sales could result in closure of the business
- *renewal* – a new product is released and the business increases sales.

These options could influence a business to consider a transformation and a new focus on change management and renewal outcomes.

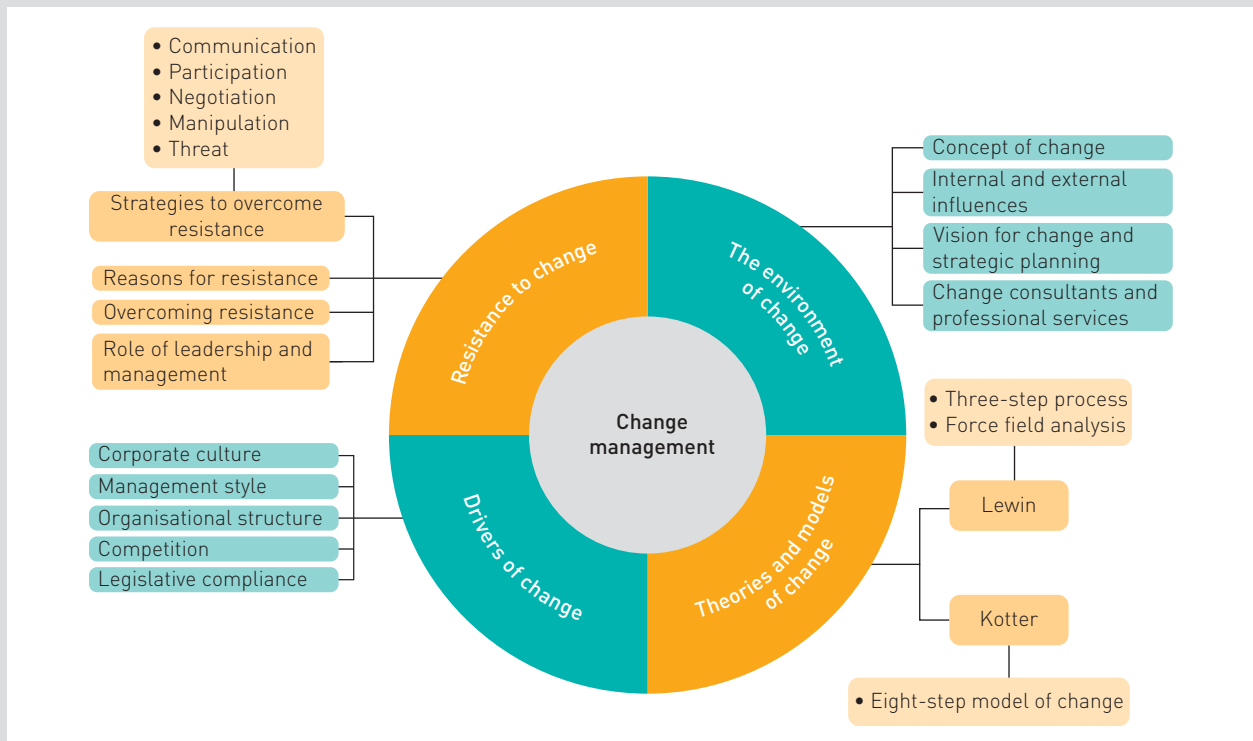
This chapter will explore the strategies that influence the transformation of a business, focusing on change management. In this section, the focus will be on a business that has been in operation and has moved past the maturity stage in the business life cycle. This may require it to transform to remain competitive and to meet consumer needs.

This chapter will provide you with the opportunity to:

- **describe** business environments and situations relating to change management, drivers for change and the post-maturity stage of the business life cycle
- **explain** business concepts, strategies and processes relating to change management theories and drivers for change at the post-maturity stage
- **select** data and information relating to transformation of a business to **analyse** the business situation
- **interpret** relationships, patterns and trends to **draw conclusions** about the implications of transformation of a business
- **evaluate** change management strategies to **make decisions** and **propose** recommendations
- **create** responses that **communicate** meaning to suit purpose and audience.

The analytical tools used in this chapter are:

- SWOT analysis
- force field analysis
- power interest grid.



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:
 - initiative and enterprise
 - curiosity and imagination
 - identifying alternatives
 - seeing or making new links
- communication:
 - effective oral and written communication
 - communicating ideas effectively to diverse audiences
- collaboration and teamwork:
 - recognising and using diverse perspectives
- personal and social skills:
 - ethical (and moral) understanding
 - cultural awareness
- information and communication technologies (ICT) skills:
 - accessing and analysing information.

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

GAINING INSIGHT



It's time to transform

FOCUS QUESTION: How does a business begin to transform?

Coca-Cola

When the Coca-Cola Company began operations in the late 1800s, it would not have been envisaged that it would become a billion-dollar business. The company is now a global network that operates in

more than 200 countries and produces nearly 450 brands. Coca-Cola has become a powerful leader in the beverage industry and has strengthened its position through change. The business has a strong foundation in its product and is one of the most

recognisable brands in the world. It remains focused on its consumers and diversifies to meet their ever-changing needs. Coca-Cola is an innovative business that has grown into a massive global industry with innumerable products (Figure 8.1).

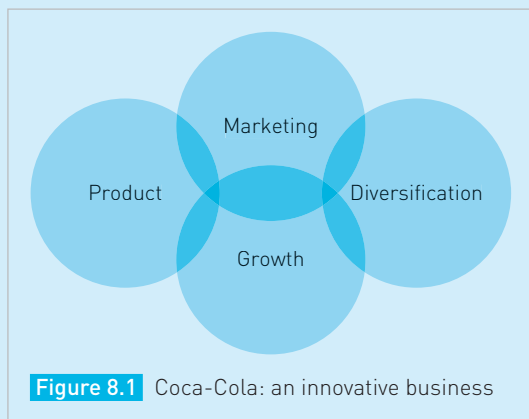


Figure 8.1 Coca-Cola: an innovative business

Product

Coca-Cola is continually changing its products to meet the needs of its customers. Introducing a new product to the market is a challenging and often risky strategy for a business. However, Coca-Cola has successfully expanded its portfolio from regular and low kilojoule soft drink to waters, sports drinks, energy drinks, teas, flavoured milk to no-sugar flavoured sparkling soft drinks. The company aims to match the diverse tastes of customers with new flavour sensations. In 2018 it offered limited edition flavours such as 'Coca-Cola orange no sugar' and introduced four varieties to its Diet Coke range – Ginger Lime, Feisty Cherry, Zesty Blood Orange and Twisted Mango (Figure 8.2). The new Diet Coke flavours were marketed with modernised packaging and new advertisements. This followed two years of industry research and development. Coca-Cola's researchers tested more than 30 new recipes with more than 10 000 people before deciding on the bold new flavours.



Figure 8.2 Diet Coke range

The product aimed at appealing to new audiences – the younger 'millennials' generation. Millennials are characterised as being adventurous and bold and that

is exactly how the taste of the new Diet Coke range can be described. Diet Coke had been the weakest link in the company's range with the brand's sales declining significantly. The change was an attempt to turn this around. Coca-Cola is committed to ensuring that its customers continue to enjoy its products and has announced it will reduce sugar further in its products.

Growth

Coca-Cola continues to increase its market share in the beverage industry by focusing on innovation and growth. Interestingly, Coca-Cola has learnt some valuable lessons from product failure. Sprite 3G was introduced in 2005 to compete with energy drinks such as Red Bull. However, for a variety of reasons including the product name and the marketing campaign, the product failed to perform. The name was too closely linked to the original product of Sprite. The television advertisement used the 'wrong sprite' theme (a baby sprite goblin) to match the target market. Coca-Cola has used these failures to its advantage to continue to grow. It has continued to evolve and transform into a leading business. Coca-Cola has a commitment to 'growing with conscience'. It is aiming to improve its sustainability by making all its packaging fully recyclable. Coca-Cola is a business that grows the right way – for its consumers and its community (Figure 8.3).



Figure 8.3 Coca-Cola developed the 'plant bottle', which is up to 30 per cent plant-based and is 100 per cent recyclable.

Marketing

Coca-Cola utilises highly effective marketing strategies that have positioned the business as an industry leader. Through decades of marketing campaigns, Coca-Cola has remained consistent in its approach. It communicates one strong and effective message: Enjoy! It has used simple slogans, such as 'Enjoy' and 'Happiness', that connect with its consumers. Coca-Cola has used innovative strategies to persuade customers to keep buying its brand. The company has achieved this through clever marketing campaigns such as its 'Share a Coke' range (Figure 8.4).



Figure 8.4 Share a Coke.

The business transformed its label to include customers' names instead of the brand name 'Coca-Cola'. The change reinvigorated the business and Coca-Cola showed a significant growth in sales. The campaign was so successful that Coca-Cola continued to evolve and expand the concept by introducing 'Share a Coke and a Song'. Coca-Cola changed the 'first names' campaign and replaced it with song lyrics from a variety of genres, classic hits to chart-toppers.



Figure 8.5 Coca-Cola: a diverse business

Coca-Cola has created brand experiences through its innovative marketing campaigns. This has contributed to its success story and helped it to achieve brand recognition in the global marketplace.

Diversification

In recent years Coca-Cola has diversified its product range to include healthier options, such as sparkling water, in an attempt to meet consumer needs (Figure 8.5). The business recognised a trend among consumers towards avoiding carbonated, sugary drinks and favouring more 'natural' flavoured drinks. In 2018, Coca-Cola increased its range of products to include kombucha, a naturally fermented tea. Kombucha is a drink that boasts a variety of health benefits, including gut health, and is a probiotic. It is a low-sugar, live-culture organic drink.

Coca-Cola has further diversified by expanding its operations to include Costa Coffee, one of Europe's largest coffee chains. The Coca-Cola business operates by changing to meet the needs of its consumers.



Figure 8.6 Coca-Cola's purchase of the Costa Coffee chain reflects its ability to meet the needs of consumers.

Questions

- 1 **Describe** the environmental factors influencing the need for change for Coca-Cola.
- 2 **Explain** how this business has transformed its operations.
- 3 Why has this business continued to expand its range of products?
- 4 What has contributed to Coca-Cola's growth and success?
- 5 **Evaluate** the strategies used by Coca-Cola to transform the business using the criterion of competitiveness.

Change management

Key learnings

You will learn the following about change management:

- the concept of change management
- internal and external influences on change
 - internal environment
 - external operating environment
 - external macro environment
- vision for change and strategic planning
- change consultants and professional services.

Concept of change

Change is constant and unavoidable. Most of us don't choose to change. We become comfortable with our daily routines and our lives, and any change can be a source of frustration, fear or stress. Change is not a new concept; what is different today is the rapid pace of change. Change is often forced upon us with the expectation that we respond. It is how we react to the change that will determine the outcome. Taking a positive, proactive step may be the way forward and help us face the challenges that come with change.

Regardless of the industry, change in business is also inevitable. A business confronts change on an ongoing basis. At some point in time most businesses will undergo some form of change in order to shift in the marketplace. Therefore, a business must also be able to respond to change. Change is an opportunity, a chance for a business to evolve and grow. With shifting markets and the expectations and demands of consumers constantly changing, businesses should embrace change. Nevertheless, change is not an easy process. The ability of a business to respond to change will increasingly determine its competitiveness and survival. Most successful businesses are those that can respond, manage and adapt to change or drive change in the market.

In business, change refers to the continual alteration of strategies, processes or structures in response to internal pressures and external forces. These pressures could include:

- change in consumer tastes
- change in markets or products sold
- change in how employees perform their job
- change in production processes due to automation or emerging technologies.

GAINING INSIGHT



McDonald's transforms the fast-food market

McDonald's revamped its burger menu in Australia to include the 'Create Your Taste' customisable burger option. This was the biggest change in McDonald's history since the introduction of the breakfast menu in the 1980s. The change occurred in response to the changing demands of consumers. Customers like personalising their food and making their own choices to create a burger. Dine-in customers use a self-serve booth to create a premium burger from gourmet ingredients. A 'McWaiter' serves the burger on a wooden board. The innovation transformed McDonald's and confirmed the business as a leader in the competitive fast-food industry.

Consumer tastes and the food industry are constantly evolving, with new trends and flavours

introduced. To remain competitive, McDonald's has committed to changing trends. In 2017, McDonald's changed its menu to introduce 'Gourmet Creations', a deluxe range of burgers available via its drive-through service (Figure 8.7). What is next for McDonald's?



© McDonald's Australia 2019

Figure 8.7 Transforming McDonald's

Questions

- 1 **Identify** and **explain** the stage of the business life cycle at which McDonald's would be most accurately placed.
- 2 **Explain** the impact of changing products on the business model of McDonald's.
- 3 **Select** data and information relating to the change McDonald's has undertaken to **analyse** the strengths, weaknesses, opportunities and threats (SWOT analysis).
- 4 **Interpret** the SWOT analysis to **draw conclusions** about the implications of change for this business.

Change: the process causing a function or practice in business to become different

What is change management?

Change management is a term used to describe the management of a transition from one state to another. When applied to a business, it usually involves a planned method or framework to steer a business from its current state through a transitional state to reach a desired future state. It requires a structured approach that includes planning, implementing, controlling and reviewing processes in a business. The goal of any change is to improve a business's performance and allow it to remain competitive. It is the goal of management to transition the process of change, for the business to adopt the change and for employees to implement and embrace the change.

Change can happen because of unexpected circumstances or intentional actions to facilitate growth or improve competitiveness. The manner in which the business implements the change is what makes it effective and perhaps successful. The aim of change management is to implement strategies for effecting change in a business.

GAINING INSIGHT



A changing force

Amazon has never stopped changing the inventory it sells. Since Amazon went online in 1995, the e-commerce giant has undergone numerous changes (Figure 8.8). It started with the sole purpose of selling books online, advertising itself as 'Earth's biggest bookstore'. Amazon has transformed into a mega-company selling millions of products worldwide. It has become a game-changer in the retail marketplace by changing customer's expectations of online shopping. Amazon offers endless shopping aisles, fast delivery and unconventional return policies. It disrupted the traditional retail sector. Its approach is customer-centric, prioritising anything that adds value for the consumer. Amazon has become a changing force in how retailers must create engagement in their stores and satisfy the high expectations of their customers.



Figure 8.8 Make way for Amazon!

Questions

- 1 **Identify** and **explain** how Amazon has used change to benefit its business model.
- 2 **Explain** how Amazon's ability to change has transformed the business.
- 3 **Select** information from the article to **analyse** the strengths, weaknesses, opportunities and threats (SWOT) for Amazon.
- 4 **Interpret** the SWOT analysis to **draw conclusions** as to why Amazon has become a changing force in the retail industry.

Internal and external influences

As introduced in Chapter 2 of *Business for QCE Units 1 & 2*, the internal and external environment influences a business. This can stem from changes in the workforce to the changing nature of markets and increased competition. For example, the invention of drone deliveries and driverless cars may influence the way a business operates. A business needs to examine, understand and manage influences of change on the internal environment and the external operating and macro environments. When a business is in the post-maturity stage of the business life cycle, it is crucial for it to respond to change in order for it to evolve and succeed.

Change management: a planned and structured approach that moves a business from its current state to a desired future state

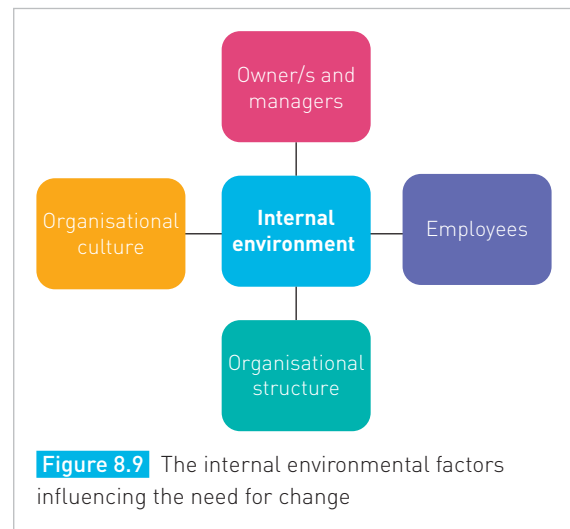


Internal environmental factors

The internal environment has a direct impact on the need for change in a business. Those factors within a business that can influence change include the owner (or owners) and management, employees, organisational structure and organisational culture (Figure 8.9).

Business leaders: Owners and managers

Business leaders, such as owners and managers, influence the direction and development of a business. They are responsible for implementing the policies and procedures of a business and formulating strategies which affect the running and profit-making ability of a business. Business leaders are crucial in identifying and influencing the need for change. They need to have skills to lead a business through a required change.



Employees

Employees can be considered the most important resource in a business, for they are the driving force that operates it. They play a defining role in the strategy, tactics and operations a business carries out. Employees can influence the success of a business through their productivity, efficiency and commitment. Therefore they can have a powerful influence on a business and the need for change. For example, employees can exert pressures on a business for changes in the areas of working conditions, skill requirements and internal processes.

Organisational structure

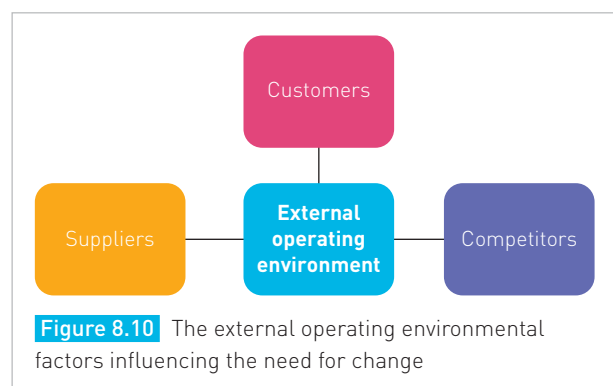
The organisational structure refers to the levels of management in a business. Traditional organisational structures such as functional or divisional structures are rigid and hierarchical. They have multiple levels of management. They have a centralised management that delegates work from the top down. With the rapid pace of change, businesses need to respond quickly to meet the needs of consumers and market conditions. A business could flatten traditional organisational structures to reduce the levels of management. This provides a business greater opportunity to respond to change quickly.

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. The culture can impact on a business and influence the need for change. If the culture is seen to be impacting in a negative way on the effectiveness and efficiency of a business, management must intervene and decide how it needs to be changed.

External operating environmental factors

Changes in the external environment can also have an impact on the operations of a business. The operating environmental factors outside a business that can influence change include customers, competitors and suppliers (Figure 8.10).



Customers

Customers are the lifeblood of a business and are crucial to its survival. Customers can have a direct influence on a business and the way it operates. A business needs to understand the changing needs of customers and then respond swiftly by adapting the way it operates; otherwise, it may lose customers.

With the rapid evolution of technology, customers are better informed and have more options available. Therefore a business must prioritise creating a culture that is customer-focused and customer-centric to stay in tune with customer expectations. It must focus on customer relationship management to collect data on both existing and future customers' behaviours in the marketplace.



Figure 8.11 The changing needs of customers

Competitors

A business strives to achieve a competitive edge over its competition in order to achieve market dominance. This external pressure means that many businesses are influenced by the actions of their competitors. They must respond and change their operations to match or stay ahead of the competition. For example, the actions of a competitor may force a business to reassess its operations and implement changes. These could include:

- being the lowest-cost supplier in an industry
- offering innovative products or services
- finding a niche in the market
- using different approaches (Figure 8.12).



Figure 8.12 Which sports brand has changed to improve its competitive advantage?

Suppliers

Suppliers can influence change in the operations of a business. A business is reliant on its suppliers to provide the necessary resources for it to function. If a supplier provides a poor-quality product to a business, it may impact on the reputation of the business.

Similarly, if a supplier provides a slow service, this could impact on a business's ability to meet consumer demand. Consequently, any change affecting the supplier can have a significant impact on a business. A business requires suppliers that are reliable and competitively priced to ensure the success of its operations.

External macro environmental factors

The external macro environment is a complex area that impacts on the operations of a business. These factors outside a business that can influence change may be socio-cultural, technological, economic, environmental, political, legal or ethical (Figure 8.13).

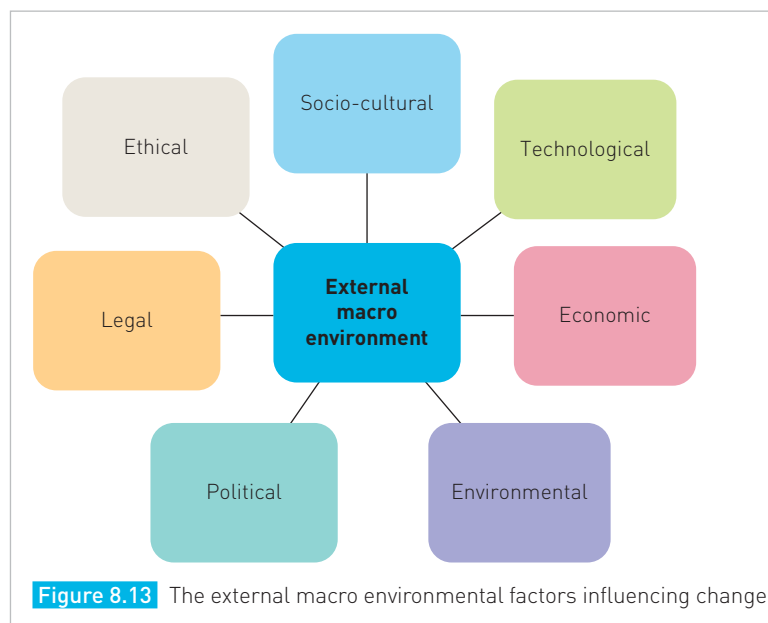


Figure 8.13 The external macro environmental factors influencing change

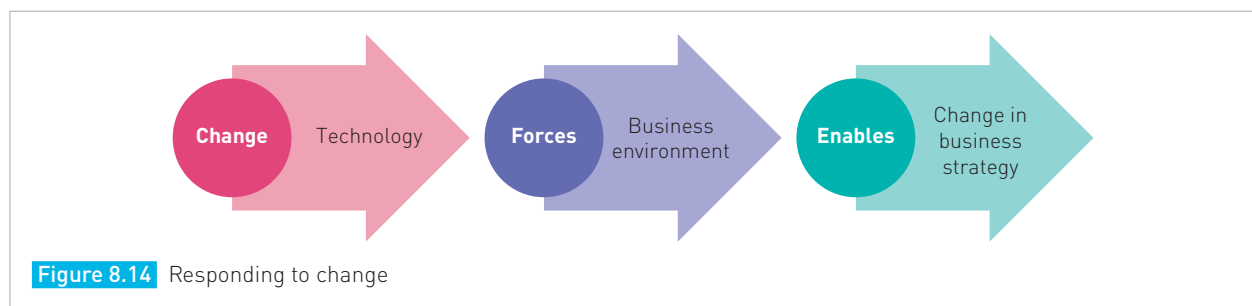
Socio-cultural

Socio-cultural changes such as social attitudes, values and lifestyles can have a direct impact on a business. If a business does not respond to these changes, there may be a detrimental effect on its success. A social issue that has led to significant change in the Australian workforce is employment conditions, such as the provision for flexible work hours or job sharing. These have led to change in business practices.

The socio-cultural environment also determines which goods and services will sell. For example, a change in people's attitudes can result in a change in business practices. Customers may prefer to buy products made from recycled material or those that use less energy. A business that is able to respond to these changes in a timely manner is more likely to achieve success.

Technological

Technological advancements impact significantly on a business. Advances in technology require management in business to change their way of thinking. New technologies have created an environment in which operations have become smarter and faster. A business will require new strategies and ideas for implementation to respond to technological change (Figure 8.14).



Changes in technology can have a positive impact on a business. They may provide opportunities to:

- create new products and services
- improve the quality and range of products and services
- increase efficiency
- improve productivity
- reduce operating costs
- transmit communication rapidly.

However, when introducing a technological advancement, timing is the key to success:

- ☒ too early – could prove to be expensive. For example, early models of new technology are often more expensive
- ☒ too late – competitors could have already monopolised the market and gained the peak in sales.

To remain competitive, businesses need to embrace technology and keep updated with the latest advancements.

Economic

Economic change occurs continuously in both the domestic and the international arena and will have a major impact on the business environment. This is because any fluctuation in the economy impacts on all members of society, including consumers and businesses. It is a government's responsibility to minimise fluctuations in the economy. Governments implement policies to achieve stability in the economy, such as a fiscal policy or a monetary policy. For example, a government may introduce a policy designed to slow down the rate of economic growth by increasing interest rates. This would impact on consumer spending and could influence consumers to increase their level of savings. Business sales would be affected by the change in consumer spending.

Economic changes that influence a business include: inflation, interest rates, industrial relations, government expenditure and international trade and negotiations (Figure 8.15).

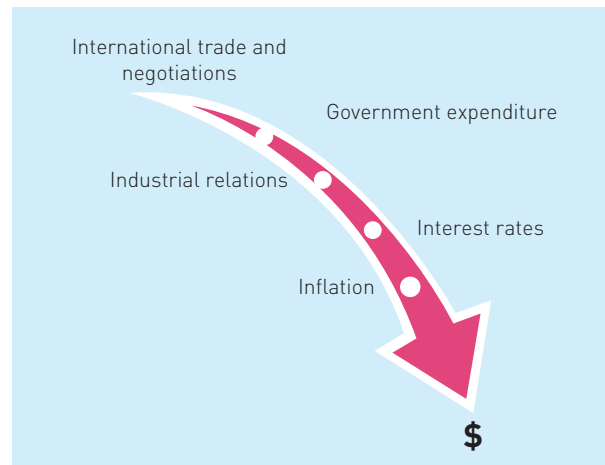


Figure 8.15 Economic changes

Environmental

Another group of factors influencing the need for change in a business are environmental issues. Now, more than ever, businesses need to consider implementing environmentally sustainable practices due to the widespread growth in concern of consumers around these issues. Businesses have a responsibility to support the sustainability of a green planet and respond to consumer demands for environmentally friendly and responsible products. Important trends in the environmental area include the growing concern about renewable energy and the increase in pollution.

An environmental issue that is leading to significant change in the Australian retail industry is the use of plastic bags (Figure 8.16).

Political

The Australian government regulates business operations by establishing rules of conduct. These include rules and regulations for taxation, workplace safety and trade practices within specific industries. For example, new government regulations may require a manufacturer to install pollution-control devices on a product or on an operating plant.

A significant concern for businesses is when there is a change of government, at federal or state level or in the local area. This can lead to uncertainty and changes in regulations for an industry or business. Businesses may need to change the way they operate to meet the new government requirements.

Political intervention can also lead to changes in a business. For example, the Queensland Government lobbied for the Commonwealth Games at the Gold Coast in 2018 (Figure 8.17). Consequently, local businesses, particularly in the tourism and hospitality industries, needed to change to accommodate the influx of people.



Figure 8.16 An example of an environmental change



Figure 8.17 Government influence on the political environment

Legal

Changes in legislation, regulations and contracts can affect business operations. For example, changes in legislation relating to equal opportunity in the workforce have had significant impact on employment conditions in businesses. Another area that has experienced significant change is food labelling in Australia. If a business grows, produces, manufactures, distributes, imports or sells food in retail stores in Australia, it will need to comply with the new food labelling laws (Figure 8.18).



Figure 8.18 Changes in legislation impact on a business.

Ethical

A business must act in a manner that meets both its legal and its social obligations. A significant ethical challenge for businesses in the 21st century is privacy. The increase in online activity and online trading can create ethical issues for a business – for example, relating to the collection, storage and protection of customer data in databases. There are issues relating to:

- ethical responsibilities of a company to its customers
- ethical responsibilities of employees to the company and its customers
- ethical responsibilities of customers to the company.

Changes in technology and greater access to information online have created these ethical issues relating to a business's obligation to protect customer databases and respect customer privacy.

QUESTIONS 8.1



- 1 **Describe** the internal environmental factors influencing the need for change.
- 2 **Describe** the external operating environmental factors influencing the need for change.
- 3 **Describe** the external macro environmental factors influencing the need for change.
- 4 **Describe** the factors influencing the need for change in the following organisations:
 - a publishing company
 - a telecommunications organisation
 - a clothing business such as Adidas
 - a car manufacturing plant.
- 5 **Explain** why an effective manager should continuously scan the business environment for change.
- 6 Brainstorm a list of businesses that have undergone change.
 - Select** one of these businesses and research the factors that influenced the need for change.
 - Identify** key stakeholders that were affected by the change.
 - Create** a power interest grid to **identify** the key stakeholders affected by the change, indicating whether they were blockers, advocates or neutral.
 - Analyse** the stakeholder power interest grid.
 - Interpret** the stakeholder power interest grid to **draw conclusions** about the implications of change.

GAINING INSIGHT



Makeover for Avon

Avon won't be calling on Australian doors any more after it announced it was leaving the Australian market in 2018. The iconic beauty company had been one of the leading door-to-door cosmetic groups making sales through direct selling. Avon became a household name after entering the Australian market in the 1960s. Avon parties were commonplace in Australian homes. At them, Avon representatives would demonstrate and

sell cosmetics. Avon's demise could have resulted from its inability to change with the trends. The 'Avon model' was outdated due to the emergence of online shopping. To remain competitive, businesses need to change with consumer attitudes and demands. Avon's strategic plan is to transform its operations to become the world's leading social beauty company. This transformation may see Avon return to the Australian market in the future.



Alamy Stock Photo/Peter Alvey People

Figure 8.19 Avon's catalogue was the mainstay of its door-to-door and party plan business.

Questions

- 1 **Describe** the business environmental factor that influenced the need for change for Avon.
- 2 **Explain** how this has impacted on Avon.
- 3 **Select** information relating to the Avon business and **analyse** the situation using a SWOT analysis.
- 4 **Interpret** the trends in the SWOT analysis to **draw conclusions** about the implications of change management for Avon.
- 5 **Evaluate** the decision made by Avon to change its business model using the criteria of competitiveness, efficiency and effectiveness.

Vision for change and strategic planning

When a business decides to undertake change, it needs to create a powerful vision for the change. Whether the change is to implement a new computer system or to launch an online marketing campaign, a business needs to have a change vision. This is a 'picture' of the change showing the future state of the business after the change has been implemented. The vision for change acts as a motivator for stakeholders and is essential to the success of the change. Once a vision for change has been created, a strategic plan for how to undertake the change needs to be constructed. The vision for change is the 'why' for the change and the strategic plan is the 'how' for implementing the change (Figure 8.20).

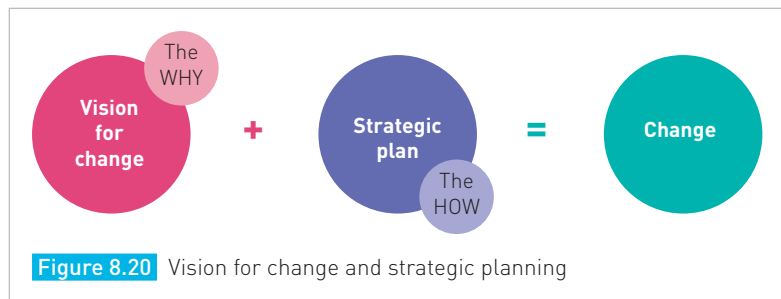


Figure 8.20 Vision for change and strategic planning

Vision for change

A **vision for change** is not the same as a corporate vision statement. It is a desired or future state in which the organisation will be after a change has been implemented. A vision for change is the 'why' of the change. It informs the organisation why the business should move on from the past (where the business is now) and create a new direction for the future (where it wants to be). Envisioning the future helps the business to determine the extent of the change and the resources needed to enact the change, and presents a clear vision that stakeholders need to embrace the change (Figure 8.21).

A change vision must be easy to understand. It needs to provide an organisation with a 'picture' of what the future business will look like after the change has been implemented, and why the change will benefit the business. The vision for change can provide both a sense of being and a sense of enduring purpose for a business.



Shutterstock.com/By alexmillos

Figure 8.21 Vision for change

Vision for change: a desired or future state in which the organisation will be after a change has been implemented

A change vision is about action. It can empower both leaders and followers to implement change. The vision should be seen as a guiding document that articulates the following:

- *reason* – to understand and explain the need for change
- *motivation* – to inspire and set a goal to work towards
- *unity* – to show how a cohesive effort is required to achieve the end goal.

Without a vision for change, the effort to change could lack direction and fail to achieve its goal.

Strategic planning for change

Strategic planning is about defining the overall purpose and goal of a business and determining how results will be achieved. It is a process of establishing a direction for an organisation where priorities are set, resources are allocated and operations strengthened to ensure stakeholders are working towards a common goal (Figure 8.22).

Strategic planning for change is the ‘how’ of the change. Creating a strategic plan is a necessary component of change. The strategic plan should consider three key aspects of the change:

- *content* – this refers to what needs to change. It could be the structure, system, technology, processes, products, services or socio-cultural aspects of the business
- *process* – a plan for how to achieve the change. It shows how the change will be implemented and the direction it will take
- *people* – those impacted by the change. This is the human element of the change and includes people’s mindset, emotional reaction, behaviour, engagement and the cultural dynamics impacted by the change (Figure 8.23).

A strategic plan for change requires considerable thought and input. It must start with a clear vision for change and have leadership and management committed to the change. The strategic plan must provide the direction and purpose for the change. It should outline clear and definable objectives with a detailed and practical plan of how to achieve them. The strategic plan should outline the characteristics of the change, tactics for implementing the change and the risks associated with the change. Creating a strategic plan for change will accelerate the change and increase the chance of success.



Figure 8.22 Strategic planning for change



Figure 8.23 Strategic plan for change

QUESTIONS 8.2



- 1 **Explain** what is meant by vision for change.
- 2 **Identify** the benefits for a business in creating a vision for change.
- 3 **Explain** what is meant by strategic planning for change.
- 4 **Identify** the benefits for a business in creating a strategic plan for change.
- 5 **Explain** the relationship between strategic planning and vision for change management.
- 6 **Evaluate** the consequences for a business of failing to establish a vision for change.

Consultants and professional services

A business in the post-maturity stage may require the assistance of a consultant or professional services to improve its future performance.

Consultants

Consultants provide advice on specific areas of a business. They are external experts who are hired by a business to examine efficiency and effectiveness. Consultants have a range of knowledge, skills and expertise and provide advice, recommendations and suggestions to address an issue (Figure 8.24). They can identify problems and develop strategies to implement effective change. Consultants can provide assistance to a business in the post-maturity stage in various ways. They may:

- find opportunities to differentiate a business from its competitors
- examine a business's processes to find improvements that will assist future growth
- complete a cost–benefit analysis to determine opportunities for growth
- determine strategies to regain market share
- identify ways to reduce costs – for example, by downsizing operations.



Figure 8.24 Consultants can assist a business in the post-maturity stage.

Professional services

Professional service providers are external to the business. They offer specific knowledge to a business and are experts in their field. They provide a service to a business and are accountable for their actions – unlike a consultant, who only provides advice. Professional service providers include:

- lawyers – experts on legal matters. Lawyers could represent a business in the post-maturity stage on matters such as bankruptcy filings or restructuring a company structure
- accountants – experts on financial matters. A business in the post-maturity stage could seek the services of an accountant for insolvency or business recovery.

QUESTIONS 8.3



- 1 **Explain** the role of consultants in assisting management for a business in the post-maturity stage.
- 2 **Describe** how a consultant can assist a business to show growth.
- 3 **Explain** the role of professional services in assisting management for a business in the post-maturity stage.
- 4 Differentiate between the role of a consultant and that of professional service providers.
- 5 **Create** a cost–benefit analysis to **determine** whether employing the services of a consultant is a viable option for a business.

Theories and models of change

Change management involves the application of a theory and a model to implement a change. It is a process that requires planning, organising, leading and controlling a suitable plan of action. For a business to implement change, it needs to adopt a change management approach. There are many management theories and models

Consultants: a professional who provides expert advice in a particular area to a business

Professional services: providers of expert knowledge in a particular field to a business

regarding change that outline how to best manage the change effectively. A business should choose at least one approach to operate under. In this section, the most commonly used theories and models will be examined along with their relevance to the changing business environment. The most widely used theories and models of change in business are from Lewin and Kotter.

Key learnings

You will learn about the following theories and models of change management:

- Lewin's change theory and model:
 - three-step process: unfreeze – change – refreeze
 - force field analysis
- Kotter's eight-step model of change.

Understanding theories and models

To implement a change, it is important to understand the variables that contribute to the change management system. To begin, the concepts of change management, theories and models that drive the change need to be understood.

A theory is a set of principles on which a practice is based. In change management, this would refer to the system of ideas that is the basis of a concept of change. A model refers to the step-by-step process. In change management a model sets out the stages that must be followed to implement a change. Both Lewin and Kotter use a theory as the basis for their model for change.

Lewin's change theory and model

The Kurt Lewin change management model is based around a three-step process to change: unfreeze – change – refreeze. It is a simple and practical framework for understanding the change process. This model for change was created by physicist and social psychologist, Kurt Lewin (Figure 8.25).

Lewin's model of change is based on the theory of a change process. He uses the analogy of changing the shape of an ice cube. The process involves these steps:

- *unfreeze* – melt the ice cube so it can be changed
- *change* – mould the iced water into a desired shape
- *refreeze* – solidify into the new desired shape.

This is known as the three-step process of change (Figure 8.26).

Lewin suggests that, if change is required in an organisation, then it must be melted, reformed into a new shape and then frozen again. Using this principle, Lewin proposes, the desired change can be achieved.



Alamy Stock Photo/Album

Figure 8.25 Kurt Lewin

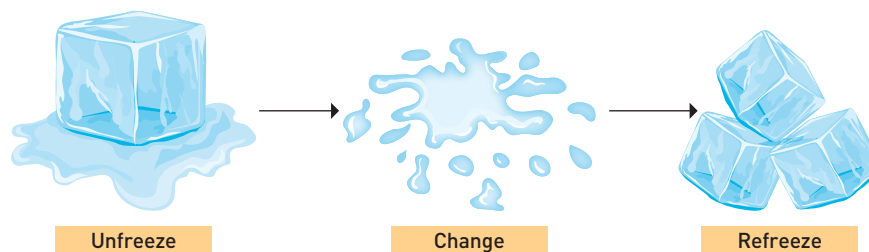


Figure 8.26 Unfreeze – change – refreeze model

Lewin's approach provides a framework for managing change within a business. It involves preparing for change, making the change and integrating the change within a business. This is Lewin's theory and model of change management.

Step 1: Unfreeze

The first step involves preparing all stakeholders to accept the change. In this stage the business needs to communicate and prepare for the change. To do this, a business must develop a convincing message that clearly shows the necessity for change. For example, a business in the post-maturity stage could frame the message for change due to:

- declining sales
- poor financial results
- lack of customer satisfaction.

This would then establish the need for change and set a clear direction for the business.

However, the 'unfreeze' stage is perhaps the most difficult stage. It involves preparing the organisation, including its employees, to accept the change and then adopt the change. It requires all stakeholders to re-examine existing practices and processes. This can create strong emotions such as denial, uncertainty and doubt within a business. It is crucial that clear communication and involvement happens at this stage so that employees are more willing to accept the new change of direction. To prepare for change, management must involve and empower employees' participation.

Step 2: Change

In the 'change' stage, the actual change takes place. This is the implementation step and requires stakeholders to embrace the change for it to be effective. At the change stage, people begin to resolve their uncertainty and act in a way to support the new direction. It is essential, though, that the change is implemented within a short time. The longer it takes to make the change, the more likely it becomes that it will not be accepted.

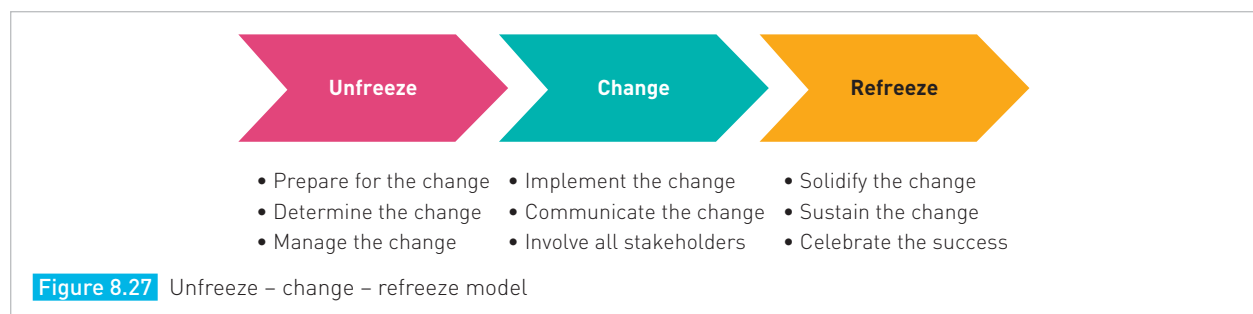
It is also important that there is strong leadership, direction and communication at the change stage. Employees need reassurance and support as the change unravels. This will require a business to invest time and allocate resources for the change to be implemented efficiently and effectively.

Step 3: Refreeze

In the final stage, the changes made are solidified and normalised within a business. The change becomes permanent and stability is regained. Again, there needs to be strong leadership to institutionalise the change. Management should ensure that employees incorporate the change into everyday business. Employees must be empowered to engage with the change, take ownership of the new ways of working and feel confident and comfortable with the change. There also need to be checks, monitoring and evaluation of the changes, and adjustments made if necessary. Another important element is to celebrate the success of the change process. This should then create a new sense of stability in a business and ensure the success of the change.

Summary of Lewin's three-step process

Lewin's change management model can be summarised as shown in Figure 8.27.



Lewin's change management model is a simple and easy-to-understand structure for change. Implementing the three-step process of creating the need for change (unfreeze), empowering the change (change) and solidifying the change (refreeze) should ensure the success of the change within a business.

QUESTIONS 8.4



- 1 **Explain** Lewin's change management theory.
- 2 Outline Lewin's change management model.
- 3 **Describe** how Lewin's model can help to manage change effectively.
- 4 **Describe** how Lewin's model can help to minimise the impact change has on the internal environment.
- 5 **Determine** how Lewin's model could assist a manager to introduce changes into a business in the post-maturity stage.
- 6 **Explain** the relationship between Lewin's change management theory and business transformation.
- 7 **Evaluate** why a change process without proper 'unfreeze' would have a limited chance of success.

Lewin's force field analysis

Kurt Lewin also developed a change model called **force field analysis**, which aims to assist management in implementing a change. The force field analysis is a simple but effective tool for understanding the forces that will drive, and the forces that will resist, a proposed change. Lewin suggests that in any change there will be driving forces and restraining forces that will dictate the effectiveness of the change (Figure 8.28).

Listing and evaluating the forces for and against a change can help a business to analyse all the influences on a situation.

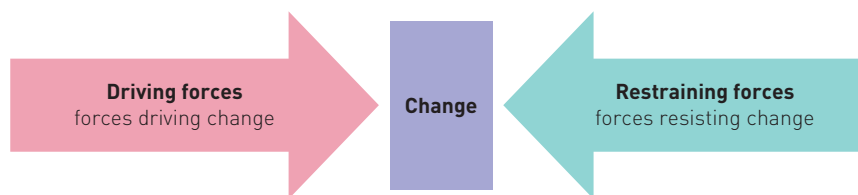


Figure 8.28 Forces for and against change

Driving forces

Drivers of change are those factors that bring about change. They are forces that initiate and compel change. A driving force can apply pressure for a change to occur and can encourage and support the change occurring. The main driving forces for business change are outlined on pages 298–302.

Restraining forces

Restraining forces act to block the drivers of change. They make the change process more difficult to implement and can lead to resistance to change. Restraining forces can include fear, apathy, lack of training and hostility. A business can reduce the impact of a restraining force to help a change be successful. The main restraining forces impacting business change are outlined on pages 303–5.

The concept of a force field analysis

The concept of a force field analysis is that a situation is maintained by equilibrium between two forces, a driving force and a restraining force. For the situation to change, either a driving force must be strengthened or a restraining force weakened.

A force field analysis can be a powerful tool for a business to utilise when initiating a change. Firstly the business should identify driving forces that support the change. Then the business should consider the factors that are restraining the change.

Force field analysis: a tool used to identify and analyse the positive factors (driving forces) and negative factors (restraining forces) in an environment where change is occurring

Drivers of change: the forces that support a change

Restraining forces: the forces that resist a change

Creating a force field analysis

An important element of a force field analysis is creating an action plan. The following template is an example that could be used (Figure 8.29).

Force field analysis template Score each force 1 (weak) – 5 (strong)		
Driving forces forces for change 	Change	Restraining forces forces resisting change
Total score		Total score
Actions to be taken:		

Figure 8.29 Force field analysis template

The following steps are a guide to completing a force field analysis using the template in Figure 8.29:

- 1 Determine the change.
- 2 Brainstorm the driving forces.
- 3 Brainstorm the restraining forces.
- 4 Evaluate the driving and restraining forces by rating each force. The score is a method of ranking the forces listed from the most influential (5) to the least (1).
- 5 Create a strategy to strengthen the driving forces or weaken the restraining forces.
- 6 Plan of action. Create a list of steps to achieve the desired outcome.

Benefits of a force field analysis

The benefits of completing a force field analysis include that it:

- provides a visual summary of the key factors supporting or opposing a change
- is a tool for weighing up the positives and negatives to help decide whether the change should in fact occur
- is a means of communicating the proposed change to reduce communication barriers
- identifies the strengths and driving forces supporting the change
- can identify obstacles and actions to put in place to avoid restraining forces preventing it
- creates a plan of action to implement the change.

QUESTIONS 8.5



- 1 **Differentiate** between driving and restraining forces.
- 2 **Explain** what is meant by a force field analysis.
- 3 Briefly **explain** the steps involved in developing a force field analysis.
- 4 **Identify** the benefits of using a force field analysis.
- 5 **Explain** the relationship between a force field analysis and change management.
- 6 Conduct a force field analysis for changing the start time for school from 9 a.m. to 7 a.m. **Draw conclusions** about the implications for changing the school hours.

GAINING INSIGHT



To upgrade or not?

A local manufacturing business is deciding whether to upgrade the factory with a new manufacturing process to improve performance. The manager

has completed a force field analysis and scored the driving and restraining forces as per the template in Figure 8.29.

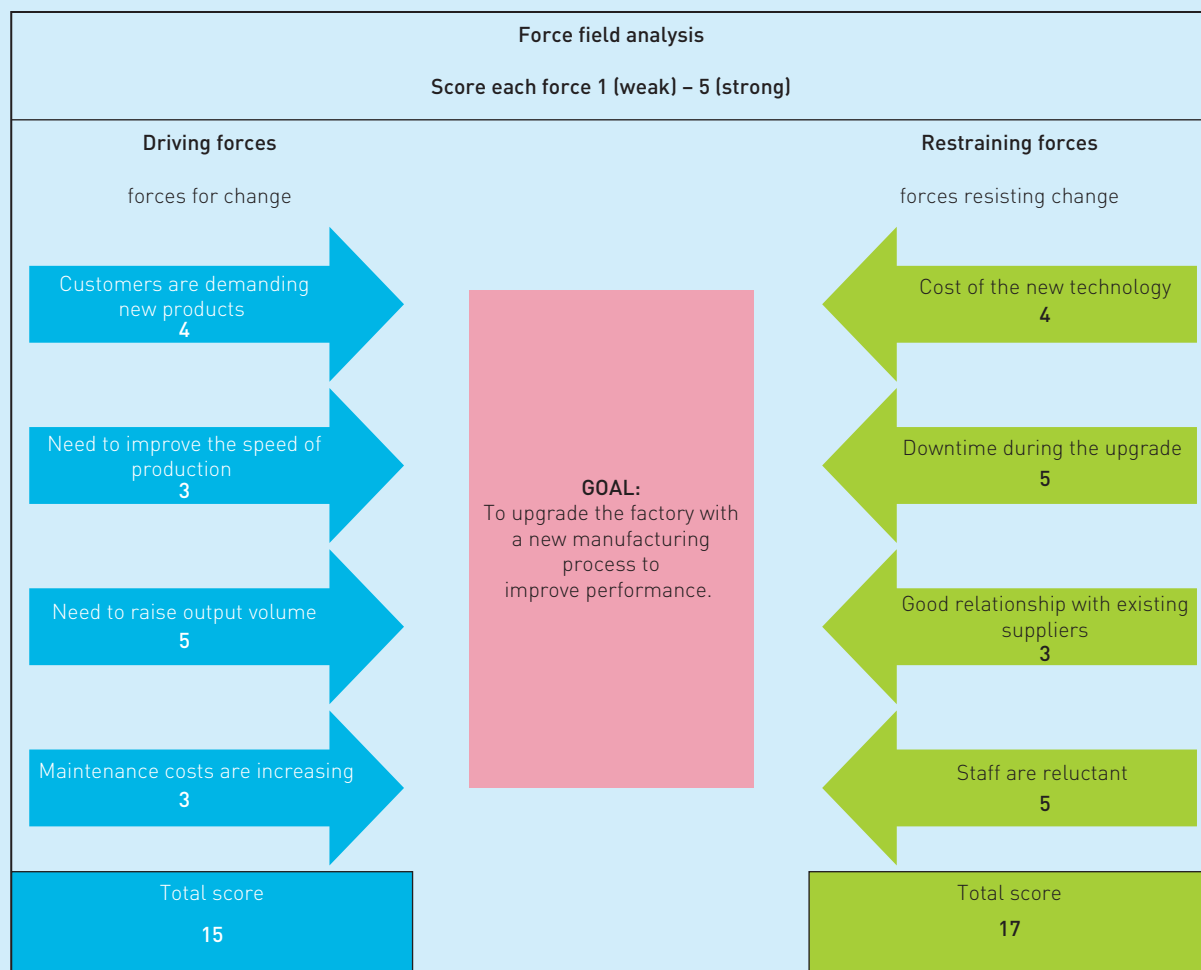


Figure 8.30 Force field analysis

Questions

Using the information provided in Figure 8.30, **create** a short business report extract for management that:

- a **analyses** the business situation using the force field analysis
- b **interprets** the force field analysis to **draw conclusions** about the implications of upgrading

the factory with a new manufacturing process to improve performance

- c **evaluates** operations management strategies for transforming the manufacturing process to **make a decision** and **propose** a recommendation using criteria.

Kotter's change management

One of the most widely used models for change was created by Harvard University Professor John Kotter (Figure 8.31). This practical approach is an eight-step model for understanding and leading change. Each step has a key principle and provides useful examples of how to implement it.

Kotter developed a theory of change management to support his eight-step model of change. Kotter's theory aims to help management of a business overcome resistance to change and facilitate transformation. He states that for a business to achieve success, it needs to firstly identify obstacles that could block change. Management must then take steps to eliminate these obstacles for effective change to occur. Kotter's theory in transformational change aims to better equip a business to achieve successful change. It should be used in conjunction with his eight-step model of change.



Wikimedia Commons by Keiradog. CC BY-SA 4.0.

Figure 8.31 Professor John Kotter

Kotter's eight-step model of change

John Kotter's eight-step model of change is designed to improve an organisation's ability to change successfully. Kotter's model for change is an easy step-by-step model that provides clear description and direction for implementation. It places emphasis on involvement and acceptance of the change for the success of the overall process.

Kotter's change management process consists of the eight steps shown in Figure 8.32.

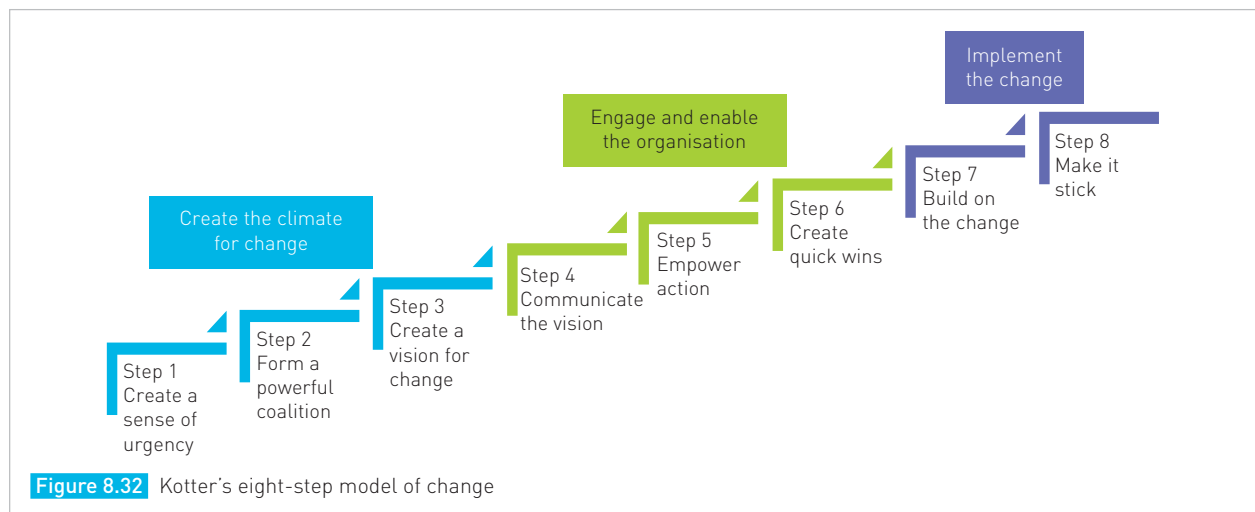


Figure 8.32 Kotter's eight-step model of change

Kotter's approach aims to improve an organisation's ability to change and to increase its chances of success. The first three steps of Kotter's eight-step model are about creating the climate for change. Steps 4 to 6 link the change to the organisation through engagement and enabling key stakeholders. The final two stages, steps 7 and 8, are aimed at the implementation of the change to achieve success (Figure 8.33).

The greatest strength of Kotter's model is that the process is an easy step-by-step method. It focuses on preparing for and accepting change, rather than on the change itself. Kotter's model also places emphasis on creating the need for change and creating a team to lead the change.

KOTTER'S EIGHT-STEP CHANGE MODEL

Create the climate for change

Step 1 Create a sense of urgency

The first step is to make others aware of the need and urgency for change. This requires an honest and open approach that convinces others of the importance to take action.

Step 2 Form a powerful coalition

The next step is to establish a project team to implement the change. This team should be made up of people with authority, recognition and respect within an organisation.

Step 3 Create a vision for change

It is essential for the team to establish a vision and direction that will allow them to achieve the goal for change. Formulating a change vision can help everyone understand what the organisation is trying to achieve within a given time frame.

Engage and enable the organisation

Step 4 Communicate the vision

The vision should be shared with all those who will be affected by the change. It is important to involve all stakeholders and provide opportunities for the new vision to be accepted across the entire organisation.

Step 5 Empower action

It is crucial to empower others to act on the vision and try to remove any obstacles that may negatively impact on the change and the new vision.

Step 6 Create quick wins

Recognition and rewards should be given throughout the change process. This will show that contributions have been appreciated and will reinforce the positive aspects of embracing the change.

Implement the change

Step 7 Build on the change

At this stage of the process, it is important to consolidate all of the changes that have occurred and continue the process of improvement.

Step 8 Make it stick

The final step is to anchor the changes and create a new culture. There needs to be a clear statement to show the connection between the change and the success of the organisation.

Figure 8.33 Kotter's eight steps

Implementing Kotter's eight-step model

Implementing a change management process is dependent on the change, the size of the business, the management and the skills of the stakeholders. Table 8.1 is an example of various ways Kotter's change management model could be implemented.

Table 8.1 Implementing Kotter's model

STEPS	TRANSFORMATION SUGGESTION
1 Create a sense of urgency	- Examine market trends and competition - Provide evidence that the change is necessary - Create a SWOT analysis
2 Form a powerful coalition	- Assemble a team with enough power to lead the change effectively - Attract key leaders who demonstrate enthusiasm and commitment - Encourage the group to work together as a team
3 Create a vision for change	- Create an achievable vision to help direct the change - Develop strategies to achieve the vision
4 Communicate the vision	- Use a variety of modes of communication to inform - Involve as many people as possible

STEPS	TRANSFORMATION SUGGESTION
5 Empower action	- Remove obstacles to the change - Create a situation that will enable constructive feedback and lots of support from leaders
6 Create quick wins	- Recognise and reward those involved in achieving the change - Create some visible successes as soon as possible
7 Build on the change	- Plan for and create visible performance improvements - Be relentless with instituting change until the vision becomes a reality
8 Make it stick	- Communicate clearly the link between the change and the success - Reinforce the value of successful change through promotion and other recognitions

QUESTIONS 8.6



- 1 Explain** Kotter's change management theory.
- Outline Kotter's change management model.
- 3 Describe** how Kotter's model can help to manage change effectively.
- 4 Describe** how Kotter's model can help to minimise the impact change has on the internal environment.
- 5 Determine** how Kotter's model could assist a manager to introduce changes into a business in the post-maturity stage.
- 6 Explain** the relationship between Kotter's change management theory and business transformation.
- What criticism can be made of Kotter's set approach to change management? **Explain.**
- Compare and contrast Kotter's and Lewin's approaches to change management.

GAINING INSIGHT



Ready for change?

Timely Photos is a medium-sized private company that has been in operation for 25 years. The business specialises in photographic imagery and processing and currently operates from two sites, in Brisbane city and at Noosa on the Sunshine Coast (Figure 8.34).

The photographic industry has shown a decline with the closure of many leading businesses. After careful consideration the managers of Timely Photos have decided to close one of its locations and increase its online presence. They want to make sure that the closure is carefully planned to minimise the effects on the business. This is a major change for the organisation and they are concerned about employee reactions.



Shutterstock.com/Derek Brumby

Figure 8.34 Timely Photos

Questions

Using the information provided, apply Kotter's eight-step model to **create** a short business report extract for management that:

- 1 describes** the business situation of Timely Photos, including its position in the business life cycle
- 2 explains** how you could use Kotter's eight-step model to ensure a successful change
- 3 selects** information to **analyse** the strengths, weaknesses, opportunities and threats (SWOT analysis)
- 4 interprets** trends in the SWOT analysis to **draw conclusions** about the implication of change on the future of the business.

Drivers of change

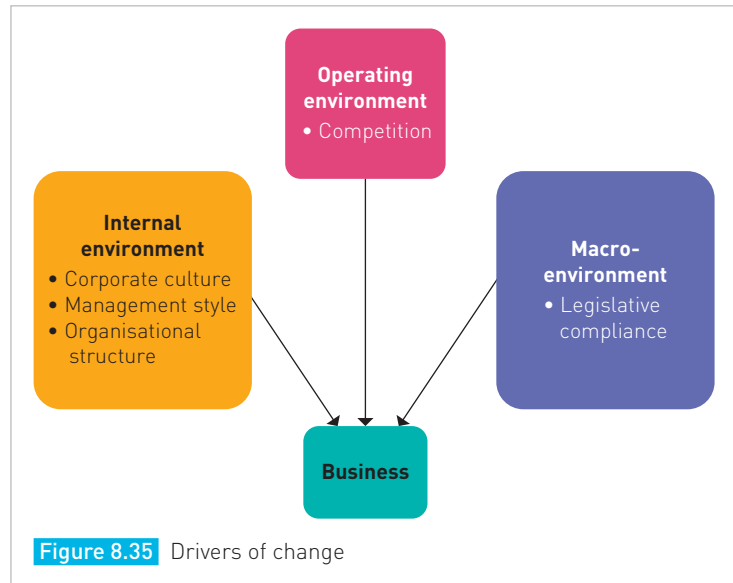
Change remains constant and is one of the more significant and demanding issues a business is likely to face. As the business environment changes, an organisation must adapt if it is to be successful. For a business to effectively manage change, it must examine the driving forces that initiate change and be proactive in its approach to change. This means that a business should lead the change and initiate strategies to embrace the change.

Key learnings

You will learn about the following key drivers of change:

- corporate culture
- management style
- organisational structure
- competition
- legislative compliance.

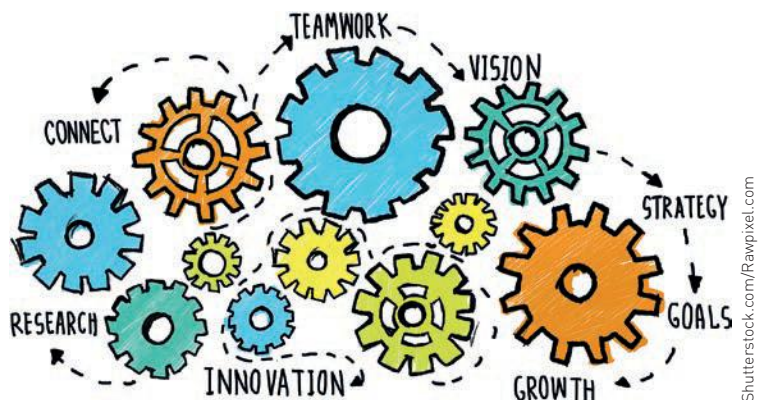
There are a number of forces for change in a business organisation. These forces driving change come from the internal environment and the external operating and macro environment. The driver can be an internal or external pressure that shapes the change and could include corporate culture, management styles, organisational structures, competition and legislative compliance (Figure 8.35).



Corporate culture

Corporate culture refers to the shared values, attitudes and beliefs that characterise members of an organisation and guide its practices. It describes ‘the way things are done’ in a business. Corporate culture is what makes a business unique. For a culture to be effective, it needs to reflect the people who work in a business and the strategic plan of the business. Corporate culture is driven by the top leaders in a business and becomes embedded through processes, rewards systems and behaviours. It is this corporate culture that often dictates the success of a business. There is also a clear link between corporate culture and the performance of a business. A strong corporate culture can improve the performance of a business by motivating employees and creating an effective and efficient work environment.

Corporate culture can be a driver of change in a business. It can affect whether organisations can implement change and whether the change will be successful. However, changing corporate culture can be extremely difficult. It requires clear strategic vision, effective leadership and management and, most importantly, communication (Figure 8.36).



Driving corporate cultural change requires a business to consider the following actions:

1 Assess the current culture of the business

The first step in change is knowing what employees value in a business. This will provide a business with information about how to implement a change.

2 Revisit the strategic vision of the business

The strategic vision of a business is closely connected with the corporate culture. Therefore, before initiating a change, the strategic vision should be considered.

3 Communicate again and again

Communication is the key. It is necessary to send a clear and structured message to employees about the change. Frequent communication is necessary during the change process.

4 Lead and manage

Leadership effectiveness is critical in change. Leaders who are dedicated to change are one of the most prominent success factors in change. It is the job of management to harness the corporate culture of a business to build momentum and create the change. A business that is able to do this will have a greater chance of success in initiating change.

A significant driver of corporate cultural change is the use of technology. The advancement in computerised systems has provided more flexible systems of operations in business. This has resulted in changes in business culture. For example, innovations in communication technology have led to increases in interactions across organisations. There is no longer the need there once was for face-to-face conversations and there is an increased interactivity among co-workers through the use of technology. People are more accessible and this has created a shift in traditional work processes. One impact of technology on corporate culture has been that a more flexible system of operations and communication can be created in business.

Management style

An internal driver of change is the management in a business. Management make decisions about the future direction of a business. They have the responsibility of operating and managing a business and its people. The way management responds to change will impact on the outcomes for a business. Therefore management in a business can be a key driving force in change (Figure 8.37).

Management needs to play a pivotal role in bringing about change. It is the role of management to influence and motivate all stakeholders during the change process. They will need to lead employees through the change process to meet the change objectives. The role of management during the process of change is perhaps the most difficult job. It

is a crucial role because of the relationship they have with the employees in a business. Not only do they need to initiate the change, they also need to lead, empower, support and influence employees through the change.

An important element in managing change is the style of management that is needed to facilitate the change. To be an effective leader of change, a management style should be adopted that includes the following:

- *communicator* – to set a clear direction and vision for the change
- *liaison* – to manage and consult during the change
- *advocate* – to promote and support the change
- *coach* – to engage and motivate stakeholders through the change
- *resistance manager* – to identify and manage resistance to the change.

A management style needs to be effective to lead change. It helps build the momentum towards the change and reduces resistance to change. Figure 8.38 shows various management styles and the influence they can have on change.



Figure 8.37 Management is a driving force.

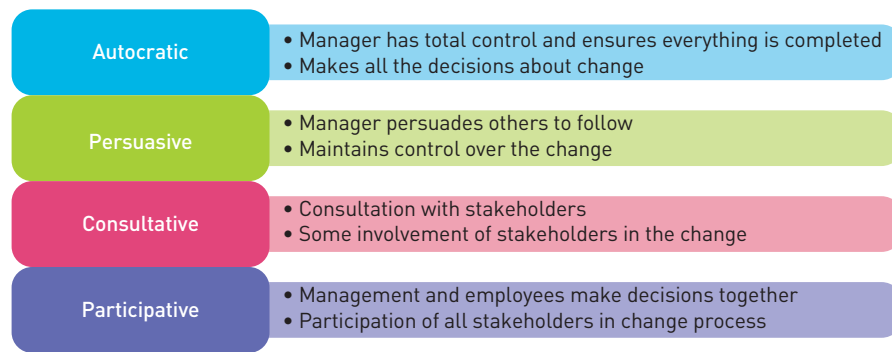


Figure 8.38 Management style in change process

Managers play a key role in effectively managing change because of the relationship they have with employees within an organisation. Whichever style of management they adopt, the focus should be on achieving the outcomes of the change.

Organisational structure

The organisational structure of a business refers to the hierarchy within an organisation. It is a system that outlines the roles and responsibilities and the different levels of management. The organisational structure can be a driver of change. As the business changes, organisations may need to examine and modify their structure. For example, a business's organisational structure would need to be changed with:

- changes in ownership structure – acquiring, or merging with, another company
- operational changes – reorganising internal functions to improve business operations
- business growth – expanding to an international market
- economic downturn – downsizing a business due to the economic environment.

Structural changes in a business can include changes to the organisation's hierarchy, chain of command, management system and job structure. An organisation may require more, fewer or different managers, or may need to change existing strategies to realign its objectives.

GAINING INSIGHT



Toyota updates its organisational structure



Alamy Stock Photo/Daniel Santos Megina

Figure 8.39 Toyota: a leader in change

Toyota Motor Corporation (TMC) intends to alter its organization structure to further accelerate

decision-making, strengthen management oversight, and boost business innovation (Figure 8.39).

To promote its overarching goal of making ever-better cars by continuing the development of a talented workforce, TMC made substantial changes to its structure to create a company built around a product-based, rather than function-based, organisation.

These changes were spurred by the vital realization that sustainable growth cannot be achieved without tackling two major challenges the company is facing as it continues to grow. The first is how to develop a sufficient number of people who can lead with quick judgment, quick decisions and quick action through on-site learning and problem-solving. This is

because the changes the company faces require a different way to think and act. The second is how to reduce the time and effort consumed by cross-functional coordination and establish work processes that allow the company to focus on making ever-better cars for its customers.

'This structural change is not an answer but an opportunity,' said TMC President Akio Toyoda. 'With everyone's efforts and minds as one, I would

like to make this an opportunity to strengthen our workforce and further promote making ever-better cars. Let us come together to create work processes that will allow us to remain viable in an era in which we are producing and selling 10 million vehicles a year, constantly being aware that there is always a better way,' he added.

Source: Toyota Global Newsroom, <https://newsroom.toyota.co.jp/en/detail/15197404>, 1 March 2017. © 1995-2019 Toyota Motor Corporation

Questions

- 1 **Describe** the business situation of TMC, including its position in the business life cycle.
- 2 **Explain** the reason for changing the organisational structure at TMC.
- 3 **Evaluate** the strategies relating to changing the organisational structure using the criteria of efficiency and effectiveness.

Competition

An external driver of change is a business's competition. A business needs to understand and monitor its competitors. This includes knowing competitors' strengths and weaknesses, monitoring changes in the industry, and understanding customers' needs. A business must stay up to date with what competitors are doing and how they are responding to customer needs. To be competitive a business must ensure the main focus is on customers. It needs to respond quickly to market trends and competition and implement changes to gain a sustainable competitive edge.

A SWOT analysis can be a useful tool in understanding and assessing a business's competition.

It can help a business to build on strengths, minimise weaknesses, seize opportunities and counteract threats. By completing an analysis of the market in relation to competitors it can help a business to review its strategies and enhance its competitive advantage (Figure 8.40).

Competition can have a direct impact on a business and can be a driver of change. Examples can include:

- *pricing* – the pricing policy used by a competitor can influence change in a business. If a competitor is selling the same product at a lower price, this may lead a business to change its pricing policy, too
- *advertising* – the promotional material or advertising campaign used by a business can trigger a change, especially if its marketing is more engaging
- *product* – a change in product quality or production method can drive a competitor to change its product or processes
- *technology* – the use of new technology can have a significant impact on business operations and influence change. It can increase the speed of production, improve communication or change operational process in a business
- *new business* – new competitors that will compete with an existing business may result in changes. The existing business may need to change to keep competitive.



Figure 8.40 Driving competition

GAINING INSIGHT



Esprit focuses on Asian market

Global fashion brand Esprit (Figure 8.41) closed its operations in Australia in 2018 to focus on the Asian market. Esprit began operating in Australia in 1991, becoming one of the leading retailers due to its product range, brand positioning and ability to meet the needs of the Australian market. However, the competitive retail industry in Australia meant Esprit struggled to remain a financially viable business. To transform its falling revenues, Esprit changed its operations to concentrate efforts and resources in the Asian market.



Shutterstock.com/Nataly Reinch

Figure 8.41 Esprit

Questions

- 1 **Describe** the business environmental factor that is the driver for change for Esprit.
- 2 **Explain** the driver for change that impacted on Esprit.
- 3 **Select** information relating to Esprit and **analyse** the situation using a SWOT analysis. You may need to undertake further research on Esprit's closure in Australia.
- 4 **Interpret** the trends in the SWOT analysis to **draw conclusions** about the implications of change management in this industry.

Legislative compliance

Changes to laws can force a business to implement change. A business needs to comply with legislative requirements and therefore when new laws are passed a business must change in response if the new laws require it. Legislation can change at federal, state or local level. For example, some state governments have introduced laws that ban smoking in public places such as shopping centres, cinemas and outdoor dining areas. Businesses must enforce these laws; otherwise they can face fines or penalties.

A business also needs to adjust to incorporate the requirements of a new law. For example, a law reducing carbon footprint may require a review of operational processes to comply with the new legislation. Furthermore, if a law changes, then businesses are obliged to introduce the required changes. This is particularly pertinent in terms of occupational health and safety and changes in workplace relations.

Changes in laws influence changes in strategic management, too. A business needs to adjust to incorporate the requirements of the new law and therefore may need to change some aspect of the operations of the business. Thus, legislative compliance is a driver of change in business (Figure 8.42).

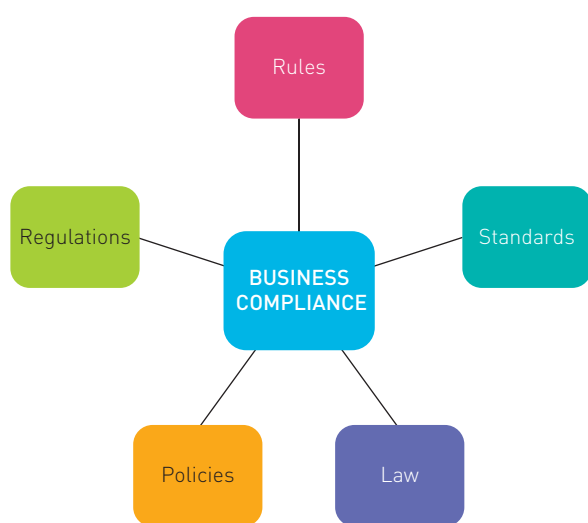


Figure 8.42 Business compliance

GAINING INSIGHT



Figure 8.43 Legislative changes impact on business operations.

Legal changes for business

Visit the Australian Government Business website to complete the following activities.

Questions

- 1 Investigate a recent change to a business law.
Explain the change in legislation and the reason for the change.
- 2 **Explain** the impact the changes in legislation could have on a business.



QUESTIONS 8.7



- 1 **Explain** what is meant by drivers of change.
- 2 **Identify** and **explain** key drivers of change.
- 3 **Describe** how drivers of change can impact on an organisation and its success in implementing a change.
- 4 **Explain** the relationship between drivers of change and the transformation of a business.
- 5 For each of the following situations, **explain** the impact it could have on a business:
 - a opening a new sub-branch of a business
 - b appointment of a new sales manager
 - c new laws passed that impact on the operations of a business
 - d new export market identified
 - e change in the vision statement of an existing business.
- 6 **Analyse** the possible driving forces that can impact an organisation during change.

Resistance to change

Resistance to change is the act of opposing change in the workplace. It is made up of all the forces that work against the change. Resistance to change is often the greatest problem a business faces when it attempts to implement a change. A business must minimise resistance and implement strategies to overcome resistance when introducing a change.

Key learnings

You will learn the following about resistance to change:

- what resistance to change is
- reasons for resistance to change
- overcoming resistance to change
- the role of leadership and management in change
- strategies for overcoming resistance:
 - communication
 - participation
 - negotiation
 - manipulation
 - threat.

What is resistance to change?

Change is now commonplace in most organisations. For a business to remain competitive it must constantly review its operations and make changes to meet the needs within an industry. When dealing with change, it is inevitable that there will be barriers of resistance. Expecting resistance to change will assist a business to effectively manage any objections.

Resistance to change is the action taken by someone when a change is occurring. The person often sees the change as a threat and this creates resistance. The resistance can manifest itself in a person being passive or aggressive, timid or fearful, overt or covert.

Resistance can slow down, delay or even stop the change process, obstruct the implementation of the change and could even increase its costs. It can take a number of forms, such as:

- employee apathy
- reduction in output
- hostility in the workplace
- employees taking strike action
- increased number of employees 'quitting'.

A business needs to address resistance to change. It must recognise and constructively address the issues instead of ignoring them. If resistance exists, it provides an opportunity for a business to reassess the change and receive feedback prior to implementation of the change. This allows a business to act accordingly to create the 'best fit' for the situation, employees and ultimately the business. The first step in initiating change is to understand the main reasons for resistance to change (Figure 8.44).



Figure 8.44 Resistance to change

Reasons for resistance to change

Understanding the reasons for resistance to change will often assist a business to effectively manage objections. It also provides a business with the opportunity to implement strategies to overcome resistance to change. It is not possible to be aware of all the sources of resistance. However, a business should prepare for resistance when implementing change to better equip and manage any resistance. Taking this proactive step when initiating change will assist with the change process.

Table 8.2 lists some of the most common reasons for resisting change.

Table 8.2 Reasons for resisting change

RESISTANCE	REASON FOR RESISTANCE TO CHANGE
Unknown	If employees do not understand the reason for change, a business can expect resistance. Employees will be reluctant to adopt a change if they are unaware of the reason for change. Additionally, not knowing the impact of change on the future of a business or an employee's job status or prospects can cause anxiety. This creates resistance to change.
Fear	One of the most common reasons for resistance to change is fear of failure. An employee who is required to acquire new skills may fear failure and be resistant to undertake the change. This can cause fear among employees, which often results in resistance to change.
Trust	Trust is vital when operating a successful business. In a business where trust in management is positive, there is less resistance to change. When employees don't have trust in management to implement change, there is likely to be resistance.
Communication	If change is not clearly communicated to all stakeholders, it will not be accepted. This is a reason why employees oppose change. Furthermore, how the change is communicated to employees is also very important because it will determine how they react. The lines of communication need to be fluent during the change process. This includes communicating the change process, how the change will be implemented and what the change will achieve. If this is not communicated clearly, resistance can be expected.
Timing	The timing of change is crucial to it being implemented successfully. It could be that insufficient time has been allocated for the change. Employees may not have been given enough time to consider the change, accept the change and execute the change. It could be a business has not taken the time to plan for the change. Or if there are too many changes at one time it may create a state of chaos, which can cause resistance.

A business needs to expect resistance to change and plan for it from the start. This will allow the change to be effectively and efficiently managed.

Overcoming resistance to change

To overcome resistance to change a business can utilise strategies, technology, organisational structure or corporate culture or a combination of these. A business leader needs to understand how the organisation will change and how it will affect the employees, and plan how to make the changes happen with minimal resistance or barriers. Management theorists such as Lewin and Kotter provide tactics for initiating change and dealing with resistance to change, and there are other strategies that can be used.

GAINING INSIGHT



Chickens have hatched

Cluck Chicken Farm is one of the oldest poultry farms still in operation in Australia (Figure 8.45). The business, located in the eastern suburbs of Brisbane, has been trading for over 60 years and, according to its website, employs approximately 500 staff members. Cluck Chicken Farm prides itself on being a free-roaming chicken farm with quality barn-bred chickens.



Figure 8.45 Cluck Chicken Farm

However, the business has been declining, and sales have dropped to a record low. And, with record losses for the past five years, the future of Cluck Chicken Farm is looking grim. The following performance deficiencies have been noted:

- rising operational costs
- lower sales volumes

- increased competition in the industry
- falling customer numbers
- poor profit levels.

The business has made radical changes in order to improve its operations and increase its profit margin this financial year. The first initiative was to employ a new CEO to lead the changes. John Fried was appointed to the position and began transforming the business.

Fried made changes without input or involvement from the owners or any employee. There was minimal communication regarding the nature of the changes. He transformed work practices by increasing the use of automated systems. The business installed robotic technology to increase the speed of production, which proved to be a highly efficient cost-saving device. However, this meant that Cluck Chicken Farm would no longer require the same number of process workers and 200 positions were terminated. The business also outsourced some operations, which resulted in further job losses.

Employees were angered and were very resistant to the changes and how the change process was managed.

The owners of Cluck Chicken Farm were distraught to discover that, although the innovative responses initiated by John Fried had led to improvements in production levels and an increase in sales, there was now higher absenteeism and the staff turnover rate had increased significantly.

Questions

Using the inquiry process, create a short business report extract for the owners of Cluck Chicken Farm to:

- 1 **Describe** the business environment at Cluck Chicken Farm that influenced the need for change.
- 2 **Explain** the process the business undertook to initiate the change.
- 3 **Select** information from the article relating to change to **analyse** the business situation using a SWOT analysis.
- 4 **Interpret** relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of change on human resources and operations.
- 5 **Evaluate** strategies used to transform the business to **make a decision** and **propose** a recommendation using criteria.

The role of leadership and management in change

Leading and managing change successfully is the sign of an effective leader. The way in which a business leader sees and manages change determines whether the change will occur successfully. This role involves managing an organisation through the change process. It requires strong and effective leadership to make it happen. An effective leader should be able to make decisions, be visionary and be able to communicate the change. It requires a high level of commitment to the change process to ensure success. A leader must advocate, guide and be a motivator and role model throughout the change process. All these roles demand a deep commitment and focus from a leader.

A leader needs to focus on building relationships with key stakeholders (both internal and external) during the change process. This includes empowering employees by developing talent, encouraging, coaching and cultivating teamwork. When a business is undergoing change, employees look to a leader for direction. That person needs to direct the change and influence people to follow that direction. Poor leadership will result in chaos or distrust from employees and the vision for change could be lost. Poor leadership will also impact on the culture of an organisation and cause negative responses from employees and create instability.

The leader of change must also manage the process. The leader must use a management style that is conducive to change. For example, a participative style of management involves employees in the proposed change and can be an effective way to create involvement (refer to Chapter 3 of *Business for QCE Units 1 & 2*). Throughout the change process leaders must check processes to ensure smooth progress and that all required resources are in place. Employees' progress needs to be monitored to determine if training is needed. The internal, operating and macro environment, including all stakeholders, needs to be managed before, during and after the change.

Introducing change must be carefully planned, organised and controlled and the employees led through the process. In other words, the key management roles (plan, organise, lead, control – POLC) must be followed.



Figure 8.46 Leading change

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GAINING INSIGHT



Business needs cover

Bellisa Insurance Brokers was established in 1999 in the southern Brisbane suburb of Acacia Ridge.

The company employed 45 people, who included insurance underwriters, office managers and administration staff. The brokerage industry experienced a downturn and this impacted on operations at Bellisa Insurance Brokers.

In an attempt to improve profitability, Bellisa Insurance Brokers underwent major restructuring. The business dissolved the existing hierarchical

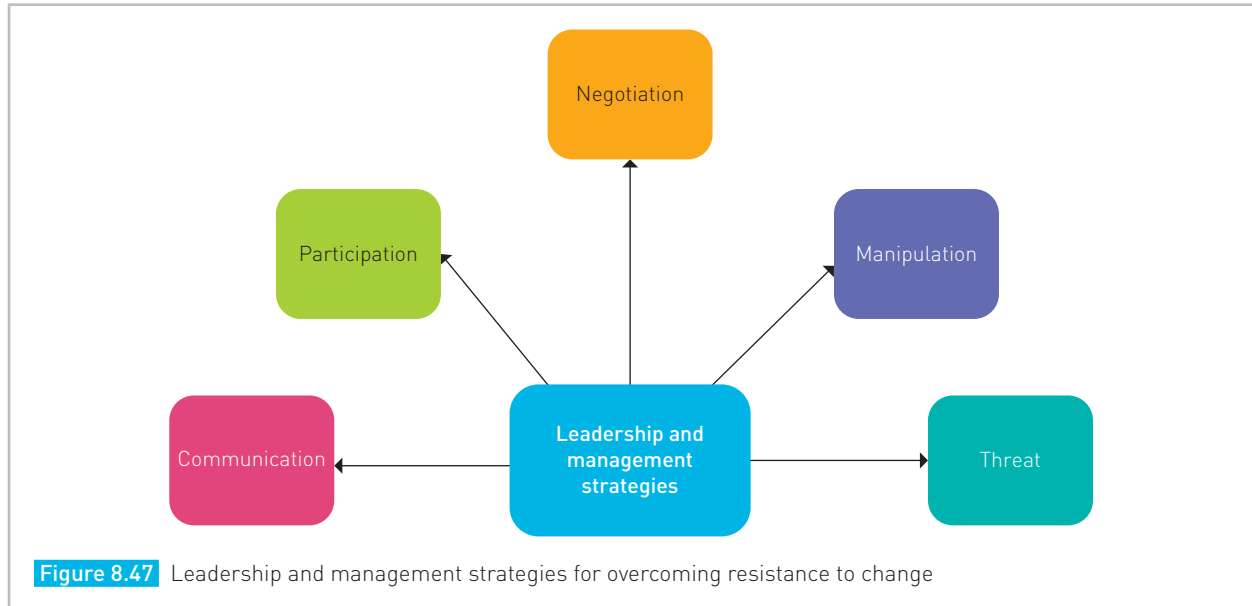
management structure and implemented a flatter system. The middle layer of management was removed, which resulted in a shorter chain of command but a longer span of control. It also resulted in a downsizing of the company's employee base.

The changes implemented at Bellisa Insurance Brokers presented further challenges for the company. Employee morale was damaged and productivity was down. There was also a distinct lack of leadership and control in decision-making.

Questions

- 1 **Explain** the challenges faced by this business.
- 2 **Describe** possible impacts on Bellisa Insurance Brokers by restructuring management.
- 3 In what ways could the owners of Bellisa Insurance Brokers effectively reduce the level of employee resistance to change?

Figure 8.47 shows some strategies that can be applied by leaders and managers to overcome resistance to change.



Strategies for overcoming resistance

Change may cause resistance from stakeholders, mainly due to fear and uncertainty. Managing change effectively is essential to overcome this resistance to change. Adopting change requires the participants to accept a degree of risk. Leaders, managers and employees must be prepared to take such risks for the change to happen.

Change can be managed through the use of strategies. The range of strategies that can be utilised fall into two categories: low-risk and high-risk strategies. Low-risk strategies rely on communication, participation and negotiation to overcome resistance to change. At the other end of the spectrum are high-risk tactics such as manipulation and threat.

Low-risk strategies

Low-risk strategies allow a leader and employee to maintain strong relationships throughout the change process. The common low-risk strategies to overcome resistance to change include:

- communication strategies to effectively channel the information about the change
- participation strategies to empower employee involvement
- negotiation strategies to gain support of resisters.

High-risk strategies

High-risk strategies allow a leader to overcome resistance to change quickly. These tactics are high-risk because their failure may generate negative outcomes. High-risk strategies include:

- manipulation strategies to change a situation by exertion of influence over someone
- threat strategies to force resisters to conform.

Communication

The most important tool a leader can possess during organisational change is effective **communication**. It is the key to successful implementation of change. However, it is also perhaps the most complex tool as any form of change

Communication: the process of sending and receiving information through verbal or non-verbal means

can trigger emotional responses. When change is initiated in a business, it is the people who are fundamentally affected. It is the people whose support and cooperation is needed for the change to happen. Without the involvement and commitment of these people, the change will not happen (Figure 8.48).

To achieve support, cooperation, involvement and commitment from stakeholders, it is crucial that open and effective communication occurs throughout the change process. This is one of the most challenging issues when implementing change. It is a matter of communicating the right information to the right people at the right time with the right messages using the right engagement strategies. Communication is paramount. It involves informing all stakeholders through a variety of mediums at various stages through the change process. These communication methods may include:

- face-to-face conversations
- written communication such as emails or reports
- informal discussions or meetings
- formal discussions, meetings or conferences.

Utilising several different ways to communicate during change will reinforce the message and highlight the vision and expectations of the change.

Communication is integral to effectively implementing change. Establishing a collaborative environment where communication is encouraged will be advantageous. Explicitly communicating during change will keep all people informed. A leader has the ability to use words to motivate the entire workforce and gain support during change. Communicating openly also gives a leader the ability to build trust and establish relationships with employees. When communication is effective, the change process meets less resistance.

To overcome resistance to change, an effective communication strategy, using a range of communication channels, needs to be developed to move stakeholders along the change process, as shown in Figure 8.49.



Figure 8.48 Why is communication so important during the change process?

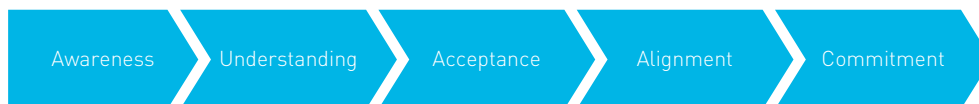


Figure 8.49 Communication continuum strategy

The communication continuum strategy will influence stakeholders in building commitment towards the change and achieve the desired outcomes. The communication continuum includes:

- *awareness* – communicate the change. Individuals are conscious of the change and will start to consider the change
- *understanding* – communicate the reason for the change. Individuals will understand the reason, benefits, impact on them and their role in the change
- *acceptance* – communicate the need to assent to the change. Individuals are ready to implement the change, they are involved and feel empowered to commit and engage in the desired change
- *alignment* – communicate the level of support provided during the change. Individuals are aware of the support they will receive throughout the change process
- *commitment* – communicate the dedication required to implement the change. Individuals take ownership and responsibility for the implementation of the change.

Developing a simple communication plan can also support the change process. A number of communication techniques could be included in a change communication plan (Table 8.3).

With the right communication tool, leadership and management have the power to overcome resistance to change.

Table 8.3 A simple communication plan

Communicate change	Develop a set of key messages to help understand the change, the vision and the outcome. Include time for consultation, planning and involvement in the decision-making process for the change.
Communicate openly	Communicate the change in an open and honest way. Provide clear and accurate information and updates often. Create certainty and avoid any secrets or surprises where possible.
Communicate frequently	Communicate consistently and frequently about the change using a range and variety of mediums. Schedule discussion and meeting times to keep all people involved and committed to the change.
Communicate confidently	Communicate in a confident, consistent and clear manner throughout the change process. Confident communication will maintain staff commitment and motivation and create a positive environment.

Participation

Participation is the key to successful implementation of change. However, it is a challenge for business leaders to involve employees in the change process. Creating energy, engagement and commitment to change initiatives is difficult, but the benefits to a business are significant (Figure 8.50).

Participation is an effective strategy for overcoming resistance to change. If employees are involved in change initiatives, the perception is they have a greater sense of control during the process. When employees are engaged in opportunities to contribute their ideas, suggestions and express their concerns or fears, the whole organisation can benefit. Involvement in planning for change increases the likelihood of acceptance, which can lead to success of the change. Furthermore, the act of participation can itself be motivating, which leads to greater incentive and effort to make the change happen.

Direct participation of employees can play a vital role in creating a positive work environment and contribute to the corporate culture. Providing employees with opportunities to contribute to decisions, where their opinions are heard, will create an environment in which employees feel empowered, valued and their opinions matter.

It is the responsibility of leadership and management to implement participation strategies to overcome resistance to change. Leaders must actively involve the people affected by the change in its implementation. This will foster an environment where employees at all levels will embrace the change (Figure 8.51).

Leaders and managers need to empower employees through participation. The leader must create a vision for the future and drive the organisational change. It is their responsibility to identify and include key **change agents** through participation in the change process. The leader must ensure that all employees feel part of the change and are willing to support it with commitment and enthusiasm.

Adopting appropriate participation strategies will contribute to the successful implementation of change (Table 8.4).

Participation is a proactive change initiative that can assist in overcoming resistance to change.

**Figure 8.50** Participation is the key.

Participation: the act of being involved or taking part in some action

Change agent: a person who acts as a facilitator and assumes responsibility for the management of change to enable a business to transform



Figure 8.51 Participation starts from the bottom.

Table 8.4 Participation is the key.

Involve and engage	Participation in the change process should commence immediately. Involvement of as many staff as possible in the early stages will create an initial 'buy in'. Staff will feel valued and will then engage in the change process.
Create a diverse team	Choose a team of people with a diverse range of skills and knowledge to lead the change. Empowering employees to participate in driving the change will create support for the change.
Invite feedback	Build in measures for employees to provide feedback during the change process. Involvement throughout the process with opportunities for feedback will build on the momentum and continue the process.
Celebrate success	Employees who are positively working with the change are recognised and rewarded.
Build a culture	Create a culture where employees participate in change, contribute to decisions and feel part of a change-driving team. This will build an environment that values and recognises employees and create a positive corporate culture.

Negotiation

Negotiation is often a necessary tactic during the change process. This typically involves identifying potential resisters and negotiating with them in return for their support (Figure 8.52).

Negotiation is simply communicating with others in order to come to an agreement. It involves communicating by listening and responding with the aim of reaching an agreed outcome. Negotiation is a process by which compromise is reached while avoiding dispute.

The ability to manage change through negotiation is an effective strategy used by leaders and managers. They must adopt negotiation skills as a strategy to help



Figure 8.52 Negotiation during change

Negotiation: a bargaining process with the aim of reaching an agreement

manage the change and overcome resistance to change. Negotiating skills used by leaders will determine how well employees will be influenced and persuaded to adopt the change (Table 8.5).

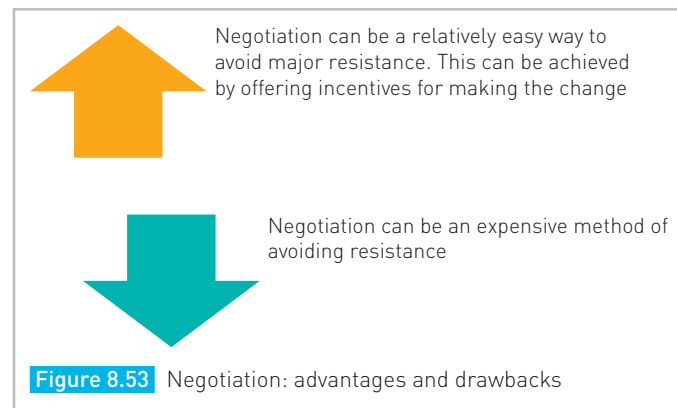
Table 8.5 Strategies for negotiating change

Expect resistance	Effective leaders should expect and embrace resistance. Any change can breed resistance and conflict. A leader should engage critics, learn why they resist the change and then negotiate with them to accept the change.
Time for negotiation	Time should be allocated to discuss and negotiate the change. This will allow individuals to put forward their understanding of the change. The leader should listen, question and clarify before negotiating.
Build a coalition	Negotiate with one or more employees to build a team. Once a team has been established it will inspire more to follow.
Focus on outcomes	Draw connections between the change and the expected outcome. The focus should be on negotiating and achieving a win-win situation. This is where both sides feel their point of view has been taken into consideration and a desirable outcome has been achieved.

Implementing strategies to negotiate change can be challenging. Leaders need to develop the power of persuasion to deal with difficult people during change. This could mean dealing with the discomfort and tension that comes with change to achieve a desired outcome.

Negotiating during change has advantages and drawbacks (Figure 8.53). Benefits in negotiation can include offering incentives such as financial rewards as a way of avoiding resistance. However, this can be an expensive way to negotiate change and could result in enterprise bargaining or individual contracts having to be established.

Negotiation can be an effective strategy for overcoming resistance to change.



Manipulation

Another strategy that leaders and management can use to overcome resistance to change is **manipulation**. Manipulation, in the context of organisational change, is the skilful handling of someone – or, sometimes, the scheming exercise of influence over them – to achieve a desired outcome. It can be an effective technique when resistance to change is high. In this situation, a leader may resort to manipulation to force the change. This could include manipulating information or deviously exerting influence over employees to force the change. For example, an organisation can offer promotional opportunities as an enticement for implementing change. In this situation employees are being manipulated to accept the change by being offered an incentive (Figure 8.54).



Figure 8.54 Manipulation to force change

Manipulation: the skilful, or sometimes scheming, exercise of influence over someone to achieve a desired outcome

Manipulation is a high-risk strategy to overcome resistance to change. It provides a leader with the ability to manage resistance quickly; however, there is a significant risk it will have negative consequences. A leader might, for example, manipulate change and gain support by only communicating the benefits of a change and not identifying the negatives. This practice can harm the morale and the corporate culture of a business if the employees find out they have been manipulated. The advantages and drawbacks of manipulation are shown in Figure 8.55.

The aim of manipulation is to gain support for the change by influencing people. Manipulation can be an effective strategy for overcoming resistance to change.

Threat

Threat is a high-risk tactic and is often felt to be necessary when there is a high resistance to change. This tactic consists of making direct threats to those who resist change. Threat involves forcing employees to accept the change or receive retribution or some form of negative punishment. Possible threats could include demotion, transfer or loss of employment (dismissal or retrenchment).

The strategy of using threat is to create fear in the hope that employees will embrace the change quickly. This can cause resentment as employees are forced to accept the change. The danger of this tactic is that employees may appear to be compliant but are in fact resentful of the change. Using threat can also impact on the corporate culture within an organisation by harming relationships. This can lead to an increase in resistance and further issues such as complaints, grievances and even industrial disputes.

A leader may resort to using the strategy of threat to overcome resistance to change when they cannot invest the time or effort required by using other tactics. Threat can gain a quick outcome and force the change to occur, but could also escalate the resistance.

This is not a desirable method of change management as it can cause distrust and impact on the corporate culture of a business. It can also cause employees to resist the change further. However, using threat can be a quick method of overcoming resistance to change (Figure 8.57).

The aim of threat is to gain support immediately and it can be an effective strategy for overcoming resistance to change.

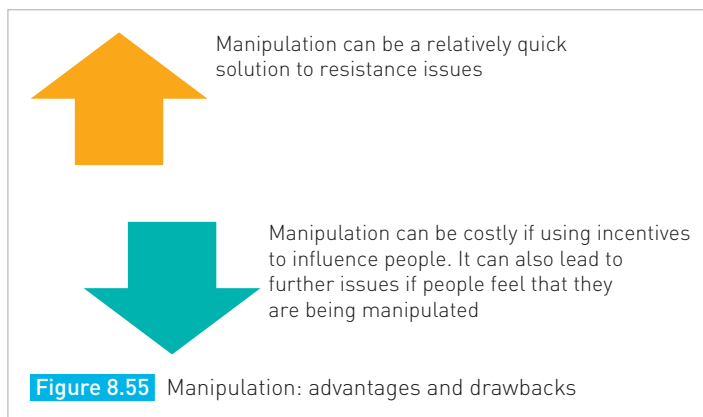
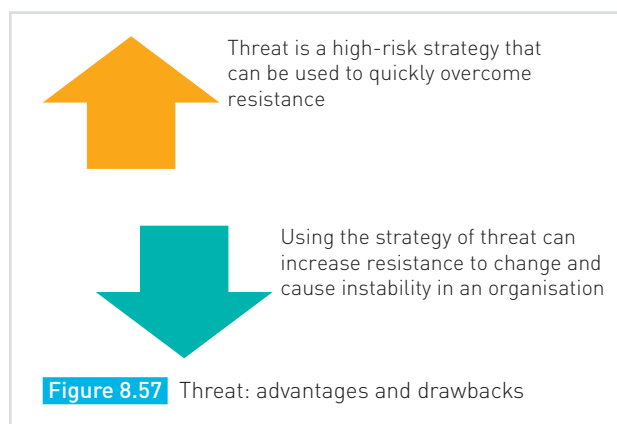


Figure 8.56 Using threat to force change



Threat: a tactic used with the intention of enforcing conformity

QUESTIONS 8.8



- 1 **Describe** the internal operating environmental factors influencing resistance to change in a business.
- 2 **Create** a double bubble map to distinguish between low-risk and high-risk strategies for managing change.
- 3 **Explain** the benefits of using low-risk strategies when overcoming resistance to change.
- 4 Justify why using a high-risk strategy would be beneficial to overcoming resistance to change.
- 5 **Analyse** the effects on a business of using high-risk strategies when overcoming resistance to change.
- 6 **Explain** the role of leadership and management in overcoming resistance to change.
- 7 Discuss why leadership is important to managing change effectively.
- 8 Compare and contrast the use of negotiation and manipulation to manage change effectively.
- 9 **Evaluate** this statement: 'Threat is the most effective way to implement organisational change.'

GAINING INSIGHT



New to Steika

The owner of Steika Industries, Kate Steika, announced the appointment of a new Sales Manager, Nadia Eli (Figure 8.58).

The employment of a Sales Manager will result in the restructuring of the Sales Department. It will also mean that all employees in the Sales Department will need to undertake a new customer-training program. There has been no consultation with employees; it is a new initiative introduced by the new Sales Manager. Ms Eli has notified employees that failure to complete the training will mean a reduction in pay. This has caused angst among employees. Some employees feel the new training is unnecessary and believe that the business should be able to operate as it always has.



Figure 8.58 The new boss

Questions

Using the case study, **create** a short business report extract for Kate Steika in order to achieve the following goals.

- 1 **Identify** a strategy that could be used to overcome employee resistance.
- 2 **Explain** how this could overcome resistance to change.
- 3 **Analyse** the business situation and environment.
- 4 **Interpret** the analysis to **draw conclusions** about the implication of change.

Chapter 8 review

This chapter introduced the concept of transformation of a business by examining the concept of change, change management theories and models, drivers and resisters to change, and strategies to overcome resistance to change. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

8.1 Short items

- 1 **Describe** the internal environmental factors influencing the need for change relating to a business in the post-maturity stage of the business life cycle.
- 2 **Describe** the operating environmental factors influencing the need for change relating to a business in the post-maturity stage of the business life cycle.
- 3 **Describe** the macro environmental factors influencing the need for change relating to a business in the post-maturity stage of the business life cycle.
- 4 **Explain** change management.
- 5 **Explain** driving forces of change.
- 6 **Explain** restraining forces of change.
- 7 **Explain** the following drivers of change:
 - a corporate culture
 - b management style
 - c organisational structure
 - d competition
 - e legislative compliance.
- 8 **Explain** how change could impact negatively on the corporate culture of an organisation.
- 9 **Explain** how Kotter's eight-step model can help to promote driving forces for change and reduce restraining forces.
- 10 **Explain** the relationship between Kotter's eight-step model and the transformation of a business.
- 11 **Explain** how Lewin's three-step process can guide a business through change.
- 12 **Explain** the relationship between Lewin's three-step process and the transformation of a business.
- 13 How can a business benefit by using a force field analysis to implement a change? **Explain**.
- 14 **Identify** two strategies that a business leader might implement to overcome resistance to change. **Explain** each strategy.
- 15 What is the difference between low-risk and high-risk strategies for overcoming resistance to change? **Explain**.
- 16 Distinguish between manipulation and threat as strategies that could be used for overcoming resistance to change.
- 17 **Explain** the role of consultants and how they can assist a business in the post-maturity stage.
- 18 **Explain** the role of professional services and how they can assist a business in the post-maturity stage.
- 19 **Explain** the relationship between strategic planning and vision for change management.
- 20 **Explain** why employees may resist change.
- 21 **Evaluate** the importance of leadership in the effective management of change.
- 22 A confectionery store has decided to close its retail outlet and concentrate on the wholesale market. It intends to provide its products to supermarket chains in Australia. **Create** a force field analysis to:
 - a **identify** three driving forces. **Explain** each.
 - b **identify** three restraining forces. **Explain** each.
 - c **evaluate** the driving and restraining forces by rating each force on a scale of 1 to 5 (1 = weakest, 5 = strongest).
 - d **create** a strategy to strengthen the driving forces or weaken the restraining forces.
- 23 **Explain** why manipulation is considered a high-risk strategy.
- 24 **Explain** the impact of using the strategy of participation to manage change effectively.
- 25 **Explain** why negotiation is an effective strategy when making change.

8.2 Interpretive items

Using the case study below on Soundwaves, write paragraph responses (100–200 words) to answer the following interpretive questions.

- 1 **Describe** the business environment that influenced the need for change for Soundwaves.
- 2 **Evaluate** the strategies used by Soundwaves to change the business to **make a decision** and **propose** a recommendation using criteria.

GAINING INSIGHT



Soundwaves

Soundwaves is an organisation that was going places! It entered the music industry with a boom and became a leading audio company. The business was founded in 2001 by Kirsten Caruso. Kirsten's love of music inspired her to create premium sound equipment for consumers. Her vision was to bring the energy, emotion and excitement of listening to music to all people.

The company was a major player in the Australian music industry. By 2005, Soundwaves had built a reputation for developing premium sound equipment that was uniquely Australian. Caruso had found a gap in the market and had limited competition from overseas. The organisation expanded rapidly from a small business to a private company with a board of directors and dedicated employees. It achieved solid annual profits and provided generous dividends to its shareholders and had become a respected Australian company.

In the late 2000s, the music industry went through substantial change. The growth of sound equipment posed a threat to the operations of Soundwaves. The tastes of young people were changing as the technological revolution took hold, and products developed by organisations such as Apple and Dre Beats threatened Soundwaves' market share.

The board of directors recognised the changing situation in the industry and acted quickly. They decided to take on the competitors and make major changes in the business. They understood that the quality of sound being produced by their equipment no longer met the needs of their consumers. As a result, the board of directors put in place a strategic plan to change the business operations. The changes included:

- development of high-quality sound equipment using high-quality products
- introduction of noise-cancelling electronic circuitry in all models
- increased product range for earphones to include in-ear, over-ear, sealed and open models
- increased product range for headphones to include wireless, noise-cancelling, waterproof, 'fashionista' and DIY range
- employment of new technicians to improve product range and production
- introduction of team-based management with an emphasis on participation of all employees.

The business experienced major changes and this impacted on the operations and employees. Many employees were resistant to change. They had been doing the same job the same way and producing the same equipment for many years and found it difficult to change. Many employees found the process difficult and didn't understand the urgency for change. They didn't feel supported by management and resented not being involved in making the decisions to change. The business had to employ new technicians with experience in producing the new range of products. This meant that a number of employees were made redundant. It also required some employees to undertake training courses.

Kirsten Caruso had established a business that dominated the market, but with the increase in competition and technology the future of Soundwaves appears grim. The culture of the organisation has been lost and the business must take action to rebuild to create that winning formula again. The future of Soundwaves is in doubt.

8.3 Extended-response items

Using the case study on Soundwaves, write an extended response in the form of a business report (extract) of 500 words that achieves the following.

- 1 **Explain** the process the business undertook to initiate the change.
- 2 **Select** information from the article on Soundwaves relating to the change undertaken to **analyse** the strengths, weaknesses, opportunities and threats (SWOT analysis).
- 3 **Interpret** the SWOT analysis to **draw conclusions** about the implications of change.
- 4 **Evaluate** the change strategies of the business using criteria to **propose** a recommendation for the business.



RENEWAL OUTCOMES

What you will learn

At the post-maturity stage of the business life cycle a business has three possible outcomes: renewal, steady state or decline. First, a business could continue in its current state of maturity. This is often referred to as steady state. At this stage the focus is usually on satisfying existing customers' demands to achieve results. A business does not change its operations or complete any research or development. A business in steady state should be aware that it could fall into decline if it does not renew. Second, a business could decline. This is where profits fall, sales drop or a business has excess spending. Once a business begins to decline, it may be difficult to recover. At this point, a business is in a stage of high risk that may impact its ability to borrow money or extend its credit facilities. The third alternative is renewal. This is when a business shows new areas of growth, which usually result in an increase in sales and profits. A business may tap into new markets or expand the product range and services it provides. At this stage a business transforms.

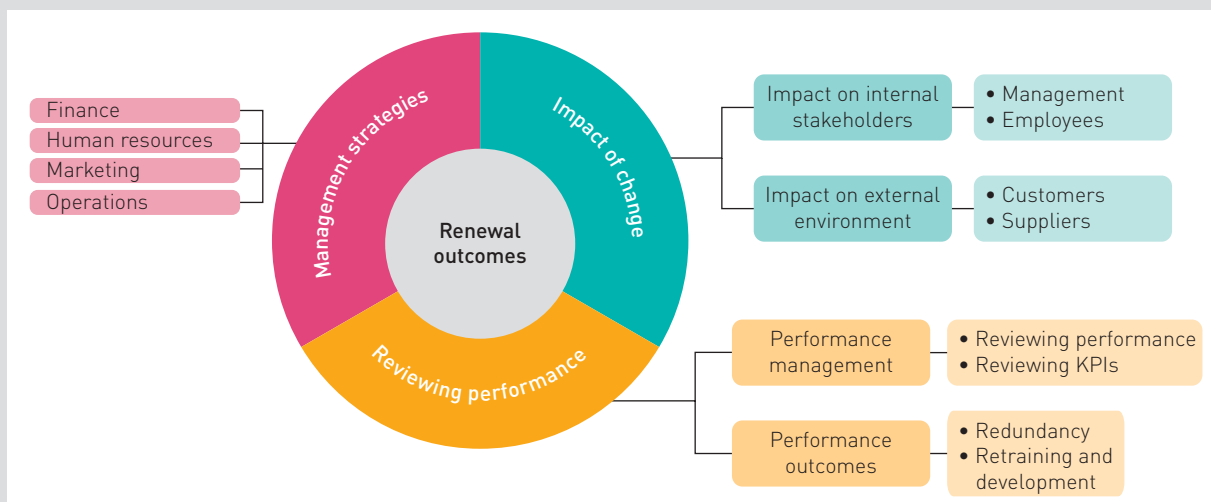
Business **transformation** is a change management strategy to reinvent a business to show growth or improvement. It is a plan to align the people, processes and practices more closely to a business's vision. When a business reaches the post-maturity stage of the business life cycle, it may need to transform in order to continue. Other reasons for a business to transform can include changes in the market, technological advancements or an increase in competition in an industry.

This chapter will provide you with the opportunity to:

- **describe** business environments and situations relating to the post-maturity stage of the business life cycle
- **explain** business concepts, strategies and processes relating to the post-maturity stage
- **select** data and information relating to transformation of a business to **analyse** the business situation
- **interpret** relationships, patterns and trends to **draw conclusions** about the implications of transformation of a business
- **evaluate** management strategies to **make decisions** and **propose** recommendations
- **create** responses that **communicate** meaning to suit purpose and audience.

The analytical tools used in this chapter are:

- SWOT analysis
- force field analysis
- power interest grid.



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:
 - initiative and enterprise
 - curiosity and imagination
- identifying alternatives
- seeing or making new links
- communication:
 - effective oral and written communication
 - communicating ideas effectively to diverse audiences
- collaboration and teamwork:
 - recognising and using diverse perspectives
- personal and social skills:
 - ethical (and moral) understanding
 - cultural awareness
- information and communication technologies (ICT) skills:
 - accessing and analysing information.

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

GAINING INSIGHT



Legal leader

FOCUS QUESTION: How does a business leader transform a business?

John Pigeon is a business leader who has transformed his business, which has resulted in positive impacts on profitability, employee welfare and client outcomes (Figure 9.1).

John Pigeon is a lawyer operating in a partnership structure on the city-fringe of Brisbane. Over time he specialised in workers compensation law. He found that many of his clients resided in suburbs close to industrial areas where they were employed, and that English was often their second language. John became increasingly aware that his clients experienced difficulty accessing his city-fringe office. He also realised that the costs of interpreting services had a negative impact on client relationships. Further, his

business engaged in quite rigid staffing arrangements that adversely affected his employees.

In response to these challenges John took radical steps to transform his business. After consulting with his staff, he made the following decisions:

- 1 to relocate his business to an outer Brisbane suburb that was much more accessible to clients.
- 2 to employ bilingual and multilingual staff to assist with interpreting and communication with clients
- 3 to introduce a number of strategies to improve work-life balance for staff:
 - a flexible working hours to enable staff to more readily meet home and work commitments



Figure 9.1 Leading law business

- b regular social events to improve the corporate culture of the business
- c profit-share arrangements so that employees could benefit financially when KPIs were met.

The implementation of these strategies resulted in the following outcomes:

- 1 Staff productivity increased significantly, and absenteeism was reduced.

- 2 Client numbers increased substantially. Clients reacted positively to being able to communicate in their native language. This gave the business a competitive advantage.
- 3 The relocation of the office to an area geographically close to clients was met favourably.
- 4 Management and employees worked in a collegial atmosphere, resulting in a positive corporate culture.
- 5 Employees benefited financially as a result of increased productivity, which increased the profits of the business.

Questions

- 1 **Explain** the impact of the business transformation on:
 - a employees
 - b customers

- c management
 - d the business.
- 2 How can a business leader transform a business?
 - 3 **Explain** the impact a leader can have on a business.

Impact of change

Change is about moving from one state to a different, desired state. The **change process** is moving from the current state, transitioning and moving to the future desired state (Figure 9.2). The current state is where the process begins. The future state is where the organisation strives to be. In the middle is the transition process. This is where the change must be planned and executed.

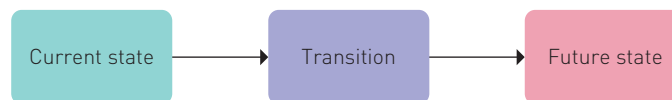


Figure 9.2 Change process

In order to understand and manage change, a business needs to examine the impact of change. When the impact of change is overlooked or minimised, a business may fail to achieve its desired outcome of change.

Key learnings

You will learn the following about the impact of change on a business:

- the impact on internal stakeholders, management and employees
- the impact on external stakeholders, customers and suppliers.

Impact on internal stakeholders

Business leaders need to be aware of the impact of change on their internal stakeholders. They must recognise the effect of these changes on both the internal operations and the people within a business. For a change process to occur, the internal stakeholders must be considered. It is these people that will be transforming the business and they therefore play a key role in achieving a positive outcome.

The key internal stakeholders impacted by change in a business are the management and the employees.

Transformation: the process of changing from one state to another

Change process: the approach taken to implement change in a business in order to achieve a desired outcome

Impact on management

Business managers play a key role in all stages of change. Once the change process has been completed, there may be some implications for the management within a business. The leadership approach by management, or even the management structure, may be affected. The impacts of change on management could include:

- the need for management style to change. For example, a manager may need to have a more participative or consultative approach once the change has been implemented
- training of management for the new process or system. A manager may not have the necessary skills to lead, organise or control the business after a change has occurred. They may need to undertake a training course to acquire the necessary skills
- appointment of new management (Figure 9.3). A business may need to acquire new managers to implement the change.

Furthermore, the organisational structure may be affected as a result of any change of management. Changes could occur to:

- the hierarchy or structure within the organisation. The management structure could be altered due to the change
- departments/sections that may be amalgamated, relocated or removed. This could result in a change in management within a business
- the levels of management, which may be flattened or increased in number
- expansion through a merger. This could result in a reorganisation of management within a business.



Figure 9.3 New management

Impact on employees

Employees of an organisation provide the strength for internal change. The processes and relationships of employees must be checked and reinforced after change to ensure continuing effectiveness and efficiency in operations. It is the role of management to consider and manage the people within an organisation. The impacts of change on employees could include:

- new roles and task descriptions for employees
- a need for upskilling and training
- decentralisation of organisational structure, which could place more emphasis on employees
- restructuring, which may result in redeployment, recruitment or reduction of staff (Figure 9.4).

Furthermore, the corporate culture may be affected as a result of change in management and employees. A new way of working will need to be established quickly to reinforce the corporate culture of a business. Changes could include:

- new vision, new values, new employees, new entity
- altered behaviour of employees due to changes in employment
- new roles, methods and structures altering how people work together
- different skill set and attitudes of employees
- increased (or decreased) stability and steadiness within the organisation
- new management, potentially bringing new styles of management and a new corporate culture.



Figure 9.4 Impacts of restructuring on employees

Impact on external environment

Change will also have an impact on the external environment of a business. There might be changes to the operating environment such as new customers, suppliers and competitors, and a further impact on the external macro environment (STEEPLE).

Impact on customers

When a business undergoes change, customers could be affected. Customers may resist the change, embrace the change or even promote the change. This may require a business to target new customers or reconnect with existing customers. A business may need to:

- introduce a new advertising campaign to inform customers
- re-establish existing customers by offering incentives or rewards
- investigate new competitors and their customers
- target new customers (Figure 9.5).



Figure 9.5 Targeting new customers

Impact on suppliers

Change may also impact on the suppliers used by a business. A business may operate in a new market or have new methods of production after the change. This will result in changes to suppliers and a business may need to:

- renegotiate existing contracts with suppliers to match the change
- source new suppliers from local, national or international areas
- outsource methods of production, resulting in changes to the supply chain.

GAINING INSIGHT



The right way

The following email was circulated to all current staff employed at Rightway Solutions (Figure 9.6). It announced that Rightway Solutions would merge with

Precision Systems. The staff of the two companies were given no prior warning that this would be occurring.

Questions

- 1 **Explain** the process the business undertook to initiate the change.
- 2 **Select** information from the email relating to the stakeholders to **analyse** using a power interest grid.
- 3 **Interpret** relationships, patterns and trends in the stakeholder power interest to **draw conclusions** about the implications of transformation.
- 4 **Create** a short business report extract for the CEO, Amy Yates, about these implications.

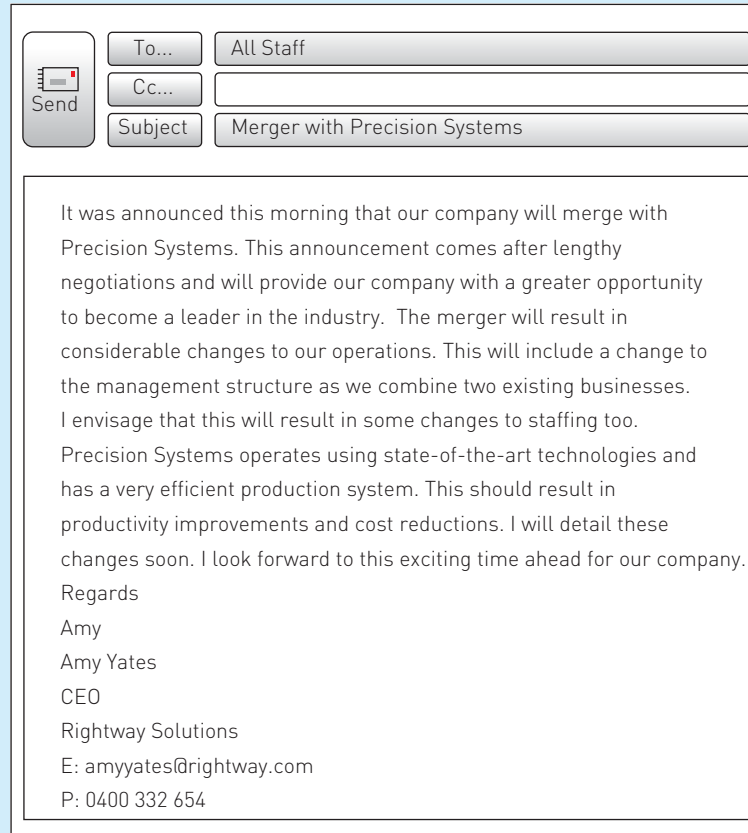


Figure 9.6 Email from CEO of Rightway Solutions

QUESTIONS 9.1



- 1 **Describe** how change can impact on the internal environment of a business.
- 2 **Explain** how change can impact on a business manager, both positively and negatively.
- 3 Change can improve the workforce in a business. **Explain** how this may occur.
- 4 **Explain** how a change in corporate culture can impact on the operations of a business.
- 5 **Describe** how change can impact on the external operating environment of a business.
- 6 Why are customers impacted by change in a business? **Explain**.
- 7 What are the benefits to customers when a business changes? **Explain**.
- 8 **Explain** how outsourcing may affect suppliers of a business.
- 9 What are the benefits to customers that outsourcing may bring? **Explain**.

Reviewing performance

Key learnings

You will learn about:

- performance management
 - reviewing performance
 - reviewing KPIs
- outcomes of performance management
 - redundancy
 - retraining and development.

Performance management

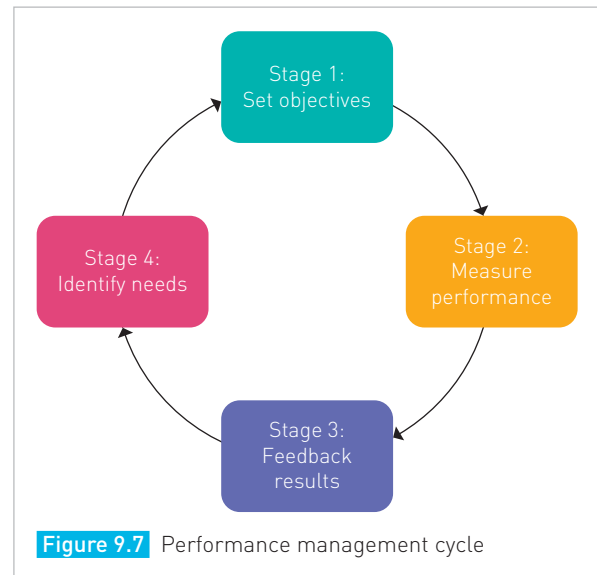
Performance management is a process by which management reviews the overall performance of the organisation and its employees to determine how goals can be better reached. It requires the alignment of strategic objectives and operational objectives with the activities being reviewed. This allows management to make decisions based on performance.

Performance management can be an evaluation of both an organisation and of individual employee performance. All businesses aim to achieve their objectives by improving productivity. Reviewing and assessing the performance of a business can help to achieve this. Employees' performance can also be monitored, measured and assessed to find ways of improving their individual performance. This can be a powerful driver and motivator for employees.

Performance management is designed to improve performance and is an ongoing cycle (Figure 9.7):

- Stage 1 – setting clear objectives that link to goals
- Stage 2 – monitoring and reviewing progress towards achieving these objectives
- Stage 3 – reinforcing desired outcomes by providing feedback
- Stage 4 – identifying training and development needs.

An advantage of implementing performance management could be an improvement in individual effectiveness, which could result in an increase in organisational competitiveness.



Reviewing performance

Reviewing performance after transformational change can assist management in ascertaining the effectiveness of the change. It can show a clear alignment and contribute to the implementation of change in the following ways.

Stage 1: Set objectives

- Connect the employee performance to the change objectives.
- Clarify the duties and responsibilities associated with the change.
- Provide clear direction that links the objectives with the change.

Stage 2: Measure performance

- Use performance appraisal to measure performance during change.
- Use performance appraisal to provide feedback to individuals on their progress.
- Assess achievements, strengths and weaknesses of managing change.

Stage 3: Feedback results

- Link the objectives of the change to the performance results of an employee.
- Provide feedback and incentives on the results achieved and show the link to the change objective.
- Reward behaviours required for the change to be achieved.

Stage 4: Identify needs

- Identify the training needed to implement the change.
- Identify career development potentials that have resulted due to the change.
- Link training and development needs to the objectives of the change.

Performance management: a process by which management reviews the overall performance of the business and its employees to determine how goals can be better reached

Reviewing key performance indicators

Key performance indicators, also known as KPIs, help an organisation define and measure progress towards organisation goals. KPIs are quantifiable measurements that show success factors. They use specific criteria such as efficiency and effectiveness to measure performance.

KPIs assist an organisation during transformation by defining, measuring and progressing towards the organisational change. Once a change has been determined, a strategy to achieve the goal can be created. The performance during the transformation is measured and then the performance is evaluated (Figure 9.8).

Strategise – the objectives are established: *What do we want to achieve?*

Measure – the progress is measured: *How are we going?*

Evaluate – the performance is assessed: *Did we achieve the objective?*

When a business is undergoing transformation, performance management is clearly under the spotlight. Measurement using KPIs can assist by:

- motivating employees to perform
- providing guidance towards goal achievement
- alerting management to the risk of resistance.

There is a variety of data that can be gathered to assist a business to evaluate performance (Table 9.1).

Strategise → Measure → Evaluate

Figure 9.8 Measuring performance using a KPI

Table 9.1 Performance management using a KPI

CHANGE OBJECTIVE	KPI	PERFORMANCE INDICATOR
Introduce a new customer service policy	Customer complaints	The number of customer complaints will indicate whether the new customer service policy is effective
Introduce eco-friendly work practices	Level of wastage	The amount of waste created by the production process will show whether a business is using eco-friendly practices
Improve staff morale	Level of staff absenteeism	The rate of staff absenteeism will be an indicator. A rising rate of absenteeism may indicate a problem.

Outcomes of performance management

Business transformation is all about outcomes, maximising business efficiency and performance and becoming a leader in its industry. These outcomes can impact on employment within a workplace. The two main outcomes are redundancy, and retraining and development.

Redundancy

Redundancy occurs within an organisation when a position is no longer required. This means the employee performing that position is dismissed when their role becomes redundant (Figure 9.9).

A redundancy could occur in a business due to:

- technological change
- restructuring or reorganising
- business downturn due to low sales or production
- a merger or acquisition.

When a business is undergoing transformational change, performance management will determine workforce employment requirements. If an employee's position is no longer required due to the change, a redundancy could be offered. Redundancy payouts would need to be made for departing employees. This is a form of compensation paid to an employee based on the duration of their employment. An employee's level of

Key performance indicator (KPI): an objective, set by a business, that can be measured to allow business performance to be assessed

Redundancy: an employer-directed separation strategy that occurs when an employer reduces the number of employees because a position is no longer required

experience could also be taken into consideration when determining the payout. Redundancies have a significant impact on an organisation and the corporate culture. Not only will they incur a large payment by a business; they also affect the morale of staff. It is the role of the human resources manager to manage the process of redundancy. Two important considerations are:

- the quality and clarity of communication regarding redundancies
- the treatment of the employees being made redundant.

The process of redundancies must be managed well to avoid trauma to the remaining staff. The process needs to be planned and implemented effectively. Open, clear communication is crucial to avoid any misunderstanding or misinterpretation of decisions. When communication is not clear, remaining employees may create their own version of events, which can impact negatively on staff morale. Additionally, a fair and reasonable process will minimise the impact on the remaining employees. Employees who are made redundant need to be treated with respect and dignity. If the situation is handled poorly, other employees may reconsider their employment within the organisation.

In dealing with change in a business that results in employee redundancies, an organisational rebuilding process must begin. It is the role of leaders in an organisation to rebuild the company and inspire employees to embrace the transformation. This can assist individuals to understand their reactions to the change, and support them through the change. This, in turn, will help to re-establish the corporate culture of an organisation.

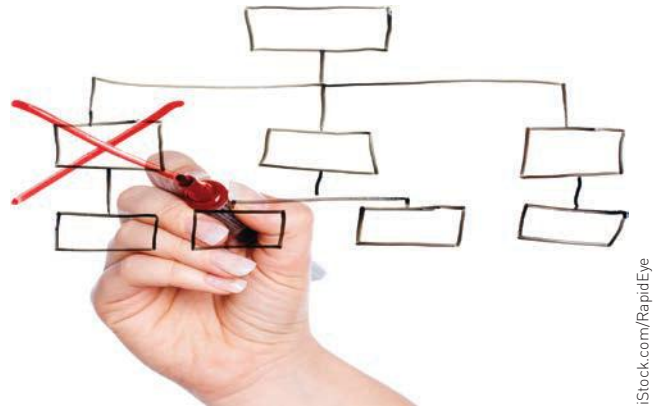


Figure 9.9 Redundancy

GAINING INSIGHT

Redundancy

Visit the website of the Fair Work Ombudsman to complete the following activities.



Figure 9.10 Employee redundancy

Questions

- 1 **Explain** what is meant by redundancy.
- 2 **Describe** a business situation that may result in an employee becoming redundant.
- 3 **Explain** the impact redundancies can have on a workplace.



Fair Work
Ombudsman

Retraining and development

Retraining employees and providing them with development opportunities is an investment in a business. Employees are a business's most valuable asset and, once a transformation has occurred, it is crucial that staff are retrained and development provided to maintain and increase job satisfaction.

Retraining

Investing in **retraining** and ‘upskilling’ existing workers is an urgent priority after transformation in a business. After a transformation, employees need to learn new skills. For example, a business that upgrades to new technology may require retraining of employees to use new devices or software. Retraining will teach employees the new skills required after a change has been implemented. This can help to create positive attitudes towards the change.

Retraining programs can be beneficial both to employees and to the business (Table 9.2).

Table 9.2 Benefits of retraining programs

BENEFITS TO AN EMPLOYEE	BENEFITS TO A BUSINESS
Retraining programs update skills and provide a continuous learning program for employees	Retraining in new skills increases overall productivity, which can increase products and services provided
Employee skill set is developed, which improves workplace outcomes and motivation	Having more highly skilled employees increases workplace efficiencies

However, retraining programs can be costly to a business, and some employees may be reluctant to participate in training programs (Table 9.3).

Table 9.3 Disadvantages of retraining programs

DISADVANTAGES TO AN EMPLOYEE	DISADVANTAGES TO A BUSINESS
Employees may be reluctant or unwilling to participate in retraining programs	Retraining employees is expensive and may not always achieve the desired result
Retraining may require employees to work longer hours to upskill	Retraining hinders a workplace from recruiting new people

The costs to a business of implementing a retraining program can be significant. The business needs to evaluate the potential benefits against the costs to determine if the retraining is financially viable. This may require a business to consider the long-term impacts that the retraining will provide.

GAINING INSIGHT



Making a splash

Changes in pool safety fences have resulted in an increase in business for Splash Fencing (Figure 9.11).



Figure 9.11 Splash Fencing

To keep up with consumer demands, the business has installed a complex and expensive processing system to manage its production. The new system involved changes in many work practices and skills. This meant that many staff needed upskilling and retraining to complete their jobs.

Questions

- 1 **Explain** the benefits of retraining staff in transforming a business.
- 2 **Explain** how a force field analysis could be used to help this business transform.
- 3 What impact can change have on stakeholders of a business? **Explain**.

Retraining: the process of learning new skills

Development

Development of employee career pathways after transformation of a business is a win-win situation for both the employee and the business. The plan should focus on an employee's need for growth and development to better equip them to perform their job. This assistance can provide an employee with the opportunity to grow in their career. In addition, it will help the employee to develop both personally and professionally.

The role of the human resources manager is to provide opportunities for career development for employees after transformation of a business. Discussions with an employee could include the following:

- current position – what retraining is needed to perform their current job?
- gaps – are there any gaps to meet their job requirements?
- future – what areas need to be developed for the future?
- career plan – develop a plan for the future for both the employee and the business.

QUESTIONS 9.2



- 1 **Explain** performance management.
- 2 **Explain** the interrelationship between performance management, change management and business transformation.
- 3 **Determine** why redundancy is sometimes an outcome when transforming a business.
- 4 **Analyse** the effects redundancy can have on those employees who remain in an organisation.
- 5 **Discuss** why retraining may be required when transforming a business.
- 6 **Determine** the costs and benefits to a business of retraining staff after transformation has occurred.
- 7 **Analyse** the costs and benefits to **draw conclusions** about the implications of retraining staff after transformation has occurred.
- 8 **Justify** why employee development could be considered important when transforming a business.

Management strategies

Transformational changes often occur when a business undergoes change. This can include restructuring of the key functional areas of a business – finance, human resources, marketing and operations.

Key learnings

You will learn about management strategies required to achieve renewal outcomes after transforming a business, including:

- financial management strategies
- human resources management strategies
- marketing management strategies
- operations management strategies.

Financial management strategies

Financial management strategies are initiatives aimed at improving the finance function within an organisation. This can involve a variety of tasks, from improving the budgeting cycle to implementing a new accounting software program to reduce overhead costs.

The financial management strategy for transforming a business must align to the business's overall strategy in order to become more efficient and effective. Typically, in finance, this will relate to two core areas – profitability and growth (Figure 9.12).



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Figure 9.12 Financial management strategies

Profitability

The focus of a business should be on minimising costs to maximise profits. When a business transforms the core responsibilities of financial management, it does so in order to control costs. The financial manager must initiate strategies to budget for additional expenses and control financial resources.

Managing costs is crucial during business transformation. A business needs to set targets and forecasts using industry benchmarks. These plans need to be revised frequently during the transformation period to ensure outcomes are achieved.

Growth

During a time of transformational change, business requirements could change due to new markets, acquisitions or mergers. The goal for the financial manager is to be able to efficiently integrate the growing business. The manager needs to have financial insight to manage the change.

The following financial strategies could improve the overall financial position and cash flow when transforming a business:

- selling assets – selling assets that are no longer used in the business
- improving cash flow – following up on outstanding customer payments; taking out a business loan
- increasing prices – if a change has occurred in a business, this could coincide with a change in product or service prices
- reducing expenses – changing suppliers, modifying the quantity of stock purchased, switching to cheaper alternatives for consumables.

Human resources management strategies

Business transformation will have a significant impact on employees at all levels within an organisation. When an organisation is undergoing change, a crucial part of the human resources function is to anchor the change management process and facilitate the transformation. As employees are a business's most valuable asset, the management of transformational change must be handled well.

The human resources manager must have the ability to develop proactive strategies when managing employees through change (Figure 9.13). This means adopting a long-term approach in having a diverse range of employees to meet the changing needs of a business. The human resources manager should be involved in organisational change from the beginning and can assist by influencing the following:

- increasing employees' understanding of the change
- improving employee skill and proficiency levels through training initiatives
- improving communication levels within the organisation during the change process
- enhancing relationships and building a corporate culture that embraces the change.

It is the role of the human resources manager to unify the business in understanding the strategic direction for the change. This manager acts as a facilitator for the change and leads others into initiating the change.

The following human resources strategies could improve employee relations when transforming a business:

- rebuilding and promoting corporate culture
- promoting a clear vision for the change and its benefits to employees
- developing training or retraining programs for existing employees
- implementing performance management programs such as performance appraisals and KPIs



Figure 9.13 Human resources management strategies

- initiating reward systems to reinforce the new behaviours and outcomes with both tangible and intangible rewards
- maintaining existing employees by offering flexible working arrangements or other incentives
- implementing a code of conduct to uphold ethical standards
- recruitment and selection of new employees required to meet the needs of the change
- offering redundancy packages for outgoing employees.

GAINING INSIGHT



Fine jewels in business

Leading jewellery business Michael Hill (Figure 9.14) has abandoned plans to reposition its struggling brand Emma & Roe. The company announced that all Emma & Roe stores would be closed after a strategic review of its operations. Instead the business will now focus on strengthening the Michael Hill brand.

Emma & Roe was initially launched in 2014 as part of the Michael Hill brand. The products sold at Emma & Roe were more fashion-focused items that competed with other jewellery brands such as Lovisa and Colette. This enabled the Michael Hill jewellery stores to focus on fine diamonds and bridal customers.

Despite several years of operations, the brand Emma & Roe never delivered sustainable sales growth. The decision was made to close Emma & Roe stores as they were underperforming. A strategic review by management determined that resources would be better utilised under one brand (Michael Hill) to achieve stronger financial results.

The decision has forced a restructure of the business Michael Hill, including its finance, operations and employees. The business will need to relocate



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Figure 9.14 Michael Hill jewellery store

some staff to its Michael Hill stores. Other employees' contracts will be terminated and some staff will be offered a redundancy.

Michael Hill has also transformed its operations from those of a traditional retailer to a differentiated **omni-channel** brand. This approach is expected to provide the business with a platform to support growth and increase its market share.

Questions

Create a business report extract for management of Michael Hill to communicate the following.

- 1 **Describe** the business environment at Emma & Roe that influenced the need for change.
- 2 **Explain** the process the business undertook to initiate the change.
- 3 **Select** information from the article relating to the change undertaken to **analyse** the strengths,

weaknesses, opportunities and threats (SWOT analysis).

- 4 **Interpret** relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of change on human resources.
- 5 **Evaluate** human resources management strategies used to transform the business to **make a decision** and **propose** a recommendation using criteria.

Marketing management strategies

A business needs to maintain its competitive advantage during transformational change. The strategic role of marketing is to maximise its scale and profits. Marketing management strategies should focus on the customer and increasing market share (Figure 9.15). It is the role of the marketing manager to meet these needs while considering the strategic vision of the business.

Omni-channel: an approach that provides customers with the same shopping experience using different methods of sales; for example, instore, online, phone orders

The following marketing management strategies could improve the competitive advantage when transforming a business:

- product – consider the unique selling point of the products sold
- price – price effectively to avoid financial consequences. If the price is too low, profit is reduced; if the price is too high, sales are reduced
- place – position the business to reach customers, suppliers and distribution channels
- promotion – select promotional techniques to create the most cost-effective marketing strategy
- people – employ a team that meets the marketing objectives of the business.



Figure 9.15 Marketing management strategies

GAINING INSIGHT



The Duck campaign



Shutterstock.com/Ken Weller

Figure 9.16 The 'Aflac Duck'

In 2000, an innovative marketing campaign for a small American insurance company created headlines. American Family Life Assurance Company (AFLAC) had been in operation since 1955 and only had about 12 per cent brand recognition rate before the launch of the new marketing campaign (Figure 9.16). AFLAC employed the services of the marketing group Kaplan Thaler to improve its name recognition. An innovative marketing campaign resulted in the creation of the 'Aflac Duck'. The group created television commercials featuring customers who had trouble remembering the insurance company's name. The 'Aflac Duck' would appear and

quack the name 'Aflac'. The little white duck created a sensation and the brand recognition improved from 12 per cent to 90 per cent for AFLAC. The business's sales increased and catapulted AFLAC into a leading position in the insurance industry.

The 'Aflac Duck' is now an internationally recognised personality and was inducted into the Advertising Walk of Fame. AFLAC changed its logo to include the 'Aflac Duck', and recently the business celebrated over 60 years in operation. The business capitalised on the popularity of the duck character and achieved overall awareness with more than nine out of 10 people knowing the AFLAC brand. In 2018, a special 'Aflac Duck' was designed as a social robot to help children cope with cancer.

Questions

Using the inquiry process, **create** a business report extract to **communicate** to management at AFLAC the following.

- 1 **Describe** the business environment at AFLAC that influenced the need for change.
- 2 **Explain** the process the business undertook to initiate the change.
- 3 **Evaluate** marketing management strategies used to transform the business to **make a decision** and **propose** a recommendation using criteria.

Operations management strategies

A business under transformation may need to implement operational management strategies to ensure efficiency of operations (Figure 9.17). Strategic objectives could include improving productivity or reducing production costs. Improving the operations within a business can help it to gain a competitive advantage in the marketplace.

It is the role of the operations manager to make decisions to meet the strategic plan of a business. The main areas of concern include:

- production – development of new products and services
- process – developments in technology to improve operations
- quality controls – measuring and improving the quality of products and services.

The operations of a business will impact on all areas of the business. When changing operations in response to transformation, organisations may need to find ways to improve production time, streamline operational processes, introduce new technology or systems or shorten production development.

The following operational strategies could improve production when transforming a business:

- introducing production technologies to support changes in the production process
- introducing ecologically sustainable practices
- outsourcing operational processes or production
- increasing the capacity of the business to accommodate changes. This could include changes to equipment and resources
- improving facilities or resources for employees, such as by simplifying or changing operational sequences
- refitting or reorganising the business to improve the efficiency of the operations
- moving the business to a more suitable location
- implementing quality controls to ensure customer satisfaction.



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Figure 9.17 Operations management strategies

GAINING INSIGHT



This business has the touch



Alamy Stock Photo/Alisha Arif



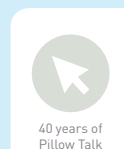
© Pillow Talk Australia

Figure 9.18 A Pillow Talk store with the old logo (left); the revamped logo (right) signifies the company's commitment to comfort.

Pillow Talk is an Australian business that has been in operation for over 40 years (Figure 9.18). It began with a single store on Brisbane's Ann Street in 1977. Pillow Talk has now grown to have 59 stores along the east coast of Australia. It is a store that prides itself on providing quality homewares and linen at affordable prices. Pillow Talk's mantra is comfort. 'We do what we do for the love of comfort. Our belief is that comfort is what binds us together, but we

understand that comfort is more than a feeling – it's a state of mind. It's not just about cosy blankets or silky soft sheets – it's about feeling content in your home and in your heart.'

Pillow Talk is an innovative business that introduced products such as continental quilts and tri pillows to the Australian market. Follow the weblink to read about the history and journey of Pillow Talk.



40 years of
Pillow Talk

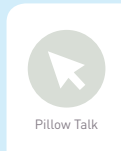
After celebrating 40 successful years in business, the business has transformed the look of its brand and stores. The changing retail landscape has prompted Pillow Talk to revamp its business strategy. The business transformed by creating a new logo that features a feather perched above its name instead of the 'red dot' that had been there for four decades. It signifies Pillow Talk's commitment to comfort. Pillow Talk also refurbished its store configurations with a focus on open-planned layouts with less clutter. The store's new look and layout have been

constructed with the customer's experience and comfort as the priority. The central theme is 'comfort', with the focus on providing a sensory experience for customers. It is about touching and feeling the product.

Pillow Talk is a retail store that places customers at the forefront. It provides online services for customers to obtain information and visualise home decor but inspires its customers to visit the store to feel the comfort of its products.

Questions

Using information from the above article, the Pillow Talk website and industry data, **create** a business report extract to **communicate** the following.



- 1 **Describe** the business environment at Pillow Talk that influenced the transformation.
- 2 **Explain** the process the business undertook to initiate the transformation.

- 3 **Select** information and data relating to the transformation undertaken by this business to **analyse** using an analytical tool.
- 4 **Interpret** relationships, patterns and trends in the analysis to **draw conclusions** about the implications of transformation.
- 5 **Evaluate** management strategies used to transform the business to **make a decision** and **propose** a recommendation using criteria.

QUESTIONS 9.3



- 1 **Explain** why a business needs to use management strategies when transforming.
- 2 Assess the consequence of poor financial management when transforming a business.
- 3 **Explain** marketing management strategies that could be implemented when a business undergoes a transformation.
- 4 **Examine** the challenges of managing employees when transforming a business.
- 5 **Evaluate** two operational management strategies when transforming a business, using criteria.

GAINING INSIGHT



Can Kingsley recover?

Background information



AUSTRALIA PTY LTD

Figure 9.19 Kingsley Australia Pty Ltd

Kingsley Australia Pty Ltd is a privately owned Australian company that manufactures football jerseys and supplies its products to a range of sporting teams and schools (Figure 9.19).



Figure 9.20 Sample jersey

The business is located in the city of Logan at Yatala and has been in operation since 1980. It presently employs 100 staff and uses a hierarchical organisational structure.

Kingsley Australia Pty Ltd operates in a highly competitive market. The company is finding it increasingly difficult to compete with larger suppliers of jerseys who primarily outsource manufacturing overseas [Figure 9.20]. These businesses are able to

reduce their overheads and therefore lower costs to consumers. The owner of Kingsley Australia Pty Ltd, Kane Kingsley, is concerned about the future direction of his business. He is unable to compete and has noticed a fall in sales and profits over the past 10 years.

Kingsley employed the services of an external auditor to provide advice on his failing business. After a month reviewing the operations of the business, the auditor revealed the following.

Organisational structure

The business operates under a three-tier management system (Figure 9.21):

- Tier 1 – managers
- Tier 2 – assistant managers/supervisors
- Tier 3 – workers.

Under this structure, the chain of command is as follows:

- The four managers report to the CEO, Kane Kingsley.
- The six assistant managers/supervisors report to the four managers.
- The factory workers report to the floor supervisor, who reports to the factory supervisor, who reports to the factory manager, who finally reports to the CEO.

There appears to be confusion about the line management structure and the roles and responsibilities within the organisation. Employees are unsure who they need to report to, which impacts on workplace relations and communication.

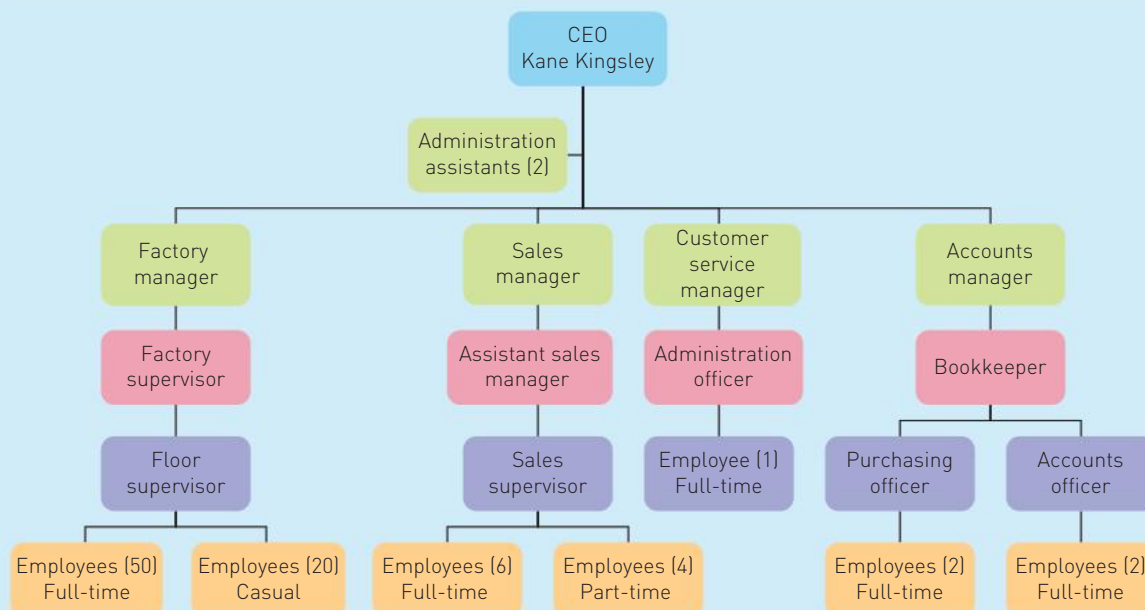


Figure 9.21 Organisational structure at Kingsley Australia Pty Ltd

Table 9.4 Workforce statistics at Kingsley Australia Pty Ltd

Employment type		Number of staff	Age >50 years	Age 30–50 years	Age <30 years
Factory worker	Full-time	50	80%	20%	0
	Casual	20	90%	10%	0
Sales staff	Full-time	6	50%	40%	10%
	Part-time	4	75%	25%	0
Accounts	Full-time	2	100%	0	0
Purchasing	Full-time	2	50%	50%	0

Employment issues

The following employment issues have been noted and are of concern:

- an increase in workplace accidents due to the age of machinery
- an increase in production errors due to poor quality of work
- an increase in staff absenteeism, from 8 per cent five years ago to 25 per cent now
- ageing staff – the average age of factory employees is 58 years (Table 9.4).

Interview with employees

Interviews were conducted with factory employees who work in the manufacturing section, producing the jerseys. The main points raised by workers are:

- The factory manager is rarely seen and rarely visits the factory floor.
- There is no consultation from any manager/supervisor with workers regarding manufacturing of jerseys.
- Workers are given no feedback on their performance.
- There is a lack of communication from the factory manager, factory supervisor and floor supervisor to factory workers.
- Factory workers do not feel valued as employees.

Financial status

After reviewing the financial records of the business, the following issues were found:

- poor management of customer accounts
- high levels of debt (from customers) owed to the business
- customers are taking 90 days to pay accounts. Industry average is 7 days

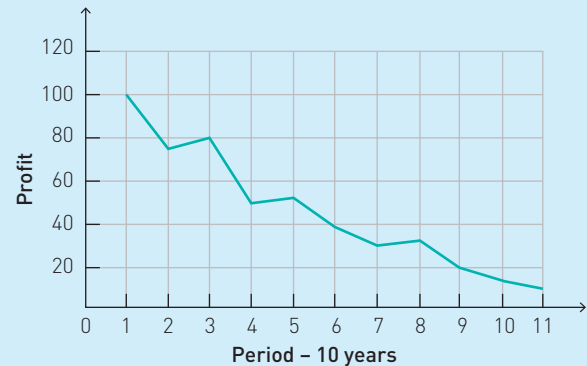


Figure 9.22 Profit results for past 10 years at Kingsley Australia Pty Ltd

- reduced market share – now 5 per cent of market
- profit results decreasing over 10-year period (Figure 9.22).

Questions

Using the inquiry process, **create** an extended business report to the CEO of Kingsley Australia Pty Ltd to **communicate** the following.

- 1 **Describe** the business environment and situation relating to Kingsley Australia Pty Ltd.
- 2 **Explain** business concepts, strategies and processes relating to this business.
- 3 **Analyse** Kingsley's business situation and environment using a SWOT analysis.
- 4 **Interpret** relationships, patterns and trends in the SWOT analysis to **draw conclusions** about transforming this business.
- 5 **Evaluate** management strategies for transforming this business to **make a decision** and **propose** a recommendation using criteria.

Chapter 9 review

This chapter introduced the concept of renewal outcomes for a business during transformation by examining the impact of change, reviewing performance and management strategies. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

9.1 Short items

- 1 **Describe** how change can impact on the internal environment of a business.
- 2 **Describe** how change can impact on the external environment of a business.
- 3 **Explain** performance management.
- 4 **Explain** the role of performance management when transforming a business.
- 5 **Explain** the interrelationship between performance management, change management and business transformation.
- 6 How can KPIs assist management with transformational change? **Explain**.
- 7 **Explain** the role of performance management in identifying outcomes of redundancy when transforming a business.
- 8 **Explain** the role of performance management in identifying retraining and development needs in business renewal.
- 9 **Identify** and **explain** a financial management strategy for transforming a business.
- 10 **Identify** and **explain** a human resources management strategy for transforming a business.
- 11 **Identify** and **explain** a marketing management strategy for transforming a business.
- 12 **Identify** and **explain** an operational management strategy for transforming a business.

9.2 Interpretive items

A business in the post-maturity stage of the business life cycle has decided to implement strategies to transform its business. For each of the following strategies, **analyse** the situation to **draw a conclusion** about the implications of transformation.

- a Human resources management strategy: reduce employment numbers by offering redundancy packages to a quarter of its employees.
- b Operational management strategy: refit the entire organisation with new automatic robotic systems to increase efficiencies in production and processing.
- c Financial management strategy: introduce cost-saving devices such as switching to cheaper prices for consumables to reduce expenses.
- d Marketing management strategy: rebrand the business by introducing a new marketing campaign.

9.3 Extended-response items

- 1 You have been appointed operations manager of a large manufacturing business. There has been an increase in competition from overseas and the business must transform its operations to remain competitive. Using the inquiry approach, **create** a short paragraph response (100 words) to **explain** how the business could overcome employee resistance to the changes that are necessary to increase production.
- 2 A locally owned small financial service business has been in operation for 50 years. The business is finding it increasingly difficult to compete with larger companies. Sales and profits are declining due to the lower prices offered by competitors. With increasing overheads and charges the business is considering taking up an offer to merge with a large nationwide financial company. Using the inquiry approach, **create** a short business report extract (400–600 words) in which you:
 - a **describe** the business environment and situation relating to transformation and the post-maturity stage of the business life cycle
 - b **explain** the business concept relating to this situation
 - c **select** data and information relating to transformation of the business to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis)
 - d **interpret** relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of transformation of a business
 - e **evaluate** the strategic planning implemented by the case study business to **make decisions** and **propose** recommendations.



Case study 4: Transformation of a business

Australia Post

About the business

Australia Post (Figure C4.1) is a Government Business Enterprise (GBE) operating under the *Australian Postal Corporation Act 1989* (APC Act). The corporation is self-funded and has a clear vision to:

- earn a profit
- deliver a community service.

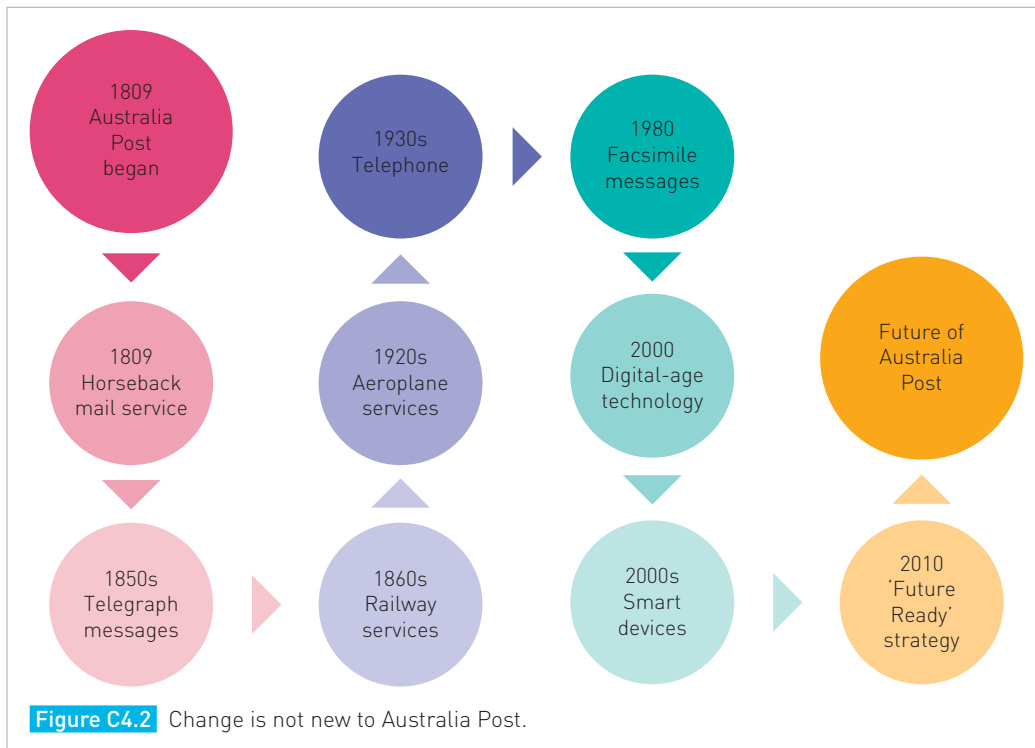
Australia Post is a business that has evolved over time. Change is not new to Australia Post and it has experienced many significant changes (Figure C4.2). The business began in 1809 with the first post office founded in New South Wales. Mail services progressed from horseback delivery to postage sent by air. The invention of the telephone in the 1930s had some impact on the business model. Australia Post responded by introducing parcel delivery services. By the 1980s, messages were being transmitted through phones using facsimiles. Australia Post expanded its operations to include more electronic services. And then the digital age hit, bringing emails, smartphones and social media. Australia Post introduced its 'Future Ready' strategy. The business expanded its online network to include a range of digital products and services. Australia Post has reinvented its business to be a major e-commerce service provider.



iStock.com/ymgerman

Figure C4.1 Australia Post

Australia Post operates largely in Australia. Its headquarters are in Melbourne and it has offices and facilities across the country. The business provides a mail and delivery service that connects people and businesses. Australia Post is the country's leading delivery business. It has optimised its business by providing a diverse range of services, both online and instore. Australia Post has a long-term sustainability plan that aims to identify new products and services to remain a customer-focused business.



Fast facts about Australia Post

- Australia Post was established in 1809.
- Australia Post is a Government Business Enterprise (GBE) and the Commonwealth Government of Australia is the sole shareholder.
- The business is commercially operated and provides accessible, reliable and affordable postal services to Australians.
- Australia Post is Australia's largest retail network, with approximately 4000 post offices across Australia, including rural and remote areas.
- Australia Post and StarTrack employ more than 30 000 people, including licensees, franchisees and mail contractors across an integrated delivery, logistics, retail and e-commerce network.

Transformation

In 2009, Ahmed Fahour was appointed the new managing director and chief executive officer (CEO) of Australia Post. Fahour had a reputation as a change agent who had transformed other businesses, including the National Australia Bank (NAB). Australia Post was in a state of decline and needed to reposition itself as a digital business. Its business model was simple – it was a 200-year old business that delivered mail to consumers. Fahour was hired to transform this iconic Australian business (Figure C4.3).

The task was not simple for Fahour. He needed to manage the declining side of the business while simultaneously building new services in the digital environment. The use of technology was transforming the business world and the consumer world. It was changing the way people communicated. The use of paper-based letters and postage was diminishing. This was Australia Post's core business. Australia Post needed to respond.

In 2010, Fahour commenced a business renewal program for Australia Post, called 'Future Ready'. The focus of the program was implementing a more customer-centred business model for the digital world.

This was the turning point for Australia Post.

Under Fahour's direction, the Australia Post business model transformed and showed an increase in growth and profits. He transitioned Australia Post away from a declining and loss-making business and created a new e-commerce line that delivered success.

Ahmed Fahour was the change agent that transformed Australia Post.



Figure C4.3 Ahmed Fahour

Alamy Stock Photo/Hugh Peterswald

Strategies

The digital disruption to Australia Post's business model required the implementation of change strategies for renewal outcomes. Australia Post responded by reforming its letter services and creating a new business model.

The first initiative was to change the operations for letter services by aligning them with consumer needs. Australia Post introduced a 'priority' service that provided next-day delivery and a 'regular' mail service that took between one and two days longer. This provided customers with a choice on both service and price. The business also provides digital communication services.

The second initiative was to create two customer-facing brands. The first was the postal business under the Australia Post brand, which offers both instore post office and online services. This service is an access point for the mail network for businesses and consumers.

The second was the parcel delivery service under the StarTrack brand. This provides services to consumers and large-scale businesses that need freight and international logistics solutions. StarTrack is the provider of e-commerce-related parcel delivery and express logistics for Australian 'e-tailers'. StarTrack has been rebranded with the Australia Post 'P' symbol at the front of its logo.



Figure C4.4 StarTrack joins Australia Post – future strategy

Alamy Stock Photo/Martin Berry

Integrating these two businesses is part of the postal corporation's strategy 'to build a sustainable communications business', underpinned by its commitment to the UN Sustainable Development Goals. Australia Post has responded to shifting consumer behaviours, business needs and the changing world (Figure C4.5).



Figure C4.5 Australia Post – championing the UN Sustainable Development Goals

Extended-response questions

Using the inquiry process, **create** an extended business report (800–1000 words) to **communicate** to management of Australia Post the following.

- 1 **Describe** the business environment and situation relating to drivers for change in the post-maturity stage of the business life cycle.
- 2 **Explain** business concepts, strategies and processes relating to drivers for change and change management implemented by this business.
- 3 **Select** data and information relating to drivers for change and change management for the transformation of this business to **analyse** strengths, weaknesses, opportunities and threats (SWOT analysis).
- 4 **Interpret** relationships, patterns and trends in the SWOT analysis to **draw conclusions** about the implications of transformation of this business.
- 5 **Evaluate** the change management strategies implemented by this business to **make decisions** and **propose** recommendations using criteria.

10

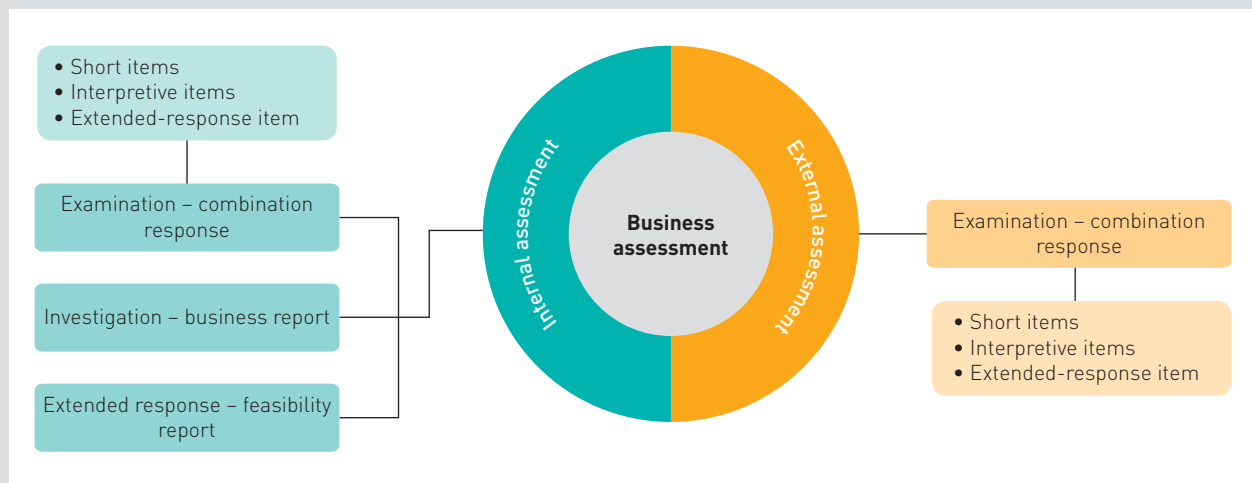
CREATING BUSINESS RESPONSES

What you will learn

The Business General Syllabus combines both internal and external assessment to examine your performance over the two-year course. This chapter will examine the types of assessment items included in the Business course. It will provide you with the opportunity to meet the syllabus objectives, which are to:

- **describe** business environments and situations
- **explain** business concepts, strategies and processes
- **select** and **analyse** business data and information
- **interpret** business relationships, patterns and trends to **draw conclusions**
- **evaluate** business practices and strategies to **make decisions** and **propose** recommendations
- **create** responses that **communicate** meaning to suit purpose and audience.

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



Examination – combination response

Short items

A short item is a question requiring a paragraph response that demonstrates recall, description or explanation of key concepts and knowledge. In Business, these short items relate to business facts, concepts, strategies or processes learnt throughout the course. They do not include stimulus items and are an opportunity for you to demonstrate the depth of your understanding.

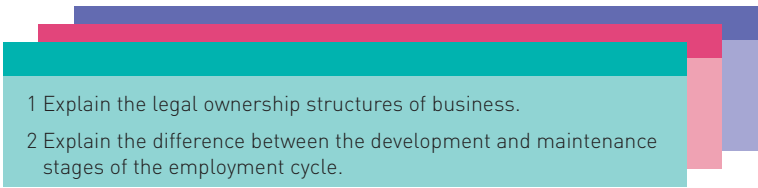
- 
- 1 Explain the legal ownership structures of business.
 - 2 Explain the difference between the development and maintenance stages of the employment cycle.

Figure 10.1 Short items are an opportunity to demonstrate the depth of your knowledge and understanding of key business concepts.

Understanding short item questions

A common error in exams and short items is not responding directly to the question asked or not answering all components of a question. In order to determine the level of understanding you have on a topic, a short item will often have multiple layers or facets to the question. To structure a concise and articulate answer, it is important to ensure you clearly understand the question asked and what information you should be recalling, describing and explaining.

One way to approach this is by carefully reading and paraphrasing questions into your own words to ensure you have clearly understood the question and are able to address it properly. This means to either reword the question into a different question or break it into a number of smaller questions that will ensure the original question is answered.

Table 10.1 Paraphrasing questions can help ensure you fully understand the question and answer all elements to show depth in your knowledge.

ORIGINAL QUESTION	PARAPHRASED QUESTION
1 Explain the legal ownership structures of business.	What are the different types of ownership for a business? Examples?
2 Explain the difference between the development and maintenance stages of the employment cycle.	What is the employment cycle? What happens in the development stage? What happens in the maintenance stage? How are these two stages different from each other? Why?

Another approach is to carefully read the question, underline key words and verbs and brainstorm the content that applies to key concepts before beginning to structure a response. Using the allocated planning time to do this before beginning to write responses is a strategy that can help ensure you don't repeat the same information for multiple questions or overlook key concepts.

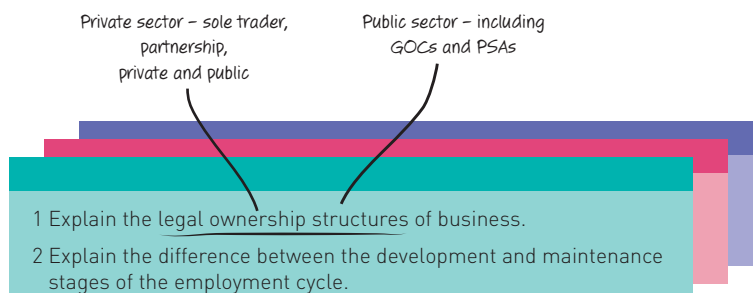


Figure 10.2 Underlining keywords and brainstorming content before formulating responses can help you to refine and formulate answers.

Writing short item responses

Generally, a short item response is a series of sentences or one paragraph. This means that your answers to short items need to be concise, clearly structured and ensure only relevant material is included. However, short response items can also be communicated through formal business formats of communication, including emails and business letters.

Writing for a business audience can be quite different from other styles of writing and responses. Business communication strives to be clear and succinct, rather than evocative or creative, and all business responses must ensure specificity and accuracy. Writing to a business standard means that documents or responses are considered publishable and do not contain any errors. Also, because time is money, when creating any business documents, you must assume that your audience has limited time and needs the communication to be concise, straight to the point and easy to action.

Paragraph responses

A paragraph is a series of organised sentences on one topic or idea. While there are different ways of structuring and organising paragraphs for different genres of formal writing, when structuring a short item response in Business, the paragraph must provide a full and complete answer with supporting material. This means the paragraphs are descriptions or illustrations that explain concepts and strategies, the difference between two or more concepts or the interrelationships between them. To structure a paragraph for a short item response, using the PEEL structure is most effective (Figure 10.3).

The use of transition words is an effective way to link concepts and ideas and ensure you move coherently from one concept to the next within your paragraph. Transition words (Table 10.2) also help to ensure you stay on topic and provide supporting evidence of your knowledge.

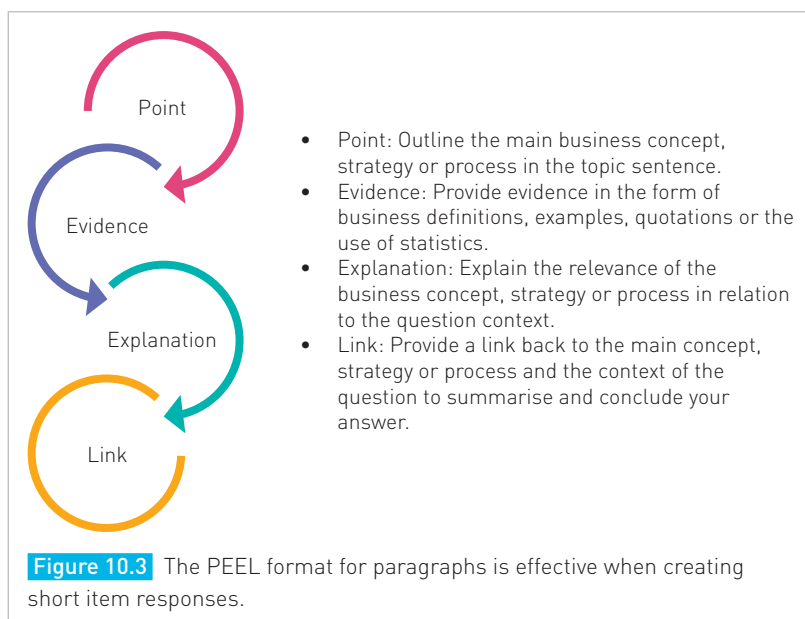


Figure 10.3 The PEEL format for paragraphs is effective when creating short item responses.

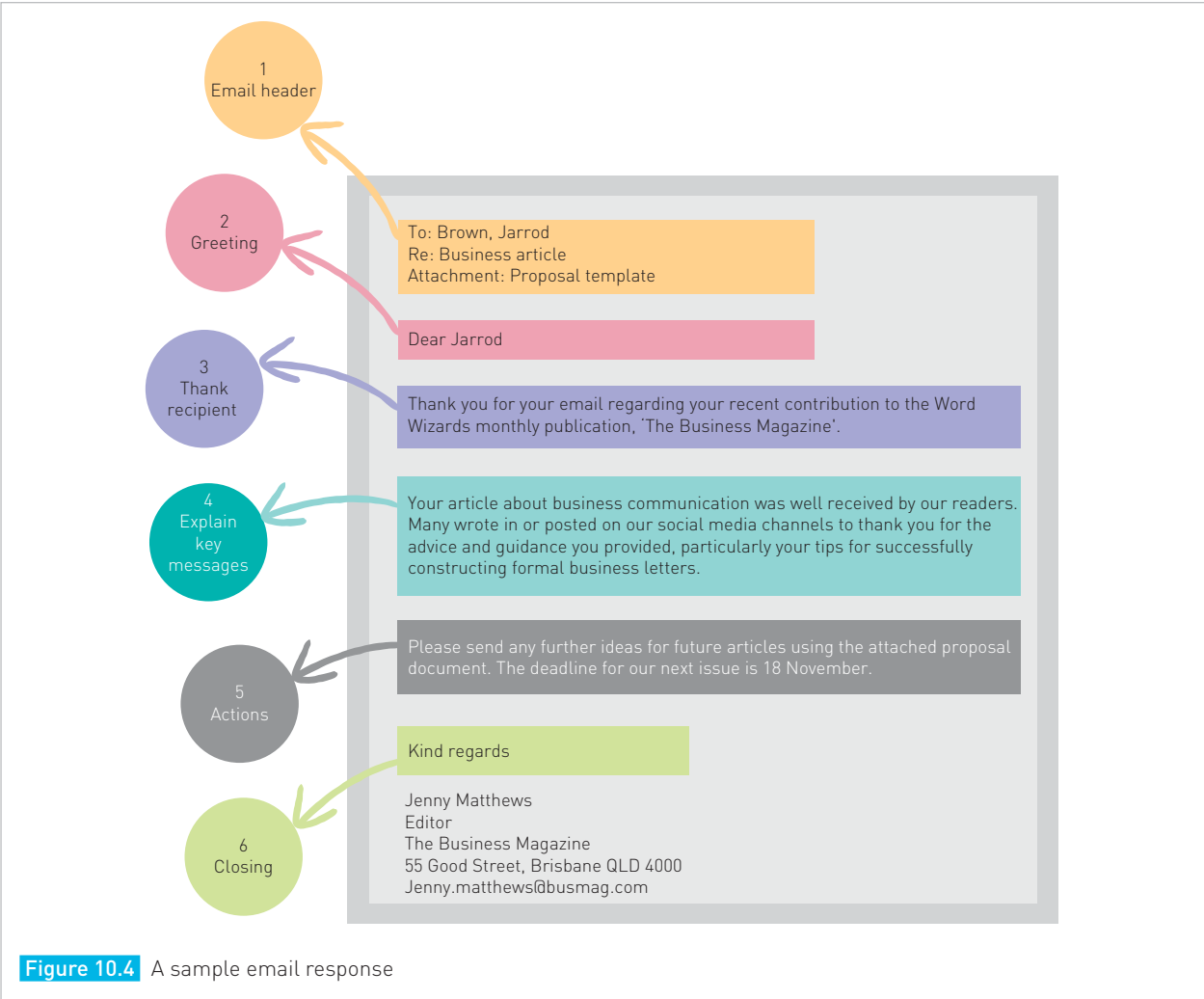
Table 10.2 Examples of transition words and phrases

• Because • In addition • In contrast • Next • Afterwards • Accordingly • As well as • As a result • Consequently • Furthermore	• No doubt • Of course • On the other hand • Naturally • Also • After • Before • First, Second ... • Overall • Considering

Email responses

When writing an email to communicate information or a response to a short item, it is important to make your purpose clear early on in the email, and then move straight into the main text of your email. Emails are read quickly and actioned so generally consist of short, clear sentences. Here is a simple structure for email communication:

- 1 Begin with a greeting.
- 2 Thank the recipient if you are replying to an email and/or state your purpose.
- 3 Explain your key messages or information.
- 4 Clearly state any items to be actioned or give closing remarks.
- 5 End with a closing.



EMERGING TECHNOLOGIES



SLACK: Business communication moves from email to instant messaging

Slack is a messaging app designed to increase workflow and minimise meeting and email traffic. With one platform for real-time messaging, file sharing, archiving and search, it's built for modern teams to have all their communication in one online location, instantly searchable, and immediately accessible from any connected device. It works with more than 1500 external apps and services, giving one fully flexible and extendable platform.

With more than 10 million daily active users (roughly 5000 new active users added each day) and more than 3 million paid users, Slack is heading towards reaching its objective of replacing internal emails in business.

A survey of Slack users says they saw an average of 48.6 per cent reduction in emails, with nearly 80 per cent saying it improved transparency and office culture. It has also dropped the number of meetings by 24 per cent, while increasing overall productivity by 32.4 per cent, the survey said.

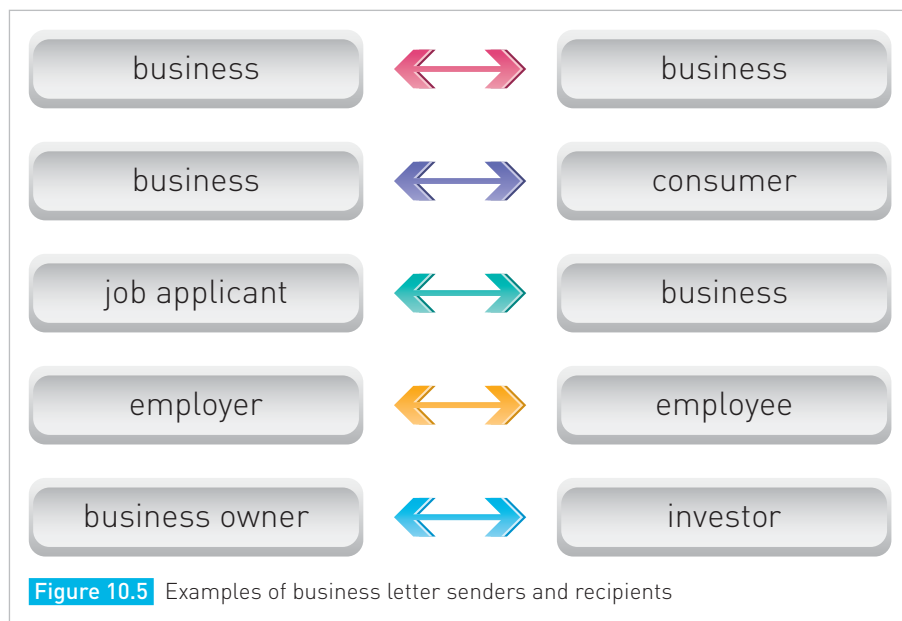


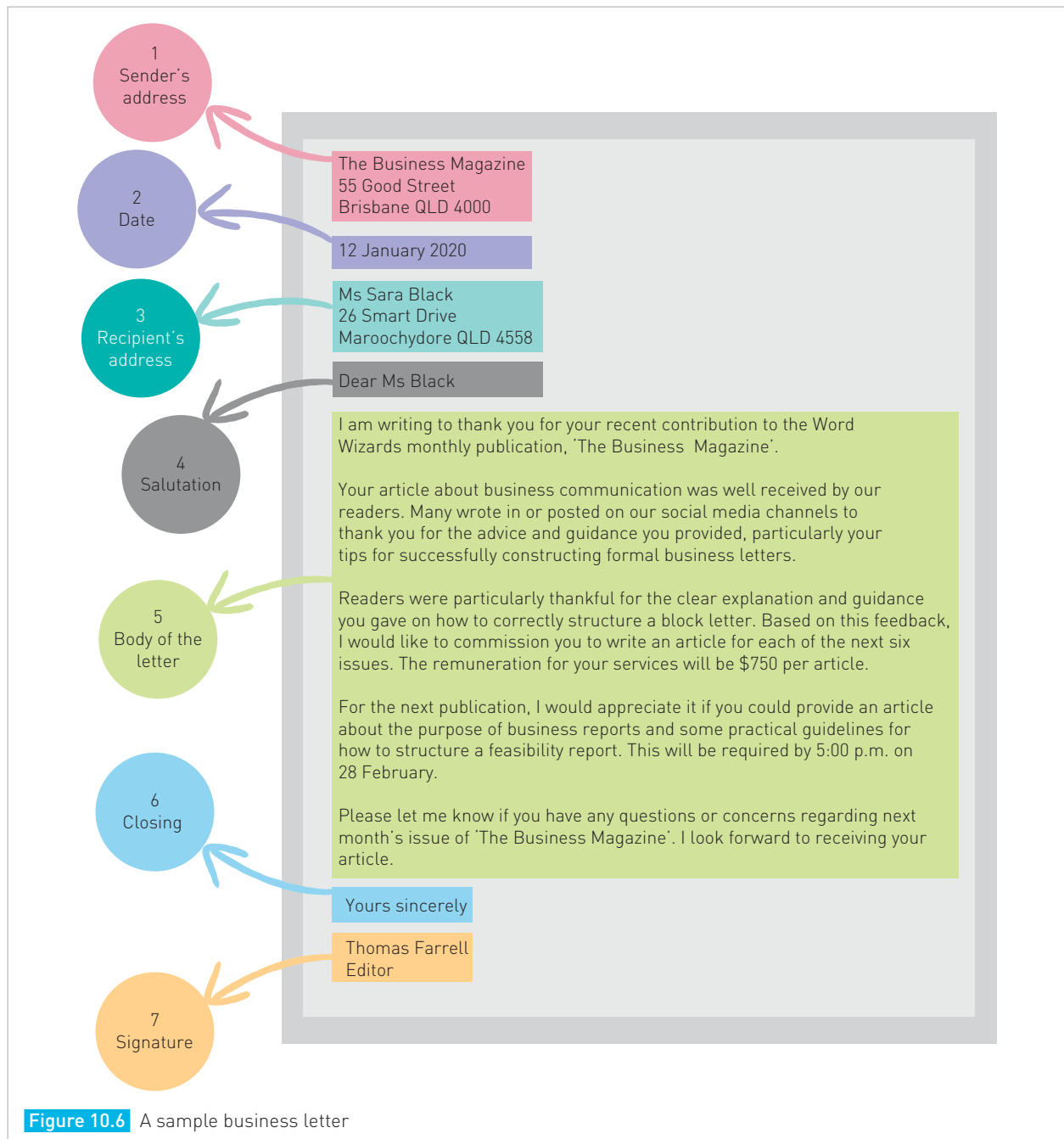
© Slack

Business letter responses

A business letter is a formal communication from one business to another business or client. Business letters can be sent in a variety of contexts and business interactions, and their purpose may be to inform, make requests, sell or market, apply for jobs or formalise transactions.

The most widely used format for business letters is called block style, or a block letter, which means that all of the text of the letter is justified left, with no margin and no indentations. The text is single-spaced, except for double spaces between paragraphs. The elements of a block style business letter can be seen in Figure 10.6.





Interpretive items

An interpretive item is a short response, usually written in paragraph format. It requires you to use knowledge and understanding of a topic to interpret information within a text. This can include recognising trends and drawing conclusions from the information given. An interpretive response may also require you to identify or to draw meaning from information presented in various forms, such as words, symbols, pictures or graphs.

The process of interpreting requires a range of cognitive processes, as shown in Figure 10.7.

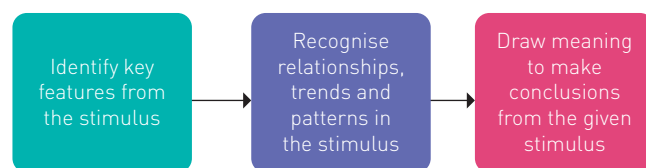


Figure 10.7 The process of interpreting

Interpreting stimulus

The interpretation of stimulus will often identify the cause of a problem or issue that is relevant to the topic or business. It can also provide a likely effect or outcome.

For example, the decline in sales and profits (the cause) has led to the termination of some employees (the effect) in the business. This is an example of a cause-effect relationship in a business situation. The problem or issue has been identified and the likely effect is evident. There are also times when the stimulus may not highlight the cause or effect, and requires you to apply your knowledge of business to draw interpretations from the information provided.

Types of interpretive stimulus

In business, a wide variety of material may be used to interpret meaning. This could include:

- graphs, which could include additional stimulus such as:
 - competition analysis using website, social media
 - statistical tables
 - comparative statements
- case studies, which could include:
 - interviews, surveys, questionnaires
 - business documents such as emails, memos, letters, reports
 - customer reviews, blogs
 - newspaper articles.

How to interpret graphs

A graph can be used in business to tell a story. It is a way of presenting numerically based data that condenses the information and presents it in a more easily readable format. Graphs allow people to interpret patterns and trends in the information and make predictions about what they might see in future data.

Parts of a graph

Graphs contain several different parts that are important to the data included. The graph title will provide information about what the graph contains. In business it may include a date that is relevant to the time period of the data. In addition, most graphs will have an x-axis and a y-axis, and some include a legend. This data will provide further explanation and can help to interpret results.

Types of graphs

The main types of graphs used in a business are column, line and pie graphs. The column graph is used to show sets of data that are independent of each other. For example, in Figure 10.8, the column graph shows the number of ticket sales for one month at a specific cinema. From the graph, it is clear to see that the largest number of tickets sold was on Saturday and the smallest on Monday.

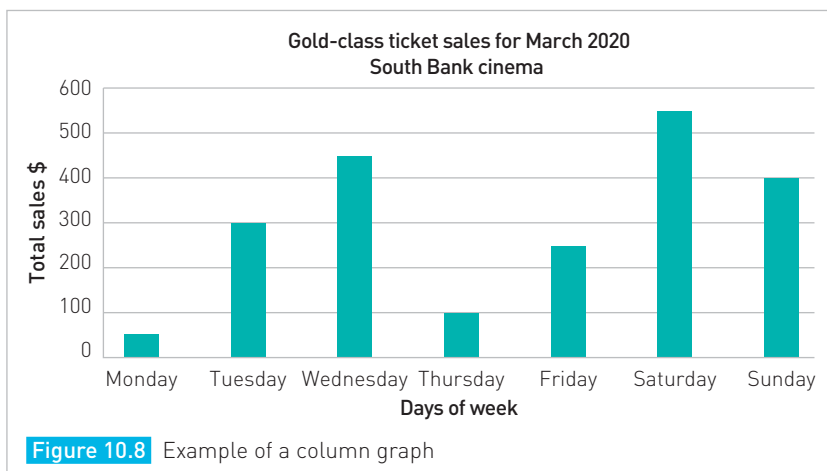


Figure 10.8 Example of a column graph

A line graph is a graphical representation of information over a period of time. It is used to show a succession from one point to another using a line. This type of graph is best used to show information that is continuous in nature. Within a line graph there are points that connect the data to show continuation and change. Figure 10.9 shows a product trend over a six-month period for three types of products sold.

When interpreting this graph, the following questions could be considered:

- Which product showed the greatest sales over the six-month period?
- Which product showed a drop in sales over the six-month period?
- What is the likely outcome for desktop computers in this business?
- What product should the business focus on selling?

The last type of graph commonly used to represent data in a business is a pie graph. A pie graph shows parts of a whole picture. It quickly shows the proportion of a whole in a simple and easy way. It is also clear to see the impact of a pie graph by examining the size or proportion of each piece of the pie. For example, Figure 10.10 clearly shows that the salesperson who has made the most sales is Rick Peterson.

Guide to writing a response using a graph

Sentence starters to introduce a graph could include:

- This graph shows ...
- The graph represents ...
- The graph breaks down ...
- This graph depicts ...

When interpreting a graph, the following vocabulary may be useful to know (Table 10.3).

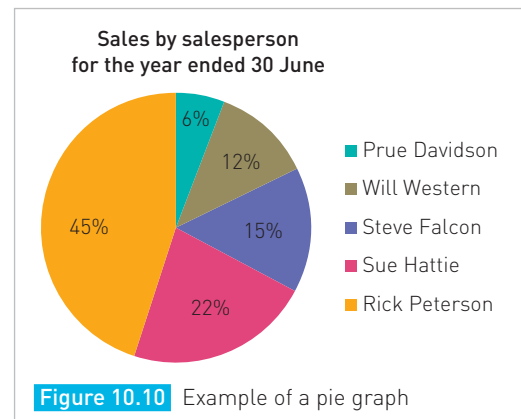
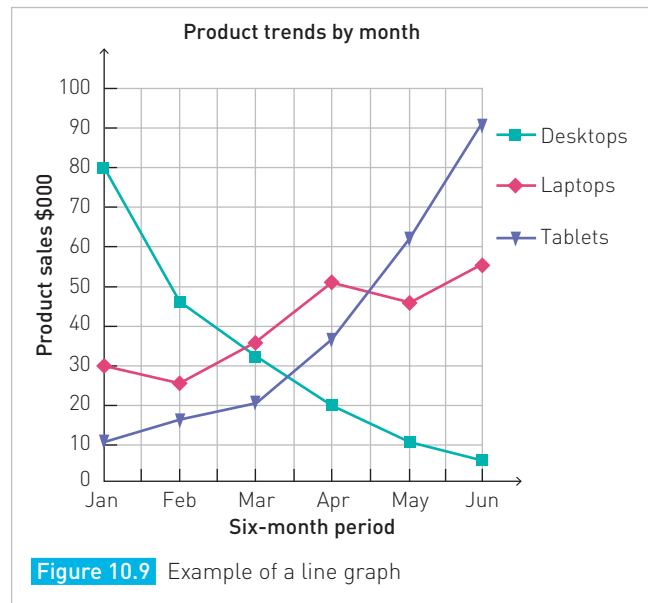


Table 10.3 Interpretation of a graph

INTERPRETATION OF GRAPH	VOCABULARY
Upwards	increase, rise, growth, improvement, expansion, surge, progress
Downwards	decrease, decline, drop, slump, falling, reducing, weakening
No change	remain stable, constant, steady, stabilise
Change in direction	fluctuate, alter, instability, variation, uncertainty

How to interpret a business case study

A business case study is a summary of a real-life business situation. It can be useful to illustrate a particular business concept, application of a theory and a business process. A business case study can be used to analyse an issue from a variety of perspectives and apply critical thinking and problem-solving skills.

Guide to writing a response

There are several steps to interpreting and writing a response to a case study (Table 10.4).

Table 10.4 Guide to writing a response to a case study

Step 1	Read the case study carefully	• Read the task first – what you are required to do • Read the case study • Highlight the main points of the case study • Read the task again • Link the information in the case study to the task
Step 2	Identify the issues in the case study	• Identify any issues in the case study • The following questions may help to do this: – What is the main issue in the case study? – What actions were taken in the situation? – Were these actions appropriate and why? – What were the consequences of these actions?
Step 3	Link the issues to business	• Use your knowledge of concepts, strategies and processes to link the issues in the case study
Step 4	Interpret relationships, patterns and trends	• Recognise business relationships, patterns and trends in the case study • Relate the implications to the effects on the business • Draw conclusions about these implications
Step 5	Plan your response	• Re-read the task and plan a response
Step 6	Write the response	• Write a response conforming with the word limits

Types of interpretive questions

In the QCAA Business General Senior Syllabus document, the section headed ‘Summative internal assessment 1 (IA1): examination – combination response’ refers to two interpretive items that relate to stimulus and novel information.

The first interpretive item requires a paragraph response to describe a business environment or situation that relates to the stimulus provided. The second interpretive item requires a paragraph response to evaluate a business strategy by using criteria and to make decisions and propose recommendations. This is also relating to a given stimulus item.

The following are examples to illustrate the different types of interpretive questions and the depth of answer required (Table 10.5).

Note: the stimulus has not been included for these questions. The stimulus would contextualise the information.

**Table 10.5** Example interpretive question

EXAMPLE QUESTION	INTERPRETATION REQUIRED
Describe a macro environmental issue that affected Hargreaves & Co.'s choice of strategies to remain competitive.	Describe means to ‘give an account ... of a situation, event, pattern or process, or of the characteristics or features of something’. • Identify the macro-environmental issue relevant in the case study • Describe the macro-environmental issue relating to the choice of strategy • The macro environmental issue must relate to the business's choice of strategies to remain competitive
Evaluate a strategy used by Hargreaves & Co. to remain competitive using criteria. Make a decision about the suitability of this strategy and propose a recommendation for the future of this business.	Evaluate means to ‘make an appraisal by weighing up or assessing strengths, implications and limitations; make judgments about ideas, works, solutions or methods in relation to selected criteria; examine and determine the merit, value or significance of something, based on criteria’. • Select criteria to evaluate the strategy used from the following options: – competitiveness – effectiveness – efficiency – stakeholder satisfaction • Use criteria to make judgements and decisions for competitive strategies • Justify a decision that is relevant to the business situation • Make a recommendation that is suitable to the business situation

Source: Business 2019 v1.1 General Senior Syllabus
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Investigation – business report

What is a business report?

A report is an extended response that is structured in a clear and succinct manner. A **business report** is a formal document that can be used to help resolve problems or issues, investigate options and make decisions or recommendations for action. Reports are professional in presentation, are commonly structured into sections with the use of headings and subheadings, and may include tables, graphs and other relevant visual representations.

Why do we write reports?

Learning to write reports is an essential workplace skill in many fields including business, science and information technology. Gaining skills in report writing will help with your school studies, writing at university and in your future work life, where reports are a common communication tool.

How is a report different from an essay?

There are differences between a report and an essay (Table 10.6).

Table 10.6 Differences between reports and essays

REPORT	ESSAY
Reports are the presentation and analysis of findings from research. They begin with an aim (to investigate or solve a problem) and will usually make recommendations.	Essays begin with a question and seek to answer it based on research into existing theories and through the student's evaluation.
Purpose: to investigate, present and analyse information. Used to draw a conclusion or make a recommendation.	Purpose: to articulate a well-argued response. Typically, does not propose recommendations.
Structure: specific sections, using headings and subheadings. Can include graphs, tables and other visual representations. Appendices may follow to support findings.	Structure: a continuous flow of text, using paragraphs to develop ideas. Rarely includes graphs or other images. Appendices are generally not used.

What characterises an investigation report?

An investigation involves students researching a specific problem, issue, question or hypothesis related to a business at a specific stage in its business life cycle. This requires students to research, analyse and synthesise primary and secondary data and information using the inquiry process. An investigation report will evaluate strategies suitable to the business context, using criteria, to make decisions and propose a recommendation that resolves the problem or issue.

How do I write a report?

Firstly, you must identify the focus of the investigation – the problem statement, which is the central question or hypothesis you are investigating. You should then draft some research questions or aims for the investigation as this will help focus your research process.

Your problem statement (or issue/hypothesis) must align to the business situation – for summative internal assessment 2 (IA2), this means the investigation must relate to Unit 3, Topic 2, focusing on strategic development for an authentic (real) business in the maturity stage of the business life cycle.

Note: ensure you confirm your problem statement with your teacher before progressing.

View the video from the University of New South Wales, 'A video overview of report writing'.



A video overview
of report writing

Steps in conducting an investigation and writing a business report

The QCAA says that to investigate is to 'carry out an examination or formal inquiry in order to establish or obtain facts and reach new conclusions; search, inquire into, interpret and draw conclusions about data and information'.



Figure 10.11 Steps in conducting an investigation

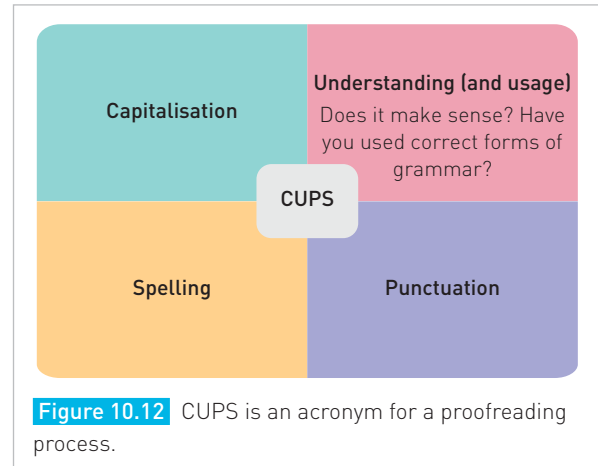
Proofreading and CUPS

'CUPS' is an acronym for a proofreading process (Figure 10.12). It will help you check for errors in the conventions of writing and reduce the likelihood of errors in spelling, grammar and punctuation, which aligns with assessment objective 6. It will also help you write in a cohesive manner, addressing what was intended and removing sections that are not directly relevant to the task.

What are the common features of the report genre?

A business report will have a concise and logical sequencing and organisation of ideas. This means the response must be arranged in a particular order, typically using headings. A sample of headings is listed below, noting that you must always follow the requirements of the task and respond to teacher feedback.

- **Title page:** include the report title (this states the purpose of the report), your name and the name of the person receiving the report, date of submission.
- **Table of contents:** lists the main sections (headings) of the report, including subheadings, and page numbers.
- **Introduction:** this identifies the purpose of the report, necessary background information (without restating the task), the nature of the problem (or issue/hypothesis) and the issues to be addressed (the scope).
- **Body of the report:** this contains the substance of your report and should be organised with headings and subheadings, within which paragraphs should still be used. Format considerations include the following:
 - Main headings should indicate equal level of importance (e.g. 1.0, 2.0).
 - All subheadings should relate to section heading and should also be numbered (e.g. 1.1, 1.2).
 - When using graphs, tables and visual representations, check for suitability, use titles or captions and reference sources.
- **Conclusion:** summarise the key findings from the body of the report and relate them to the problem or issues defined as the focus of the investigation. You should not introduce new points in the conclusion.
- **Recommendations:** reflect the synthesis within the report, to make decisions and propose changes to the application of business practices and strategies, based on criteria. Recommendations should be specific and well organised, with the most important first. They should relate to the conclusion of the report.
- **Reference list:** identify the primary and secondary sources used within the report and cited using in-text referencing.
- **Appendices:** placed at the end of a report, if required. These contain extra supporting information not used in the body of the report. Examples include primary research surveys, tables, graphs, diagrams and illustrations. These are arranged in the order referred to in the report and listed as Appendix A, B, C, etc. in the table of contents.



Extended response – feasibility report

What is a feasibility report?

Like a business report, a feasibility report is a structured extended piece of writing but it has a very specific and contextualised purpose. A feasibility report is a formal document that can be used to analyse two or more potential solutions to a problem or issue and determine which solution should be further investigated or implemented. It is used by businesses when top-level management want to address a business problem or issue and are given the research and evidence to make an informed decision, considering restraints on the business, and its current situation. It is generally compiled by staff of the business, or is a task outsourced to a consulting firm.



Figure 10.13 A feasibility report considers a business's current situation and evaluates a range of solutions to address business problems or issues.

What characterises a feasibility report?

Creating a feasibility report in Business requires you to respond to a business situation at a specific stage of the life cycle. Stimulus will be provided to you to analyse, interpret and evaluate, though some additional primary and secondary research may be used to assist you in enhancing the validity and credibility of your report. Using the inquiry process is fundamental to ensure all elements of the feasibility report are addressed. A key feature of feasibility reports is that two or more solutions or strategies are presented and compared to inform future decision-making by the business.

For internal assessment 3 (IA3), the context and requirements for the feasibility report are defined. In IA3, you are tasked with investigating a business at the post-maturity stage of the life cycle and its opportunity to reposition, based on the subject matter of Unit 4, Topic 1. The audience for the feasibility report are business directors, two or three repositioning strategies should be explained, analysed (using analytical tools), interpreted and evaluated, and recommendations should be provided.



Figure 10.14 A feasibility report should propose recommendations to inform business decision-making, whether it be to proceed or to avoid a potential solution.

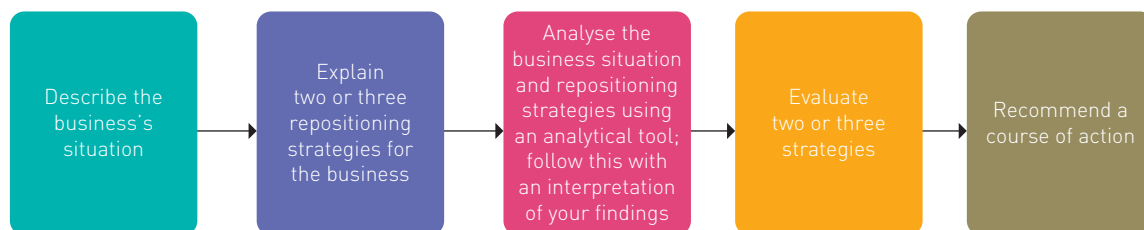


Figure 10.15 A feasibility report has five key components that must be addressed.

How to write a feasibility report

For IA3, you must first identify what the focus of your report will be. This involves generating a problem statement, a central inquiry question and a hypothesis. This problem must relate to the stimulus – looking at the repositioning strategies that could be used by a business facing the post-maturity stage of the business life cycle. Once you have confirmed your approach with your teacher, you should then follow the same framework used for the Investigation: Business report (see pages 347–9 and Figures 10.11 and 10.12).

The following report genre requirements also apply to a feasibility report:

- *title page* – addressed to the business directors
- *table of contents*
- *introduction*
- *body of the report* – including description, explanation, analysis, interpretation and evaluation requirements of the feasibility study. It is acceptable to include data, tables, graphs, analytical tools, diagrams, illustrations and photographs throughout the body of the feasibility report
- *conclusion*
- *recommendations*
- *reference list*
- *appendices*.

Refer to the business report section for a detailed explanation of each of these elements (see pages 347–9).

Formatting tips when preparing a feasibility report

In the creation of your feasibility report, it is important that you present your response professionally. This can be achieved through following a style guide, which is a policy and procedure document that dictates formatting requirements for business documentation. Your school or Business teacher may provide you with a style guide to follow. Figure 10.16 provides some general rules to follow to ensure high-quality formatting.

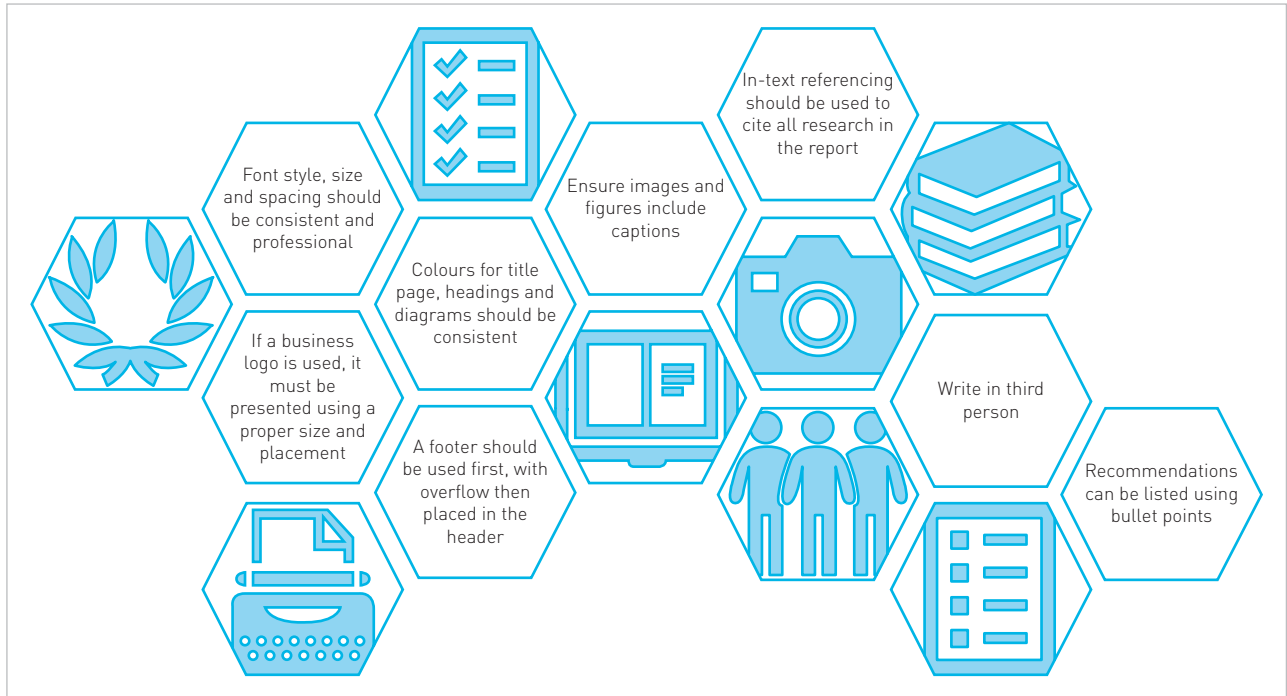


Figure 10.16 General rules to follow when formatting a report

GLOSSARY

Acquisition: when one business purchases another business and takes over responsibility for management and strategic planning

Administration: a process, explained under the *Corporations Act 2001* (Cwlth), 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

Administrator: an independent, qualified person or third party who is engaged by a business, or ordered by the court, to report on the financial position of the business

Agile method: a flexible approach to project management that seeks to deliver projects more quickly, with successive iterations, rather than one huge release at the end of the project

Automated production line: a series of workstations linked by a transfer system and an electrical control system, where each station performs a specific operation and the product is processed step by step as it moves along the line in a pre-defined production sequence

Automation: the replacement of human effort with machinery and technology

Backward incremental planning (BIP): looks at the requirements from the due date backwards and schedules the process accordingly

Brand: the name, term, symbol, design or a combination of these that uniquely identifies a product and distinguishes it from the competition

Brand equity: the brand knowledge, structures and goodwill that a mature brand develops over an extended period of time

Capital market: where buyers and sellers engage in the trade of financial securities such as bonds and stocks to grow investment capital and create wealth

Change: the process causing a function or practice in business to become different

Change agent: a person who acts as a facilitator and assumes responsibility for the management of change to enable a business to transform

Change management: a planned and structured approach that moves a business from its current state to a desired future state

Change process: the approach taken to implement change in a business in order to achieve a desired outcome

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

Communication: the process of sending and receiving information through verbal or non-verbal means

Communications: refers to how a business strategically plans its messaging to satisfy key stakeholders, maintain a positive reputation and achieve its objectives

Competitor intelligence: data and information gathered by a business to understand its competitors and their objectives, strategies and capabilities

Computer-aided design (CAD): technology that streamlines the design and technical documentation of products; it replaces manual drafting with an automated process

Computer-aided manufacturing (CAM): the use of software and computer-controlled machinery to automate a manufacturing process

Computer-integrated manufacturing (CIM): combines various technologies including CAD and CAM to deliver an error-free manufacturing process controlled from the start to the finish of the production system

Consultant: a professional who provides expert advice in a particular area to a business

Contingency planning: a prepared course of action designed to help a business respond effectively to a future event or circumstance that may or may not happen

Corporate affairs: an area of communications in which well-known large public and private companies monitor how they are perceived in the market. Their decisions often attract the interest of highly influential or powerful stakeholders such as the media and government

Corporate social responsibility: the obligation for businesses to contribute positively to society in economic, legal, ethical and philanthropic ways

Cost leadership: aiming to have the lowest costs, and therefore be the most price-competitive, within an industry

Cost-benefit analysis: an approach used to determine 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

Creditor: a person, organisation or business that is owed money by another business. Creditors can include suppliers, financial intermediaries (such as banks) and employees

Crisis: any situation that threatens harm to a business and staff or customers, and that consequently can damage the business's reputation and have a negative financial impact

Crisis management: the strategies a business will implement in response to a serious issue or event and the way it is addressed with stakeholders, most often through the media

Critical path method (CPM): a scheduling technique that focuses on the sequence of activities that requires the longest time to complete. These activities are assigned priority in terms of resources to ensure the project operates as efficiently as possible and is delivered on time

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

Decline: in a business context, decline occurs when the sales reduce or demand decreases for a business and its products or services

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

Dissolve: in a business context, the way in which a business exits the market or closes down

Diverse: of various kinds or forms; different from each other

Dividend: a portion of the profit of a company that is paid to the shareholders

Domestic market: the supply of, and demand for, goods and services within a single country; also referred to as the internal market

Downsizing: a decision for a business to trade at a smaller capacity, through either having less staff or reducing the range of products and services it offers

Drivers of change: the forces that support a change

Economies of scale: cost savings or advantages that can be created as a result of an increase in the scale of business operations, resulting in lower per unit input costs

Emerging market: a market that is building accountability and strength, opening to new foreign investment and trade, and expected to provide higher returns despite greater risks

Emerging technology: a new technology with the potential to substantially alter the business and social environment

Employer of choice: a recruitment and retention strategy to offer attractive incentives, meaning people will choose to work for, dedicate themselves to and be loyal towards a business, despite offers from alternative employers

Entrepreneur: a person who sets up a business or businesses, taking on financial risks in the hope of profit

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

Ethical standards: the principles a business should abide by in order to maintain positive relationships with stakeholders – handling information sensitively, being moral and satisfying community expectations

Ethics: principles that guide the way an individual or an organisation such as a business acts

Expansion: a business strategy to increase market share by entering new markets and providing new avenues to reach customers

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

Export: to manufacture products in a home country and then send them to be sold in another country

Extrinsic rewards: tangible recognition of staff performance and achievement focused on offering pay increases and bonuses

Financing: providing a source of money for a business or project

Force field analysis: a tool used to identify and analyse the positive factors (driving forces) and negative factors (restraining forces) in an environment where change is occurring

Fringe benefit: a benefit provided to an employee in addition to their salary or wage

Global market: the buying or selling of goods and services in all countries of the world

Globalisation: the process of extending manufacturing or trade operations to other parts of the world beyond the home country of a business

Gross domestic product (GDP): the total value of everything produced by all the people and companies within a country

Growth strategy: specific strategy affecting either new or existing products and markets, designed to increase the overall market share 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

Horizontal growth: the replication or expansion of a business product, service or model into new markets or industries

Hostile environment: a situation in which businesses actively compete against one another for customer attention and market share

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

Import: to bring a good or service into one country from another for processing, sale or distribution

Inclusive: a workplace that is accepting and welcoming to all kinds of people regardless of their differences

Industry: a group of businesses producing products or services that are close substitutes

Initial public offering (IPO): the process of selling to new investors for the first time shares that were formerly privately held; also known as floating

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: a classification for a business that is unable to pay back its liabilities (debts) by due dates. The term 'bankruptcy' is only used when referring to an individual and their personal financial circumstances

Integrated marketing communications (IMC): a unified, seamless brand experience across communication channels that is characterised by clarity, consistency and maximum communication impact

Intrapreneur: a manager within a business who promotes innovative product development and marketing

Intrinsic rewards: intangible recognition of staff performance and achievement focused on connection and relationships

Involuntary administration: a situation in which creditors of a company in an insolvent financial position seek a court order for an administrator to be appointed to the company to assess its financial affairs

Joint venture: a partnership between two businesses that pool resources and invest to create a third, jointly owned business

Key performance indicator (KPI): an objective, set by a business, that can be measured to allow business performance to be assessed

Lead time: the time it takes from placing an order until it is received

Leadership styles: the traits, behavioural tendencies and characteristic methods of a person in a leadership position; an important dimension of leadership styles is the extent to which the leader is willing to delegate responsibility and encourage input

Lean production: an operations approach that aims to improve efficiency and effectiveness by eliminating waste and improving quality

Licensee: the person or business that holds a licence to conduct approved business activities or operate a business under a licensing agreement

Licensing: a contractual agreement that allows a business to use the intellectual property (IP) of another business

Licensors: the person or business with the legal rights over a business who then gives, sells or otherwise enables another person or business a limited right to use the business's intellectual property

Liquidation: a process to finalise a business that is closing. It involves selling assets at a discounted or cheap rate to be quickly converted to cash

Lobbying: actions taken by a business in an attempt to influence government on policy decisions and ensure a favourable result for the business

Loyalty program: structured marketing efforts that reward, and thereby influence, consumer buying behaviour and build loyalty

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

Manipulation: the skilful, or sometimes scheming, exercise of influence over someone to achieve a desired outcome

Market share: a competitiveness indicator that measures the percentage of sales in the total market sold by one business, either in units (volume) or sales revenue. A rise in the market share of one business typically represents a decline in market share by another

Market share analysis: examines the sales performance of a business and compares it against its direct competitors

Merger: when two businesses come together to operate as one new and larger organisation

Mind share: the degrees of influence of competing brands in the mind of the consumer; this can be a competitive advantage for the business that is top of mind

Moral: knowing the difference between actions that are right and those that are wrong

Negotiation: a bargaining process with the aim of reaching an agreement

Niche market: a small segment of the market that has a unique set of characteristics

Offshoring: the relocation of a business process or activity performed in one country to another country, either with the same or another business

Omni-channel: an approach that provides customers with the same shopping experience using different methods of sales; for example instore, online, phone orders

Onboarding: the process whereby new staff learn the social and performance areas of their new job, including attitudes, knowledge, skills and behaviours

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

Outsourcing: a strategic decision to transfer certain activities in a business's operations to external specialists

Pareto principle: a 'cause and outcomes' principle, also known as the 80/20 rule. This states that 80 per cent

of one variable is accounted for by 20 per cent of the causal variable

Participation: the act of being involved or taking part in some action

Performance management: a process by which management reviews the overall performance of the business and its employees to determine how goals can be better reached

Philanthropy: charitable giving by a business to society by donating finance, time or resources

Post-maturity: the stage in the business life cycle following maturity when a business starts to experience a consistent decline in sales or reduced demand from the market

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

Private equity: the funds that institutional and retail investors use to acquire public companies or invest in private companies

Professional services: providers of expert knowledge in a particular field to a business

Program evaluation review technique (PERT): a visual tool for scheduling projects in a network or flow plan that focuses on meeting deadlines to improve operational efficiency

Project: a unique, one-time operation, designed to achieve a specific set of objectives

Project team: a work team, created for a particular task or project, whose members are chosen based on their background and experiences being directly useful to the team's purpose

Public affairs: the communication relationship between business and government, which can include working collaboratively on projects or lobbying to influence government policy

Public relations: a part of the marketing function that utilises unpaid methods of promotion to engage customers with a business's goods and services. It further focuses on developing mutually beneficial relationships with customers and the media

Quality assurance (QA): establishing and using a set of procedures and processes that will prevent product defects and assure a stated level of quality

Quality circles: groups of employees from different areas of the business that come together to discuss ways of resolving problems and improving productivity in the workplace

Quality control (QC): a system based on inspecting, testing or checking the product to ensure it conforms with 'acceptable quality' and is free from faults

Quality management: the processes that a business carries out to meet its quality objectives, from the business and consumer perspective

Quality of conformance: the degree to which a product, service or process meets its design specifications

Recession: a period when the economy of a country is in decline and conditions for business are not considered optimal

Redundancy: an employer-directed separation strategy that occurs when a business reduces the number of employees because a position is no longer required

Relationship marketing: the process of establishing, maintaining and enhancing long-term relationships with customers so that the objectives of both parties are met

Renewal: an outcome of post-maturity where a business may transform or reposition to ensure the future success of the business

Repositioning: a strategy where a business attempts to engage with a new or broader target market by offering new products or services, rebranding or updating tactics used in promotion to change how it is perceived in the market

Research and development: the process by which a business develops new technology or improves existing technology to improve operations

Restraining forces: the forces that resist a change

Retraining: the process of learning new skills

Risk management: a process to identify, evaluate and understand the risk of business actions and decisions in order to minimise, control or eliminate the impact of unacceptable risks

Robots: programmable machines that undertake a variety of repetitive tasks, especially where the task is difficult or dangerous for a human, or takes place in a hostile environment

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

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

Staff wellbeing: the physical and mental state of employees demonstrated through work/life balance, satisfaction and engagement

Steady state: an outcome of post-maturity where the business may experience minor decline but is able to maintain this level and continue to trade in the market

STEEPLE analysis: an analytical tool that identifies how different macro factors – socio-cultural, technological, economic, environmental, political, legal and ethical – impact on business

Strategic alliance: a partnership between two businesses that benefit equally to gain access to a new area of expertise, technology or market

Strategic direction: specifying the vision and strategy the business seeks to develop over time, framed within the context of environmental factors

Strategic interaction: found in highly concentrated markets, it involves acting in a way that accounts for the anticipated behaviour and strategies of rival businesses

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

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

Succession plan: a process for identifying and developing new managers in a business to replace former managers lost due to restructure or retirement

Sustainability: the capacity to endure

Threat: a tactic used with the intention of enforcing conformity

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

Touch point: any promotion avenue or communication that reaches the target consumer to present the brand in a positive manner

Transformation: the process of changing from one state to another

Triple bottom line: an accounting framework that broadens a business's focus from only the financial bottom line to include social and environmental considerations

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

Vertical growth: the adaptation of business products and services to increase sales revenue from the existing market

Vision for change: a desired or future state in which the organisation will be after a change has been implemented

Voluntary administration: a situation in which the directors of a company in an insolvent financial position appoint an independent, qualified person or party to investigate and assess the financial position of the business

Waterfall method: a traditional, linear approach to project management, with phases that move sequentially from project conception through to closing

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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.