

BUSINESS FOR QCE

2E

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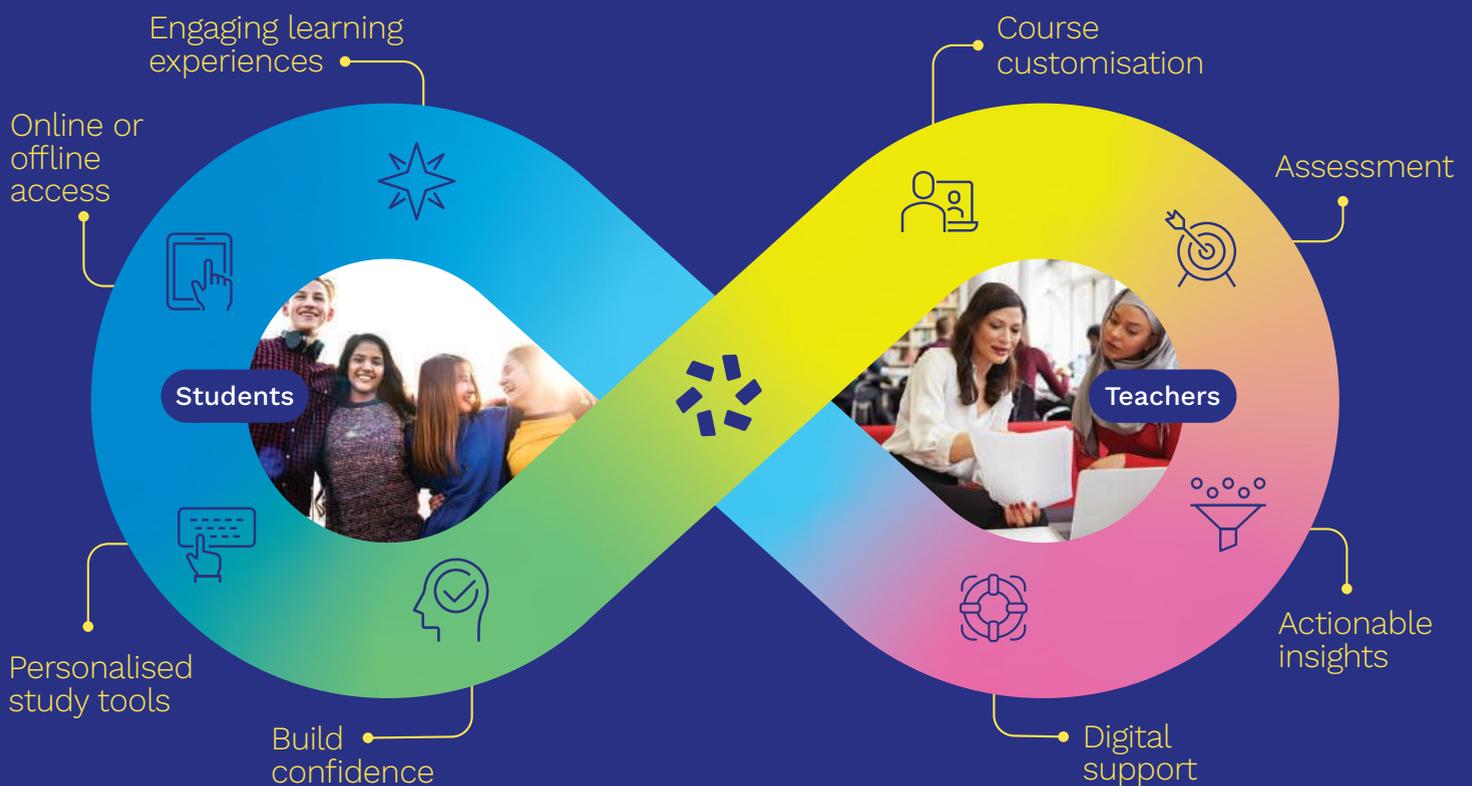
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UNITS
1 & 2



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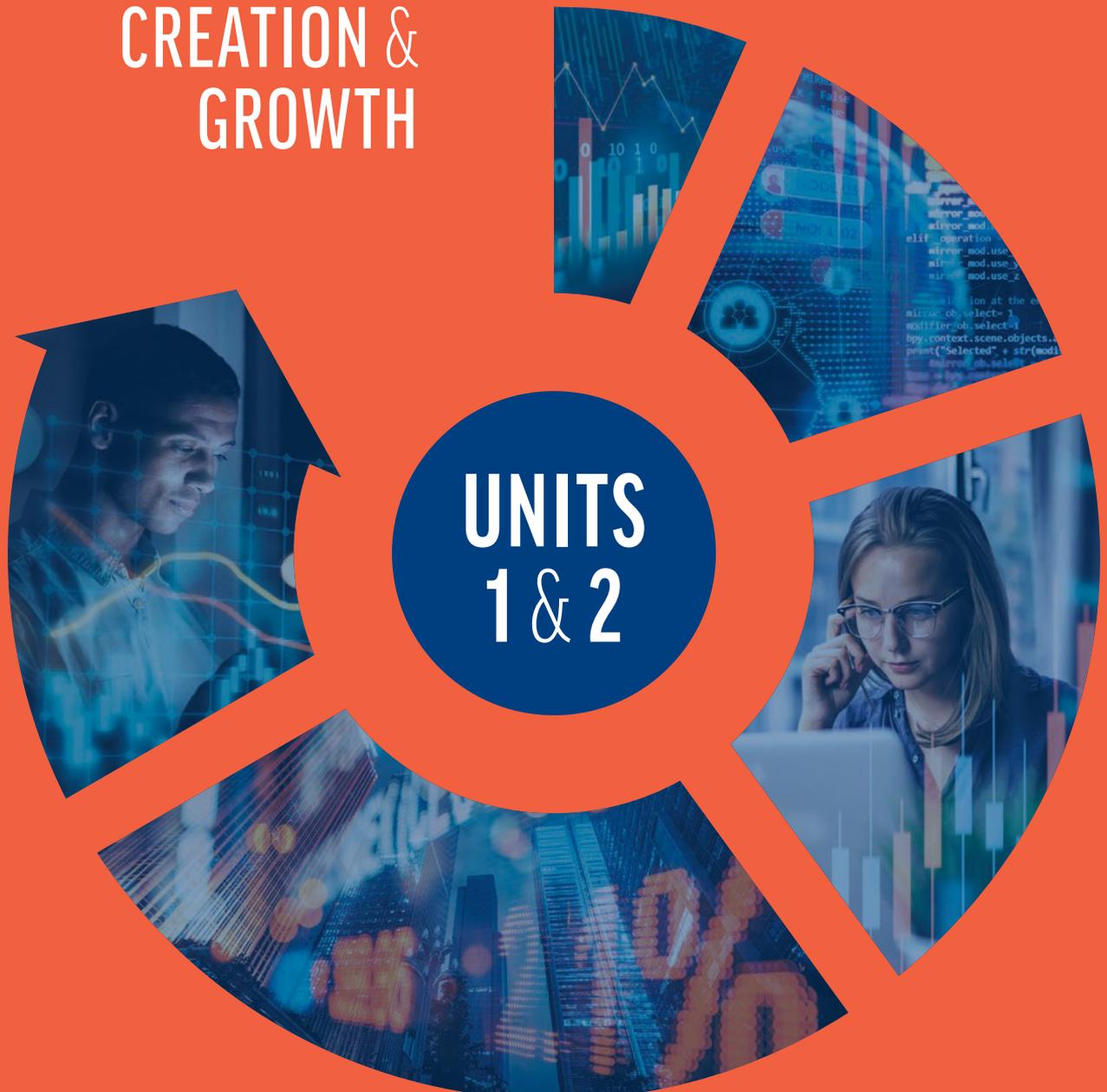
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CREATION &
GROWTH



UNITS
1 & 2

Business for QCE: Units 1 & 2: Creation and Growth

2nd Edition

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ABOUT THIS SERIES

This series has been created to comprehensively cover the new senior QCAA Business General Senior Syllabus. *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 insights

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

Inquiry activities

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

Key terms

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

CHAPTER 3 - FUNDAMENTALS OF BUSINESS 43

ANALYTICAL TOOL

SWOT analysis: a planning tool

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

Internal environment

Strengths and weaknesses are internal to the business and relate to matters concerning resources, programs and organizational structure. They include:

- management - systems used, experience of management, resources available
- operations - efficiency of operations, capacity to operate, processes used
- financial - resources available
- performance of business, purchasing systems
- marketing - sales, promotion of product, pricing
- location - quality of product, customer feedback, reputation
- employee relations - employee loyalty, employee retention, employee training
- people - customer service offered, employee management

EXTERNAL ENVIRONMENT

The external opportunities and threats confronting a business can result or derive in the following areas:

- change in the business's industry where:
 - size and organization, growth patterns and maturity
 - social, political and relationships, emergence of factors
 - international markets
- technology - the technologies the business trades in may be altering due to economic or socio-cultural factors, such as:
 - innovation, needs and wants
 - socio-cultural or demographic issues relating to the economic conditions
 - change in the political scene

Strengths, other business assets, etc. This could include the type of product and service, loyal customer base or strong branding.

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

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

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

FIGURE 3.10 Fluctuate from goal and objective to strategy and tactic

Goal	Objective	Strategy	Tactic
• Increase sales revenue			

FIGURE 3.11 Fluctuate from goal and objective to strategy and tactic

Based on strategies and tactics, businesses set goals. They reduce a goal by adding more detail so the goal can be achieved. Each goal is both relevant and practical application, and specifies the process.

Summary of strategies and tactics

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

QUESTIONS 3.10

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

Business goal	Tactics
1. Increase sales revenue	
2. Increase sales revenue	
3. Increase sales revenue	
4. Increase sales revenue	
5. Increase sales revenue	

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

CHAPTER 4 - THE REALITY OF IDEAS 195

Case study 2: Creation of business ideas

The Seabin Project

Two Australian surfers, boat builders and entrepreneurs, Andrew Turton and Pete Ceginelis, have used their whole lives by the sea. Having worked for many years in the yacht racing industry, they saw firsthand how widespread the issue of marine litter was wherever they travelled. Not only did Andrew and Pete see lots of mismanaged waste that would end up in the ocean, but they would also see litter floating in marinas. Andrew became frustrated with the amount of rubbish and saw the need to find a way to address this problem. He thought, 'If there are rubbish bins on land, there could certainly be rubbish bins in the water.' Here, he identified a business opportunity and an answer to the litter problem in marinas. Andrew teamed up with Pete, and together they began to work on some prototypes to develop a floating bin.



FIGURE 4.1 Seeing a problem can motivate entrepreneurs to find a solution and create a business opportunity

About the Seabin Project

The Seabin is an innovative, world-first invention that has attracted global attention for its potential to help clean the world's oceans and revitalise the health of marine ecosystems around the world. The 10' model was designed to be installed on the water of marinas, yacht clubs, ports or other bodies of water with a cabin environment and services available and was estimated to catch 1.5 kilograms of floating debris per day, depending on weather and debris volumes. This equates to over half a tonne of debris per year for each Seabin. The 10' model also catches a percentage of oil with vertical adsorbent technology custom designed for the Seabin's catch bag.

The Seabin 10' is capable of filtering 25 kilograms of debris and is easily equipped with oil-absorbent pads capturing petroleum-based surface oils and catches an estimated 29 kilograms of floating debris in most marinas. It has an increased catch capacity and can catch an estimated 1.5 tonnes per year, including microplastics down to 20 micrometres small.



FIGURE 4.2 The 10' Seabin is now available as a for-lease product through entrepreneurs to help clean the problem in marinas and harbours.

Sources of support and advice

Before a new idea becomes a viable business opportunity, there is much research and development that occurs. Many entrepreneurs who start with limited business experience, like Seabin founders, Andrew Turton and Pete Ceginelis, rely on support and advice from friends and family in the initial stages of the development of the project. The initial development of the Seabin came by trial and error and through the creative thinking of Andrew and Pete. As their idea continued to grow, they sought advice from local lawyers and organised a successful crowdfunding campaign. This gave the Seabin Project enough funds to bring the project to market.

Once the company was established, strategic partnerships with an industrial partner for manufacturing, and joint ventures with other partners to test and trial the Seabin before commercial sale, have been important sources of support and advice and have contributed to the success of the project.



FIGURE 4.3 The 10' Seabin is now available as a for-lease product through entrepreneurs to help clean the problem in marinas and harbours.

Entrepreneurial characteristics

It can be seen from the timeline of achievements and the determination to bring the Seabin to market that the team have set big goals for themselves. Andrew, Pete, Sergio and Sacha are the team of the Seabin Project. They have pushed themselves to the limit to try and achieve their goals and dream up the marinas, harbours and oceans of the world. While the team enjoy creating innovation, a bunch of hard-working people that really want to make a difference, their attitude and enthusiasm are other really great team factors. They have learnt many times through their own mistakes and have been afraid to take risks.

Andrew and Pete, as founders, have demonstrated many of the entrepreneurial characteristics discussed in Chapter 4. In their pursuit of inventing and building something completely innovative from nothing, they have shown passion, persistence and creativity. They have their vision, determination and business to continue through the challenges of the start-up stage to finally have a product ready for sale and installation in 2017. However, in June 2020, after a world-wide coronavirus outbreak that saw Seabin enter the market in 20 countries in only two years, Seabin decided to cease selling Seabins, revise their business model and re-enter the market with a new business model based on leased services and corporate partnerships. This new model meant that Seabin now again faced with the challenges of the start-up stage of the business life cycle as they re-entered the market with a new target market and business model.

Questions

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

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ABOUT THE AUTHORS

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Berenice Furlong

Berenice is a leader in business education in Queensland. She has significant experience within the Queensland school environment as a Head of Department, senior experienced teacher and year-level coordinator. Berenice is an experienced Business educator who has taught across senior Business, Legal Studies, Accounting and a range of junior business subjects. She is first and foremost a classroom teacher who understands the needs of frontline educators. Berenice is a dedicated teacher who has made a significant contribution to the lives of young people.

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Sally Adams

Thank you to my family, notably my husband, Ian, and my girls, Makayla and Jasmine, for their support and encouragement and for understanding that sometimes ‘Mum needs to work’ – even when it’s holidays. I acknowledge, with gratitude, the wonderful co-authors I am fortunate enough to work with again; it is always such a pleasure to work with you. I also thank the team at our publisher Cengage Nelson for their support and feedback.

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Berenice Furlong

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Melissa Larsson

I would like to thank my husband, James, and my parents, Kerry and Denis, for their support as I commenced work on the new edition of this series. Moving away from teaching but still being wholeheartedly committed to Business education does present its challenges, but knowing the positive impact this series has on teachers brings me a deep sense of purpose. I hope you find this to be a reliable and trusted resource.

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Finally, I’d like to acknowledge my son, Christian, who is still little and wasn’t around when we wrote the first edition. You are my ‘favourite everything’ and I look forward to telling you all about these books when you’re older.

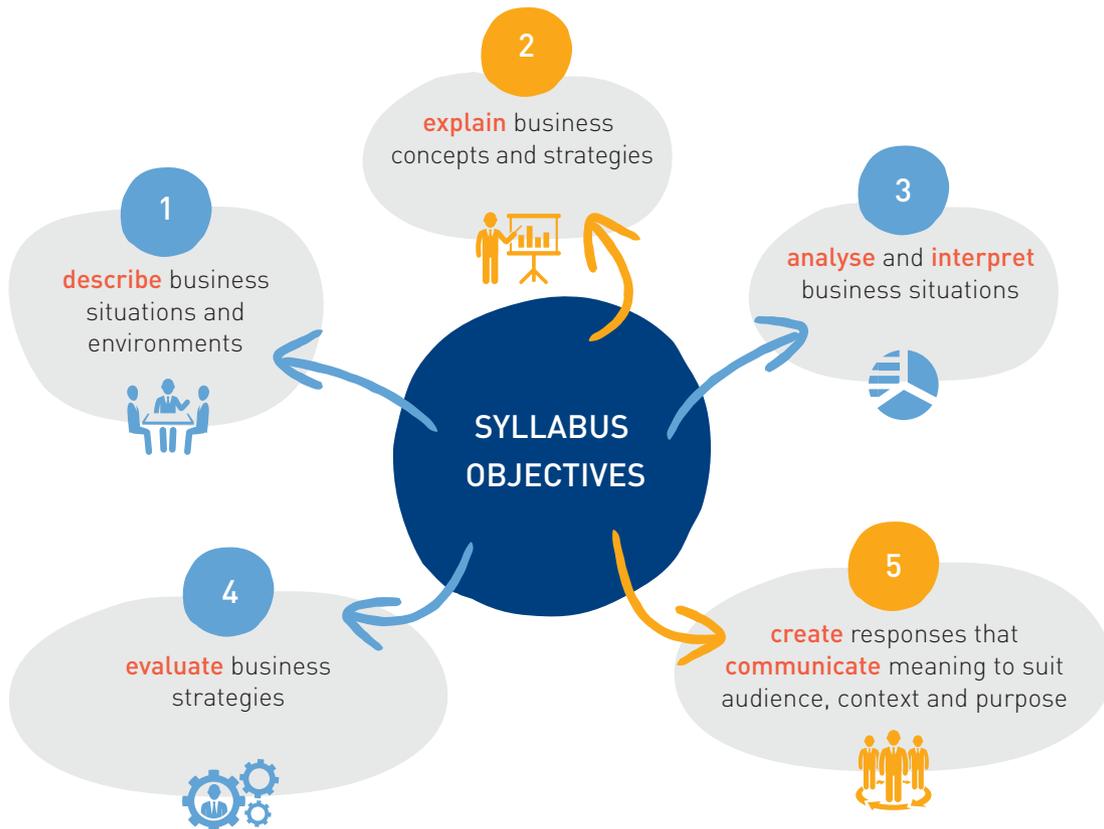
Amy Thompson

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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 interpretation of information, evaluation and decision-making and the creation of responses to communicate ideas.

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



Source: Business 2025 v1.1 General Senior Syllabus © Queensland Curriculum & Assessment Authority.

21st-CENTURY SKILLS

ASSOCIATED SKILLS



CRITICAL THINKING

- analytical thinking
- problem-solving
- decision-making
- reasoning
- reflecting and evaluating
- intellectual flexibility



CREATIVE THINKING

- innovation
- initiative and enterprise
- curiosity and imagination
- 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



INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT) SKILLS

- operations and concepts
- accessing and analysing information
- being productive users of technology
- digital citizenship (being safe, positive and responsible online)



COLLABORATION AND TEAMWORK

- relating to others (interacting with others)
- recognising and using diverse perspectives
- participating and contributing
- community connections



PERSONAL AND SOCIAL SKILLS

- adaptability/flexibility
- management (self, career, time, planning and organising)
- character (resilience, mindfulness, open- and fair-mindedness, self-awareness)
- leadership
- citizenship
- cultural awareness
- ethical (and moral) understanding

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	<ul style="list-style-type: none"> SWOT analysis 	<ul style="list-style-type: none"> STEEPLE analysis Break-even analysis 	<ul style="list-style-type: none"> SWOT analysis Power interest grid 	<ul style="list-style-type: none"> STEEPLE analysis Porter's five forces
Topic 2	<ul style="list-style-type: none"> PEST analysis 	<ul style="list-style-type: none"> SWOT analysis USP analysis 	<ul style="list-style-type: none"> STEEPLE analysis USP analysis 	<ul style="list-style-type: none"> SWOT analysis Force field analysis

1

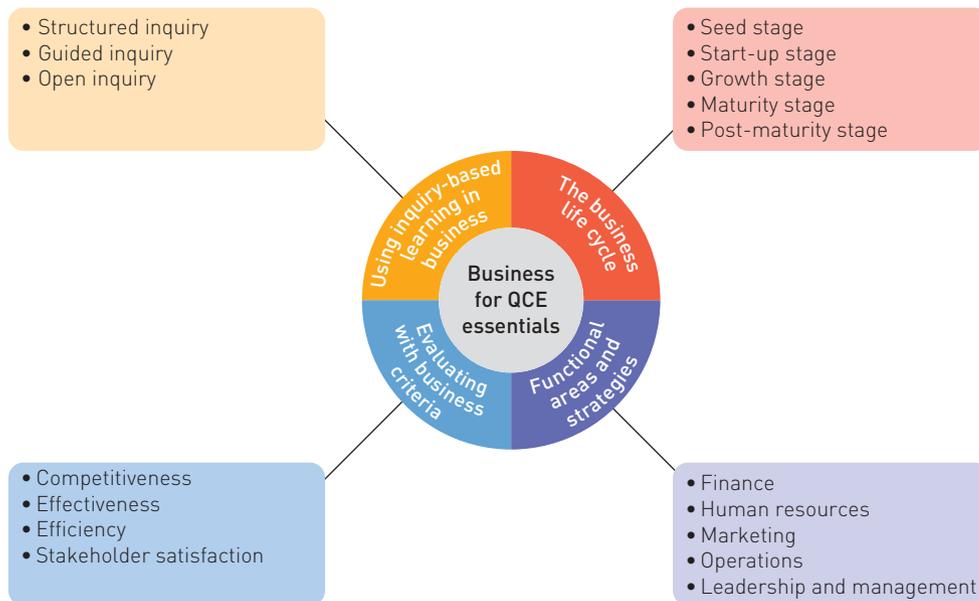
BUSINESS FOR QCE ESSENTIALS

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 while the concepts introduced are applicable to many or all stages of the life cycle, each chapter will focus and apply these to a particular stage. When evaluating the business strategies used at each stage, four business 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 business criteria used for evaluating business 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 1.1



The Grays.com story

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

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

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

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

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

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

Questions

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



Stocksolutions/Alamy Stock Photo

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

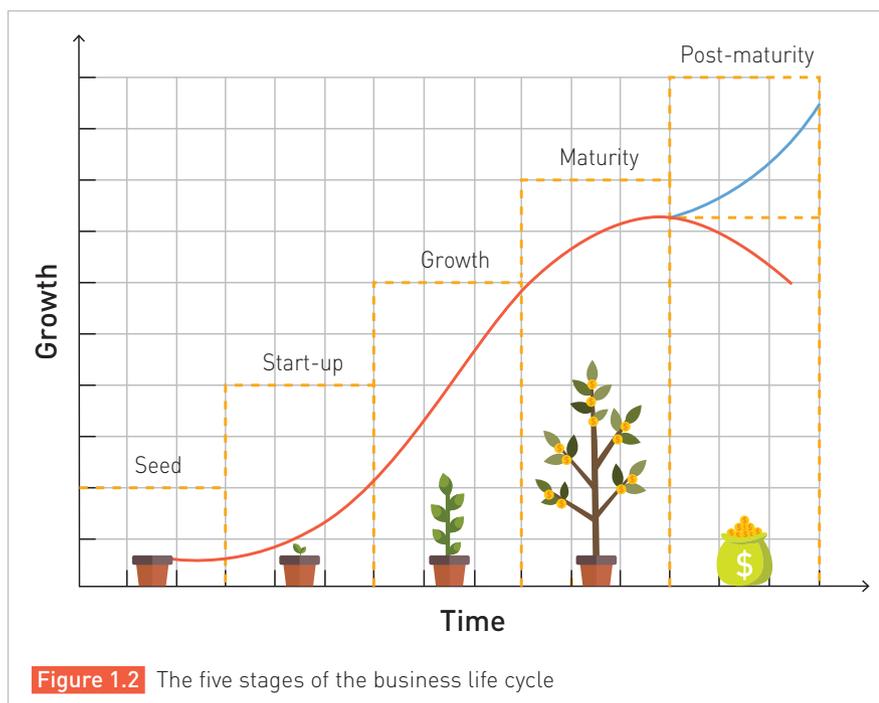
The business life cycle

Key learnings

You will learn about each stage 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, growth through to expansion or establishment, and finally, the post-maturity options of steady state, renewal and decline (Figure 1.2). As soon as the decision to develop an idea into a potential business is made, the business life cycle journey has begun.



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

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 business owner may then revise their business plan during the start-up stage in order to seek more finance for the business.

The start-up stage

Once the viability of a business idea is established, a solid business plan exists and a legal ownership structure is 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 focuses on establishing itself and building a customer base, while also making sure it is meeting its legal and regulatory obligations, and seeking greater sources to finance. During this stage the business is established and commences trading, and may begin to hire and train employees and build professional networks.

Challenges of the start-up stage

The start-up stage is often 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 adapt to meet their needs. The business begins trading and seeks to attract and establish a customer base and presence in the market. This is a challenge that continues throughout the life cycle; however, it is critical during the start-up stage that customers are attracted and products or services are sold to ensure the necessary cash flow to fund the continued operation of the business. This can be achieved through calculating the break even point for the business, and carefully budgeting expenses against forecasted income. It is also important the business owner develops effective management and leadership skills to navigate these challenges with competence.

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. Adapting and responding to customer feedback and investors will ensure the business can attract new customers and begin to grow. At this stage of the business, ensuring stakeholder engagement – with suppliers, accountants, solicitors and government – is essential for the establishment and success of the business.

The growth stage

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



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

Sahara Prince/Shutterstock.com

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

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, as well as 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 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 this stage. Strategic decisions need to be made to effectively prepare the business for the increasing competition that comes from maturing 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, 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

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

Challenges of the post-maturity stage

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

Strategies for the post-maturity stage

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

QUESTIONS 1.1



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

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

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

GAINING INSIGHT 1.2



A business with charm

PANDORA's business model has achieved success over the years to become a world-leading global jewellery company in over 100 countries.

The business started in 1982 as a small jewellery shop in Copenhagen, Denmark, operated by Per and Winnie Enevoldsen. Initially, the Enevoldsens travelled to Thailand to source their jewellery pieces. However, the demand for products grew exponentially, so in 1989 the business opened a factory in Thailand to design and manufacture its own jewellery. This enabled PANDORA to establish a low-cost manufacturing factory and operate an efficient supply chain to produce affordable jewellery.



Elfangar/Shutterstock.com

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

In 2000, PANDORA began selling its unique charm bracelet. The charm bracelet was very successful for a number of reasons:

- Customers were able to customise their own bracelet with a variety of charms to create their own style of jewellery.

- Customers could capture moments in time by adding charms to represent a memory. For example, if a customer travelled to France, they could add an Eiffel Tower charm to their bracelet.
- The charms sell all year round and new designs are created for calendar events. This includes charms for special events such as birthdays, Valentine's Day, Easter, Mother's Day and Christmas.

The charm bracelet created a signature brand for PANDORA and increased its success in the jewellery industry. This allowed PANDORA to expand its operations by entering new markets including the United States in 2003 and Germany and Australia in 2004. To meet growing demand, PANDORA increased its manufacturing operations and opened a second factory in Thailand in 2008. In 2010, PANDORA was publicly listed on the Copenhagen Stock Exchange in Denmark.

In 2020, due to the global pandemic, PANDORA closed nearly 2700 stores around the world. To reach its customers online, PANDORA launched digital marketing strategies. PANDORA increased its online presence by using influencers to promote its products through social media platforms. In 2021, PANDORA introduced sustainable practices by making its jewellery from recycled silver and gold to reduce its greenhouse gas emissions.

PANDORA continues to achieve success and has maintained its strong presence in the jewellery industry.

Questions

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

Evaluating with business criteria

Key learnings

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

- competitiveness
- effectiveness
- efficiency
- stakeholder satisfaction.

Evaluating

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

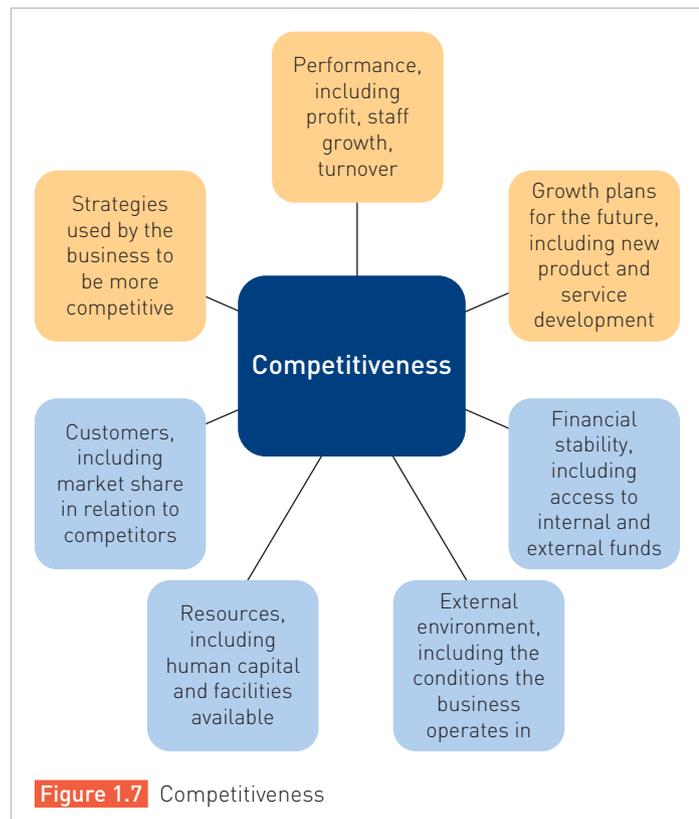


Competitiveness

‘To what degree has the business offered products or services that meet or exceed market standards in relation to other businesses?’ (Business 2025 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 on a business’s ability to be competitive include customers, performance, growth plans, resources, strategies, technology, financial stability and the external environment (Figure 1.7).

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



Effectiveness

‘To what degree has the business achieved goals and/or objectives and to what extent has the business solved targeted problems?’ (Business 2025 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

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

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

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



As all business practices can be evaluated using effectiveness as the criterion, businesses must ensure they set SMART objectives so that judgements are informed and can be justified with evidence. SMART objectives are covered in Chapter 3.

Efficiency

‘To what degree has the business optimised its use of resources and application of processes in achieving goals and/or objectives?’ (Business 2025 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

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

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



Stakeholder satisfaction

‘To what degree has the business considered and managed stakeholder expectations in achieving goals and/or objectives?’ (Business 2025 General Senior Syllabus © Queensland Curriculum & Assessment Authority.)

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

A range of stakeholders can be considered when using this criterion, and a key understanding of their motives is essential. For example, customers 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.

Business 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 business criteria: competitiveness, effectiveness, efficiency and stakeholder satisfaction.

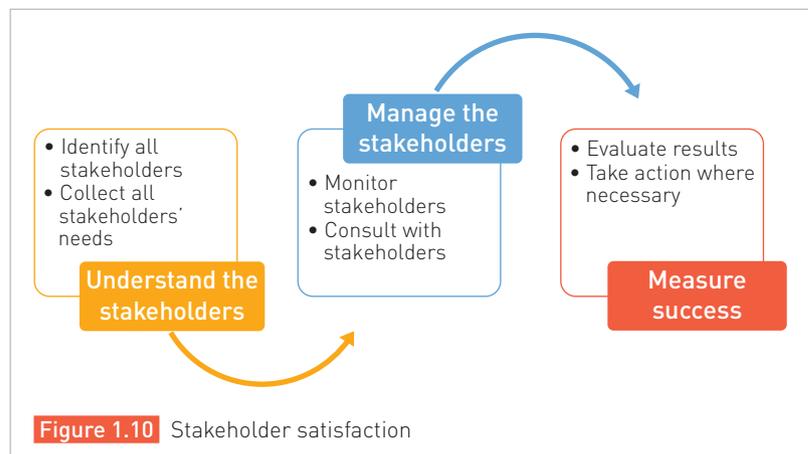


Table 1.2 Focus areas and sample questions to assist with an evaluation

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 and morally sound, and considered the outcomes on others?
Labour	What impact do staff (or people as a resource) have on the business strategy or decision?
Needs	To what extent does the business's decision align with its goals and objectives?
Productivity	Can the business's processes improve as a result of its strategies or decisions?
Profitability	What impact will the business's decision or strategy have on its ability to improve financial performance?
Quality	To what extent will quality be enhanced or compromised?
Reputation	What is the potential that the business's strategy or decisions will improve or hinder current perceptions of the business?
Risk	To what extent does the level of exposure have an impact on the business strategy or decision?
Sustainability	To what extent do the business's strategies or decisions support the long-term achievement of goals? How has the business considered environmental impacts in its decision-making?
Time	How long will it take to enact the business strategy or decision, and what are the potential consequences of this?

QUESTIONS 1.2



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

Business criterion	Characteristics
Competitiveness	
Effectiveness	
Efficiency	
Stakeholder satisfaction	

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

Using inquiry-based learning in Business

Key learnings

You will learn about Business essentials by examining:

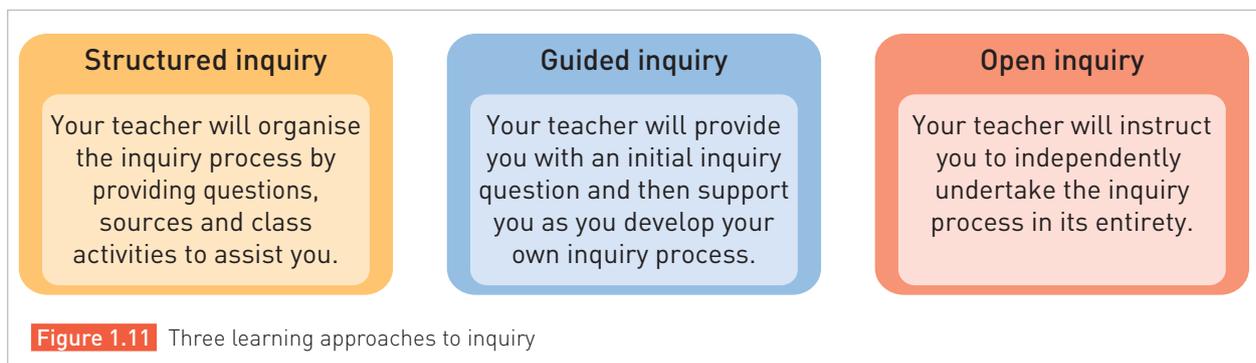
- inquiry-based learning
- approaches to inquiry
- how to plan the inquiry process
- how to write an inquiry question.

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 be provided with background information and direction to complete this effectively.

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

Learning approaches to inquiry

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



Planning the inquiry process

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

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

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

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

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

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

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

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

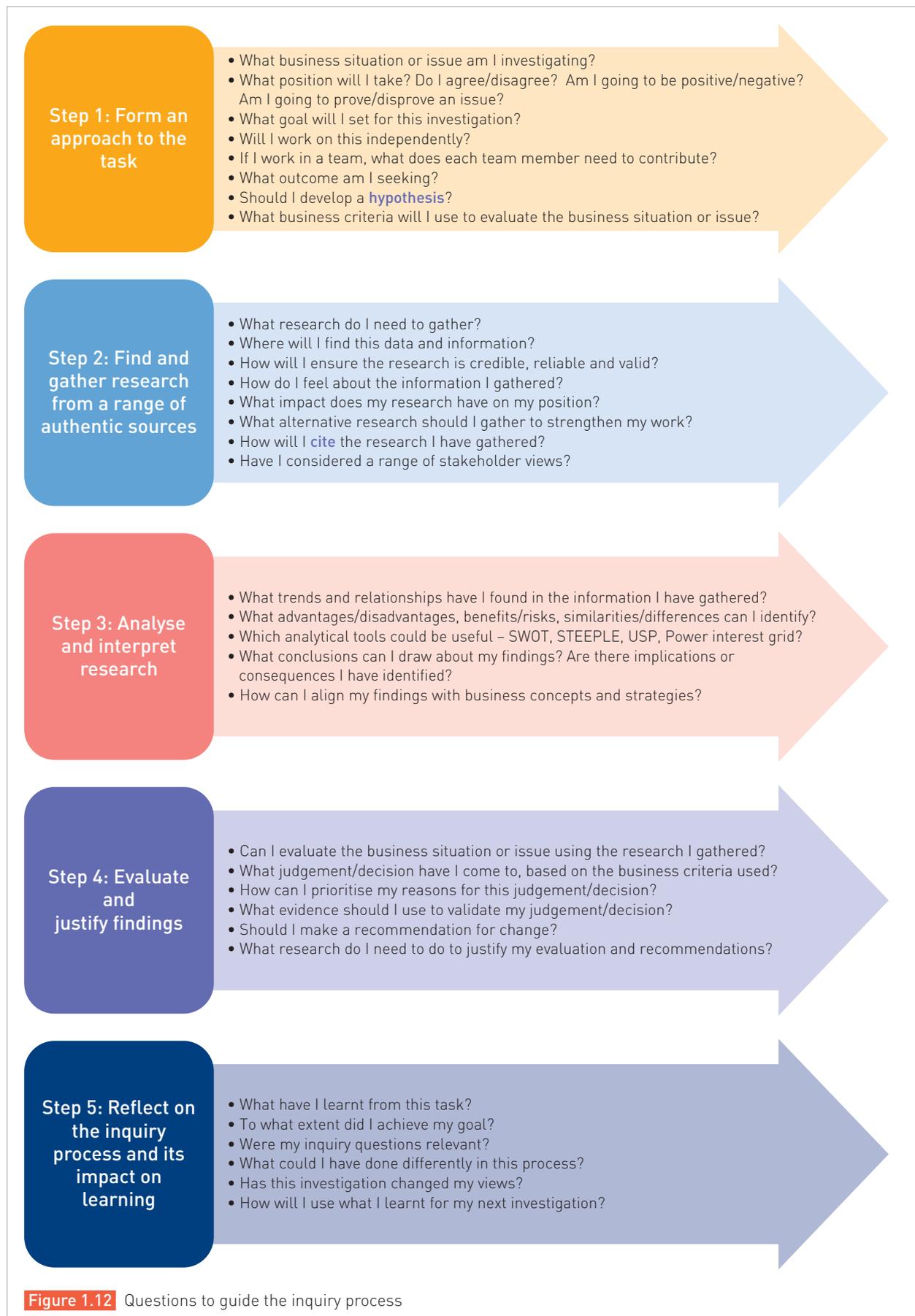


Figure 1.12 Questions to guide the inquiry process

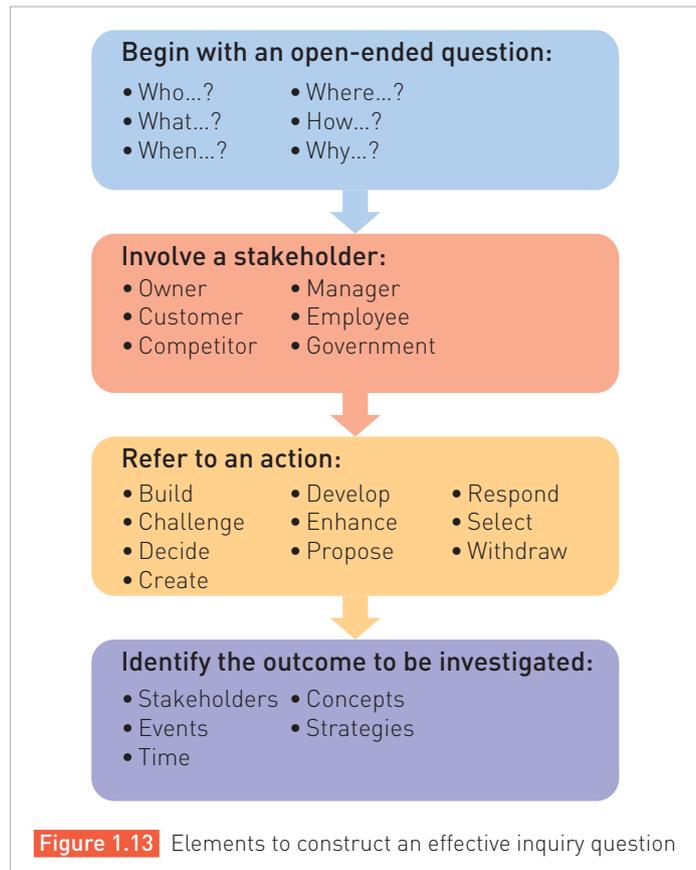
How to construct inquiry questions

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

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

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

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



QUESTIONS 1.3



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

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

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



2

CREATING BUSINESS RESPONSES

What you will learn

The Business General Senior 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.

This chapter will provide you with the opportunity to:

- **describe** business situations and environments
- **explain** business concepts and strategies
- **analyse** and **interpret** business situations
- **evaluate** business strategies
- **create** responses that **communicate** meaning to suit audience, context and purpose.

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Examination – combination response

Short response

A short response is a question requiring sentences or paragraphs that demonstrate recall, description or explanation of key concepts and knowledge. In Business, these short responses relate to business facts, concepts or strategies learnt throughout the course (Figure 2.1). They may include stimulus items.



Figure 2.1 Short responses are an opportunity to demonstrate the depth of your knowledge and understanding of key business concepts.

Understanding short responses

A common error in exams 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 response 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 2.1).

Table 2.1 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 (Figure 2.2). 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.

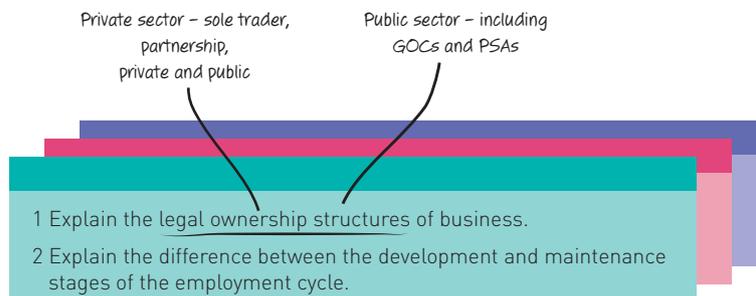


Figure 2.2 Underlining keywords and brainstorming content before formulating responses can help you to refine and formulate answers.

Writing short responses

Generally, a short response is a series of sentences or paragraphs. This means that your answers to short items need to be concise, clearly structured and ensure only relevant material is included. However, short responses 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 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 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 response, using the PEEL structure is most effective (Figure 2.3).

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 2.2) also help to ensure you stay on topic and provide supporting evidence of your knowledge.

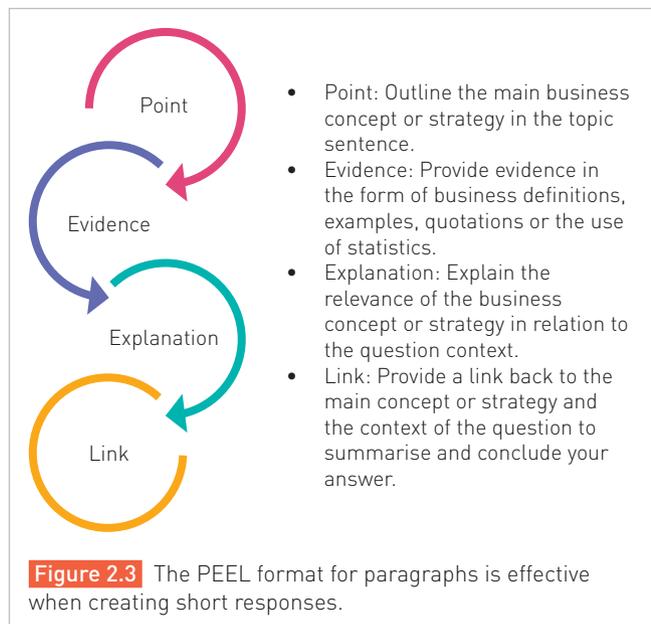


Table 2.2 Examples of transition words and phrases

<ul style="list-style-type: none"> • Because • In addition • In contrast • Next • Afterwards • Accordingly • As well as • As a result • Consequently • Furthermore 	<ul style="list-style-type: none"> • No doubt • Of course • On the other hand • Naturally • Also • After • Before • First, Second ... • Overall • Considering
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GAINING INSIGHT 2.1



Slack: Business communication moves from email to instant messaging

Slack is a messaging app designed to increase workflow and minimise meeting time 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 48.6 per cent reduction in emails, with nearly 80 per cent of those surveyed saying it improved transparency and office culture. It has also dropped the number meetings by 24 per cent, while increasing overall productivity by 32.4 per cent, the survey said.



Sling & Stone

Interpreting stimulus

Interpreting stimulus 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. It may also require you to identify or 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 2.4.

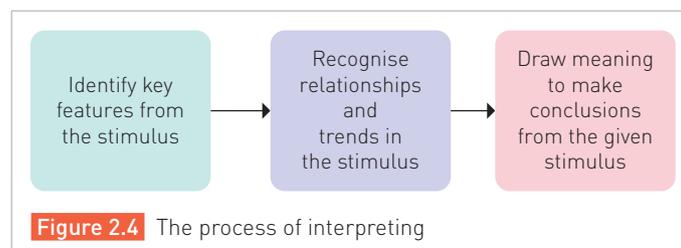


Figure 2.4 The process of interpreting

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 stimuli such as:
 - competition analysis using a 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

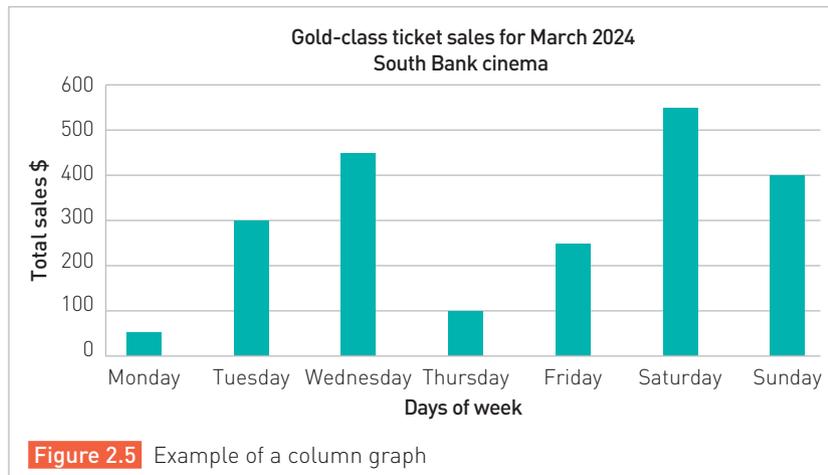
A graph can be used in business to tell a story. It is a way of presenting numerically based data that condenses the information and presents it in a more easily readable format. Graphs allow people to interpret trends in the information and make predictions about what they might see in future data.

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

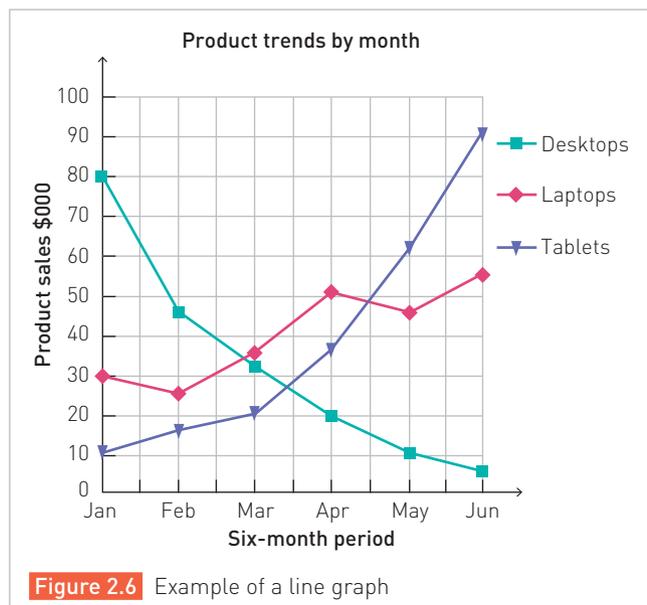
The main types of graphs used in a business are column, line and pie graphs. The column graph is used to show sets of data that are independent of each other. For example, in Figure 2.5, the column graph shows the number of ticket sales for one month at a specific cinema. From the graph, it is clear to see that the largest number of tickets sold was on Saturday and the smallest on Monday.



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 2.6 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 2.7 clearly shows that the salesperson who has made the most sales is Rick Peterson.

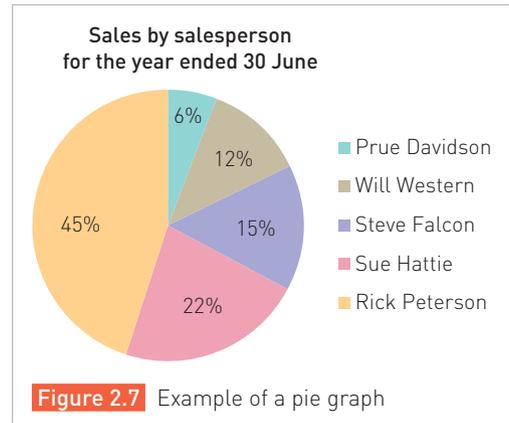


Figure 2.7 Example of a pie graph

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 vocabulary in Table 2.3 may be useful to know.

Table 2.3 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 2.4).

Table 2.4 Guide to writing a response to a case study

Step 1	Read the case study carefully	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Identify any issues in the case study • The following questions may help to do this: <ul style="list-style-type: none"> – 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	<ul style="list-style-type: none"> • Use your knowledge of concepts and strategies to link the issues in the case study
Step 4	Interpret relationships and trends	<ul style="list-style-type: none"> • Recognise business relationships 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	<ul style="list-style-type: none"> • Re-read the task and plan a response
Step 6	Write the response	<ul style="list-style-type: none"> • Write a response conforming with the word limit

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 2.5).

Table 2.5 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 researching a specific problem, issue, question or hypothesis related to a business at a specific stage in its business life cycle. This requires research, analysis and interpretation of data and information using the inquiry process. An investigation report will evaluate strategies suitable to the business context, using business 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.

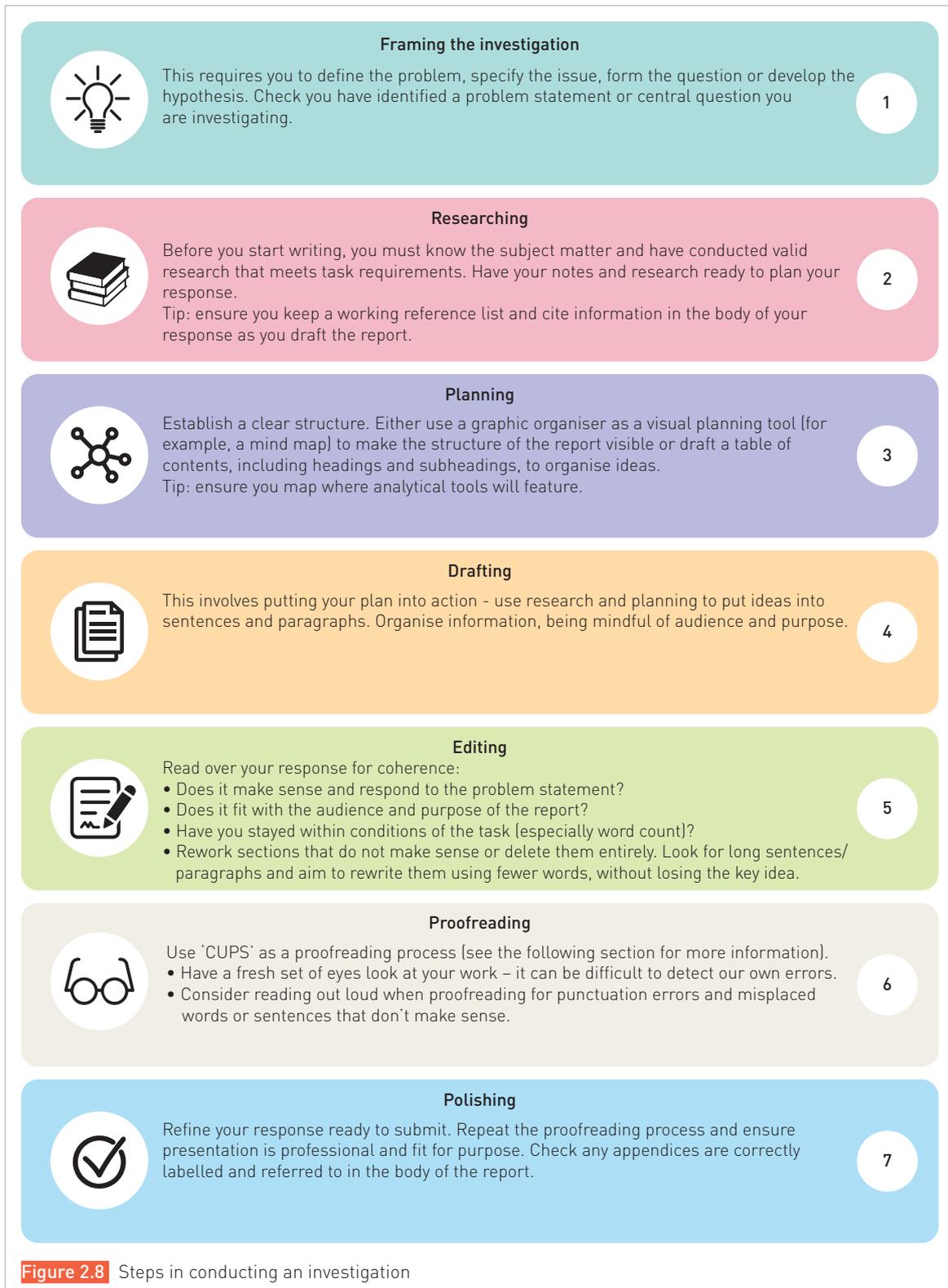
View the video from the University of New South Wales, 'A video overview of report writing'.



Weblink
Overview
of report
writing

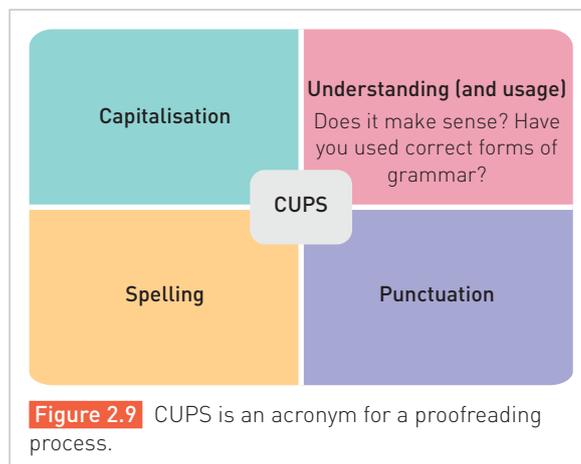
Steps in conducting an investigation and writing a business report

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 2.8).



Proofreading and CUPS

‘CUPS’ is an acronym for a proofreading process (Figure 2.9). 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 features of a business report?

A business report will have a concise and logical sequencing and development of ideas. This means the response must be arranged in a particular order, typically using headings. A sample of headings is listed here; however, note 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, and the 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 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 a 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* – make decisions and propose changes to the application of business strategies, based on business 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 sources used within the report and cited using in-text referencing.
- *Appendices* – placed at the end of a report, if required. These contain supplementary information not used in the body of the report. These are arranged in the order referred to in the report and listed as Appendix A, B, C, etc. in the table of contents. An appendix is optional as it only contains supplementary material.

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 2.10 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 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 (Figure 2.12). 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 summative 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.



Figure 2.11 A feasibility report should propose recommendations to inform business decision-making, whether it be to proceed or to avoid a potential solution.

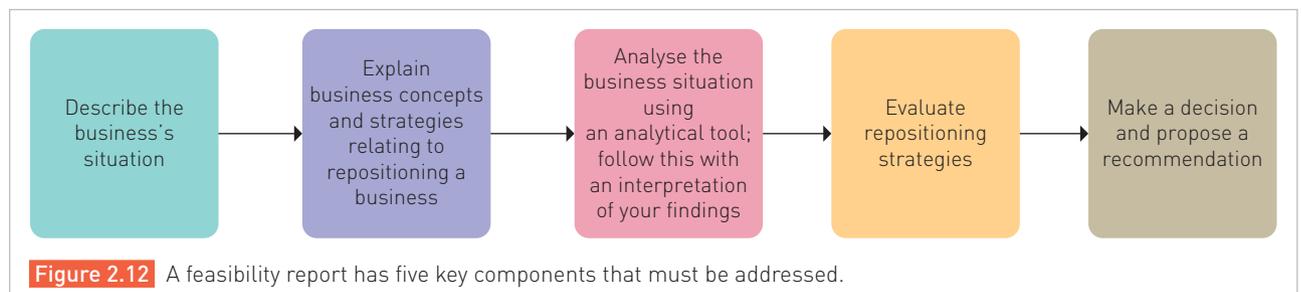


Figure 2.12 A feasibility report has five key components that must be addressed.

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 business report (see the previous section).

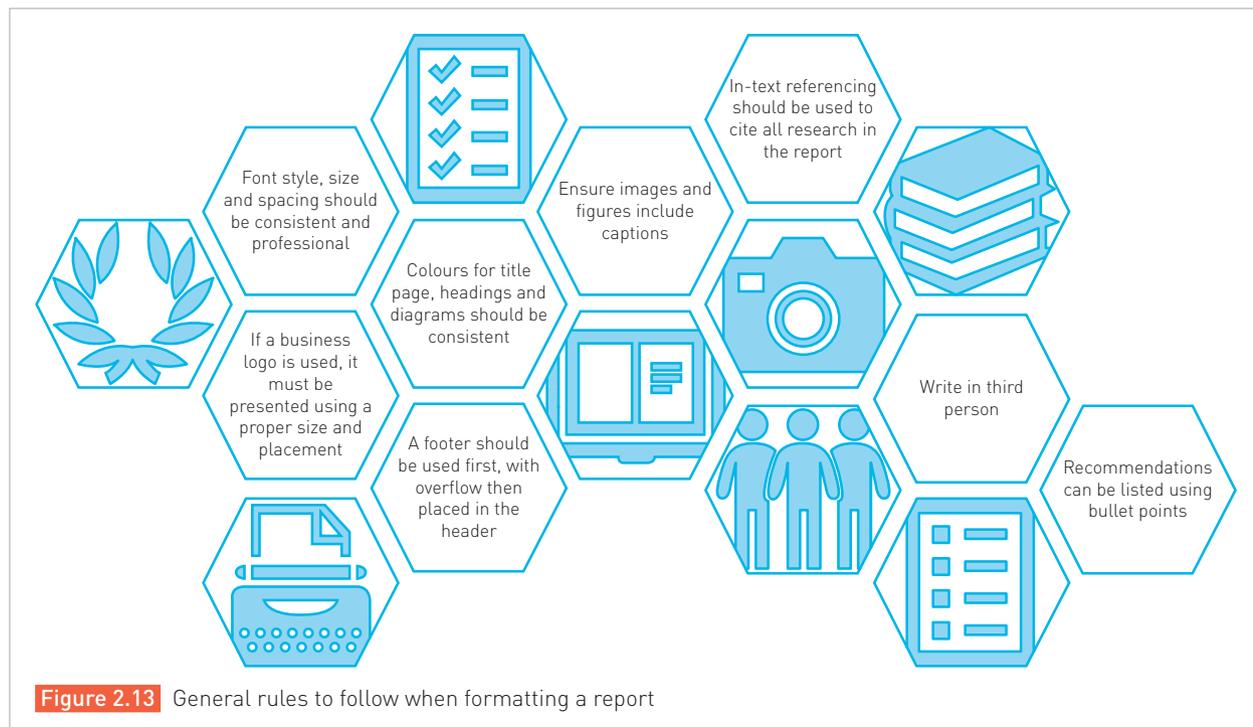
The following report requirements also apply to a feasibility report:

- *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 earlier business report section for a detailed explanation of each of these elements.

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 2.13 provides some general rules to follow to ensure high-quality formatting.



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- Overview of report writing (p.22)



 Nelson MindTap

To access resources above, visit
cengage.com.au/nelsonmindtap

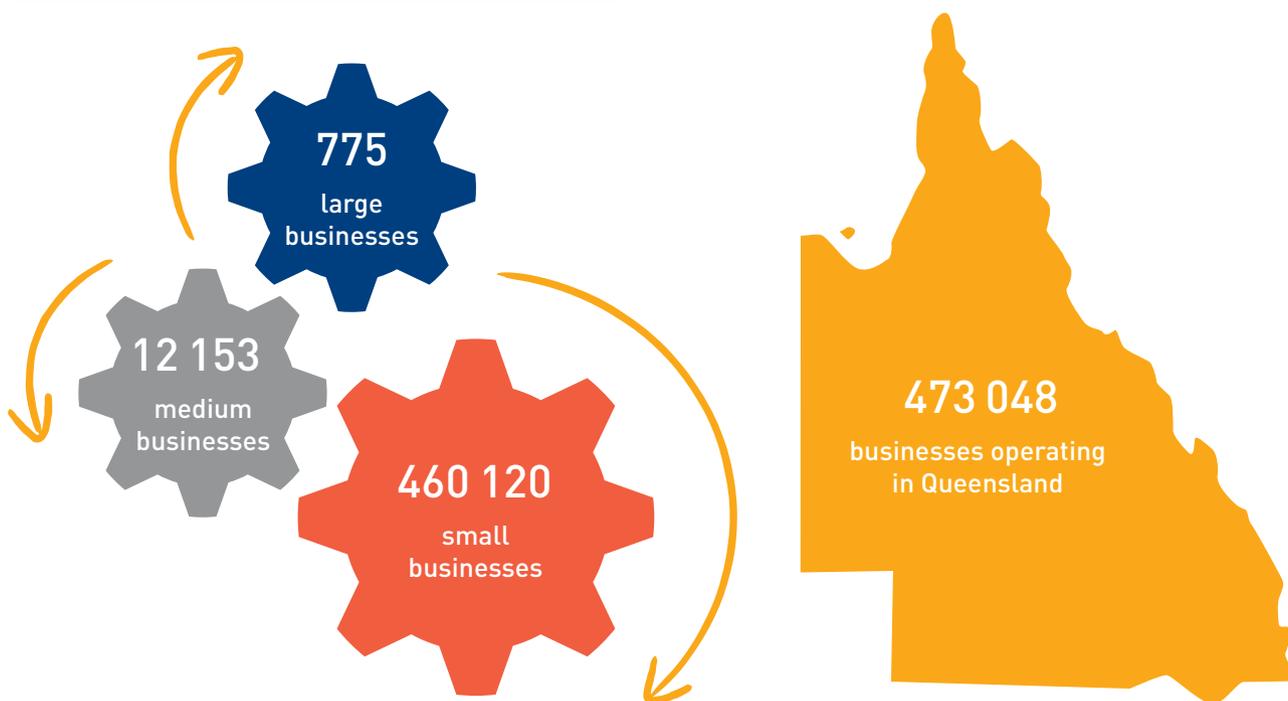
Unit

1

Business creation

Topic 1 Fundamentals of business

BUSINESS FUNDAMENTALS



TOP THREE QUEENSLAND SMALL BUSINESS INDUSTRIES



BUSINESS STRUCTURES



Sole trader



Partnership



Company

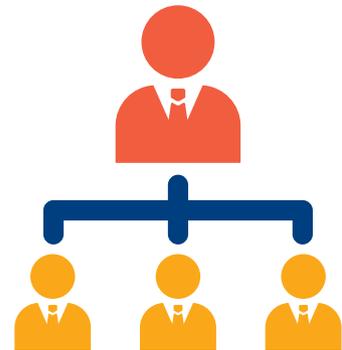
STRATEGIC PLANNING



BUSINESS GOALS



LEADERSHIP AND MANAGEMENT



BUSINESS FUNDAMENTALS



Finance



Human resources



Marketing



Operations

3

FUNDAMENTALS OF BUSINESS

What you will learn

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

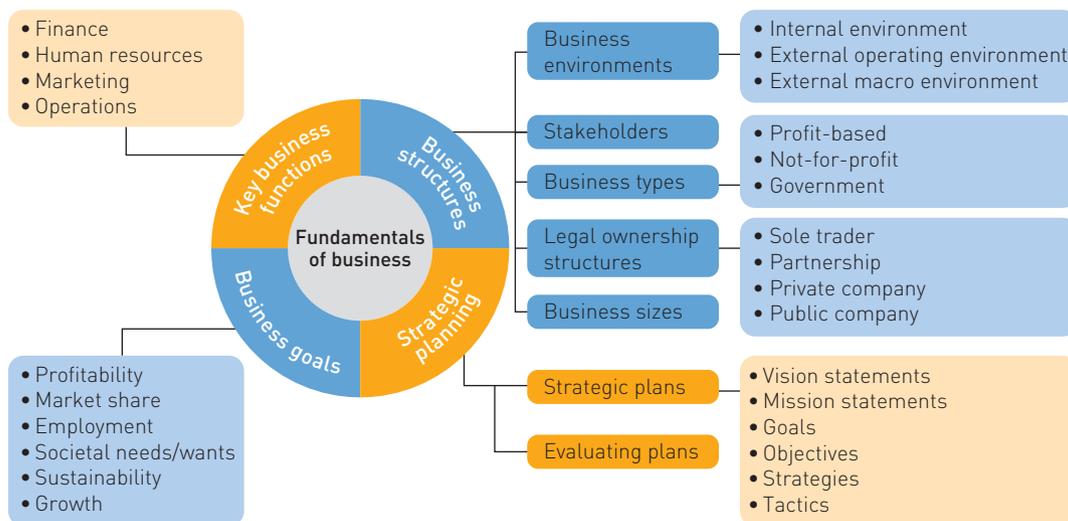
This chapter will investigate the fundamental concepts and strategies in a business world. Through understanding business goals and strategies, environmental factors, leadership and management and business practices, the fundamentals of business will be developed.

This chapter will provide you with the opportunity to:

- **describe** business situations and environments relating to businesses in the various stages of the business life cycle
- **explain** business concepts and strategies relating to the fundamentals of business
- **analyse** and **interpret** business situations, business environments and the key business functions relating to the fundamentals of business using a SWOT analytical tool
- **evaluate** strategic planning to make decisions and propose recommendations
- **create** responses that **communicate** meaning to suit audience, context and purpose.

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The analytical tool used in this chapter is a SWOT analysis.



GAINING INSIGHT 3.1



The world of business

FOCUS QUESTION: How does an idea become a business?

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

Active Truth was founded by two women who believed in loving and looking after your body for the right reasons – health, happiness, energy and enjoyment. Stevie Angel and Nadia Tucker met as new mums and quickly became friends over long walks pushing their prams and on post-gym coffee dates (Figure 3.1).

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

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

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

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



Nadia Tucker & Stevie Angel, Founders-Active Truth

Figure 3.1 Stevie Angel and Nadia Tucker created Active Truth, a label that women can depend on.

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

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

Questions

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



The world of business

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

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

Business structures

What is a business?

A business is an economic activity that provides a good or service to satisfy the needs and wants of consumers. The aim of a business is to achieve a common goal. A business often begins with an idea such as fulfilling a customer need or providing an innovative, unique new product. A plan is then developed and financial resources are secured. The idea is put into action to achieve the business goal. This is illustrated in Figure 3.2.

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

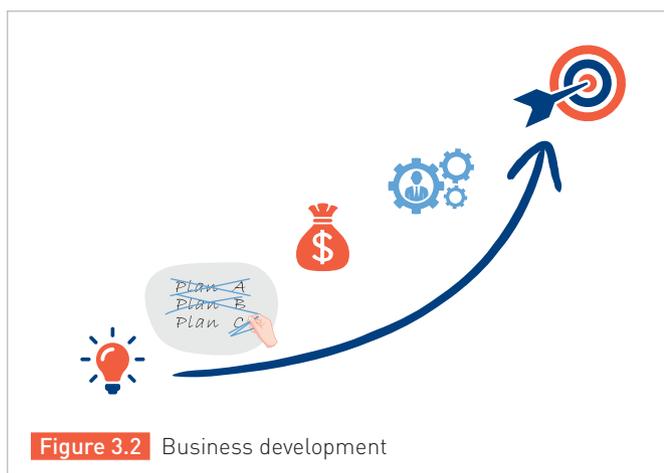


Figure 3.2 Business development

QUESTIONS 3.1



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

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

GAINING INSIGHT 3.2



Knobby Underwear

Rob Rand began his business Knobby Underwear from an idea to create interesting and fun underwear (Figure 3.3). Here is the story of his business.

Knobby Underwear is a Sunshine Coast-based company that started with a unique business idea. The business's founder, Rob Rand, has established a thriving business that delivers underwear to consumers worldwide. He created an underwear club that sends members a new pair of underwear each month for \$25. Each month, new underwear designs are created and shipped to club members. The focus is on retaining customers, who are offered free shipping and no additional fees, and are allowed to cancel subscriptions at any time. The business began in 2014 targeting males only, but in 2016 the business expanded to include a range of underwear for females.

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



Figure 3.3 Knobby Underwear

Questions

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

Key features of a business

The basic function of a business is to optimise its results. It usually transforms inputs into outputs, such as goods and services, in exchange for money, to reach a desired outcome. Interestingly, business activities are not often thought about, but every day, either directly or indirectly, we use goods and services provided by businesses. For example, if you buy a takeaway coffee, there have been numerous businesses involved. Let's break down what has occurred (Table 3.1).

Table 3.1 Business activity

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

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

Goods and services

A business provides goods and services to consumers. Goods may include clothes, televisions, phones or food. They are described as tangible products, which means they exist in a physical form. A business can also

provide services such as medical services (doctor, nurse), financial services (bank, accountant) or trade services (electrician, plumber). Services are activities or actions that are performed, and can be described as intangible or invisible goods. Goods and services are provided to satisfy consumers’ needs and wants. A business is established to offer these goods and services.

Exchange

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

Outcome

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

QUESTIONS 3.2



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

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

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

Pipe dream

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



EpicStockMedia/Shutterstock.com

Figure 3.4 The Sole Surfer thong was developed with surfers in mind.

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

Business environment

Key learnings

You will learn about the following business environments:

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

Businesses in Australia operate in a complex environment of internal and external factors that impact on their success (Figure 3.5). A business must be aware of the environmental factors that influence its operations and management, and respond immediately.

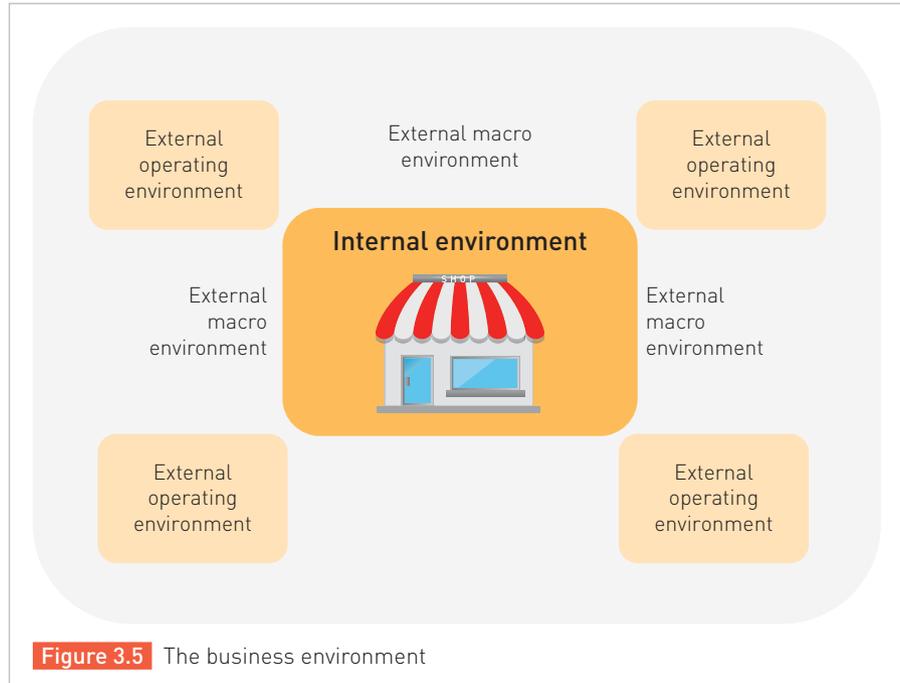


Figure 3.5 The business environment

Internal environment

The internal environment (Figure 3.6) consists of the factors that directly influence the approach and the success of the operations inside a business. These factors are easier to manage than the external environment as they occur within a business. The internal factors can impact on a business in both a positive and a negative way.

However, a business can monitor and control internal environmental factors as they occur, to ensure the success of a business. The elements of the internal environment include:

- owner(s) and management
- employees
- organisational structure
- organisational culture.

Owner(s) and management

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

Employees

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



Figure 3.6 The internal environment

Organisational structure

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

Organisational culture

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

QUESTIONS 3.3



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

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

Scenario 1: The right cuppa

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

Scenario 2: The perfect vessel

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

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

External environment

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

External operating environment

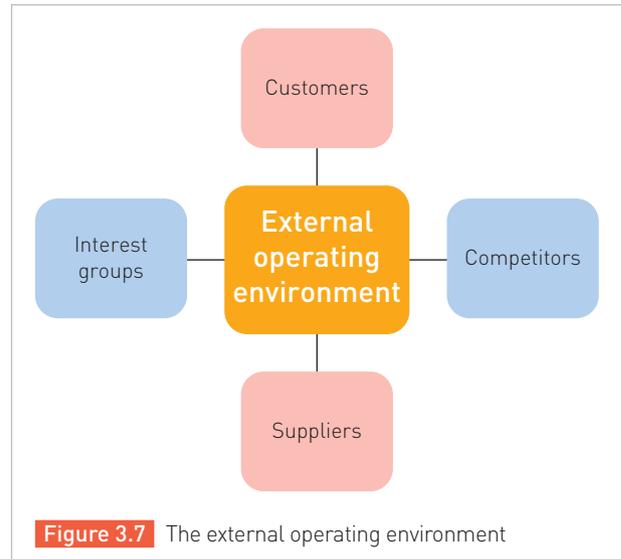
The external operating environment (Figure 3.7) comprises the factors that directly influence the operations of a business. It consists of **stakeholders** that are outside the business's internal structure and that impact on how the business functions. These stakeholders may include:

- customers
- competitors
- suppliers
- interest groups.

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

Customers

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



GAINING INSIGHT 3.3



Online reviews

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

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

This is an all too common situation that occurs for businesses. The internet is full of opinions and people who are looking to share their opinions about their experiences. Businesses have to take this into account. Customers are reading reviews before they have even



visited a business. What is being said about a business must be considered (Figure 3.8). It is up to the business owner to take an active interest in online reviews and convert these online reviewers into customers.

Questions

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

Competitors

Competition has a significant impact on how a business operates and how successful it will be. A **competitor** can be defined as any business that is in the same or a similar industry and offers the same or a similar product or service. A business must consistently monitor its competitors to see what they are doing, and then try to do it better. If a rival business introduces changes to its product or its pricing, the competing business must be prepared to change, too, to remain competitive. Figure 3.9 shows some of the most competitive businesses in particular industries.



Suppliers

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

Interest groups

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

Professional associations

Professional associations are groups that provide assistance and support to businesses and practitioners in a particular industry. They work to protect the industry and act to represent and support their professional members. Many professional associations provide industrial representation, professional development such as career advice and skills training, educational programs, information resources and other benefits. Figure 3.10 shows examples of professions that have associations of this kind.

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

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



Figure 3.10 Professional associations, from left: Doctors: Australian Medical Association (AMA); Accountants: Chartered Accountants Australia and New Zealand (CA ANZ); Lawyers: Queensland Law Society (QLS)

Left to right: Australian Medical Association; Chartered Accountants Australia New Zealand (CAANZ); Queensland Law Society

Trade unions

A trade union is an organisation that is formed by workers in an industry to work for the common interest of its members. The main purpose of a trade union is to protect the rights of its members, negotiate working conditions and regulate relationships between employers and employees. Members of an industry have the option to join a trade union. Figure 3.11 shows the logos of some of the main trade unions in Australia and of the Australian Council of Trade Unions (ACTU), which is the peak body for Australian unions.



Figure 3.11 Trade unions of Australia

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

Public interest groups

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

QUESTIONS 3.4



- 1 Define the term 'external operating environment'.
- 2 Read the following article and **describe** the external operating environment impacting on the business.

Puppy power

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

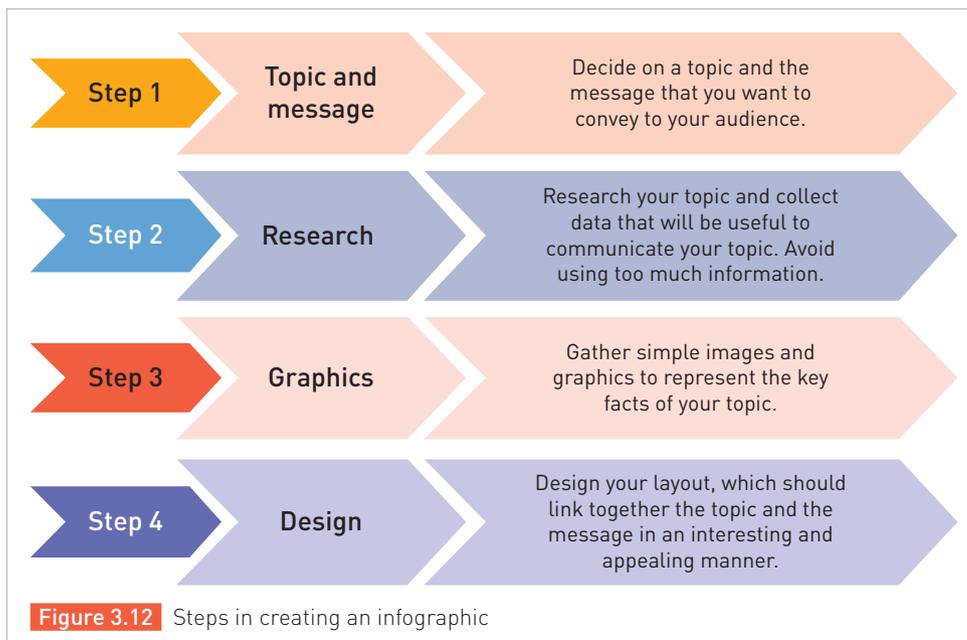
'I buy my animals from 10 main breeders', Shore said. 'I place pictures of their facilities in my store so customers can see.' Shore explained that he uses numerous suppliers so he can meet the demands of his customers.

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

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

Infographic

An infographic is a creative representation of information and data. It uses graphics, pictures, diagrams and symbols to represent complex ideas and data so that the information is visually engaging and appeals to the target audience (Figure 3.12). You can see an example of an infographic representing the fundamentals of business on pages 28 and 29.



Preparing an infographic

Step 1: topic and message

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

Step 2: research

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

Step 3: graphics

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

Step 4: design

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

INQUIRY



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

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

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

Interest groups

Environmental groups

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

Community and welfare services

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

Employment-related groups

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

Aboriginal and Torres Strait Islander groups

- National Indigenous Australians Agency is a national voice for Aboriginal and Torres Strait Islander peoples.

Service groups

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

Sporting and recreational groups

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

Your choice



Weblinks
Clean Up
Australia

RSPCA

Australian
Chamber of
Commerce
and Industry

National
Indigenous
Australians
Agency

Lions
Australia

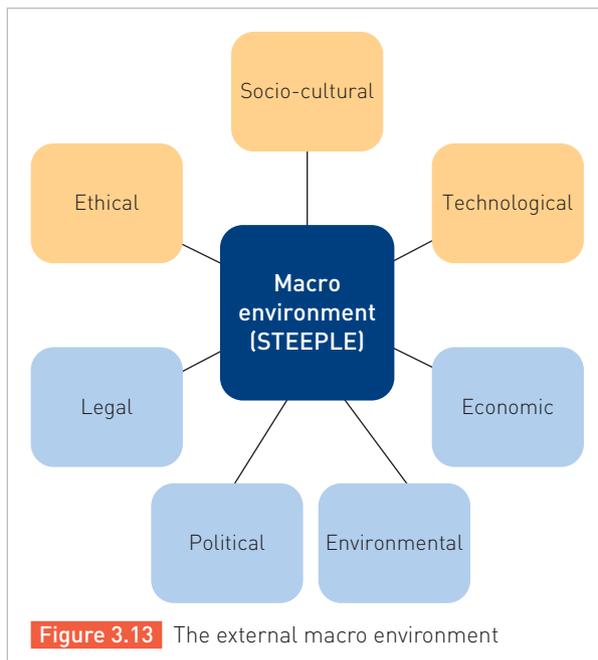
Surf Life
Saving
Australia

External macro environment

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

There are seven main factors that affect the macro environment: socio-cultural, technological, economic, environmental, political, legal and ethical considerations. These factors are often referred to by the acronym STEEPL (Figure 3.13):

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



Socio-cultural factors

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

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

Technological factors

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

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

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

Economic factors

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

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

Environmental factors

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

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

Political factors

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

Political factors can include:

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

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

Legal factors

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

- *consumer law* – designed to protect consumers from fraudulent business practices. The legislation provides specific guidelines for business practices such as standards of service, and outlaws misleading advertising, dishonest tactics and selling faulty or dangerous goods

Tariff: a tax imposed on imported goods



- *health and safety law* – legislation in place to provide a balanced and consistent framework for the health and safety of workers
- *employment laws* – designed to protect employees and make it illegal to treat workers differently based on their ethnicity, religious beliefs, gender, age or disability.

Ethical factors

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

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

QUESTIONS 3.5



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

True Colours

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

Visionary report for True Colours Pty Ltd

Goal	Increase market share in all our beauty products through increasing production efficiency and market branding.
Considerations	<p>The business's ability to meet this goal depends on:</p> <ul style="list-style-type: none"> • highlighting sustainability by increasing all-natural beauty products • introducing a new organic product range • increasing target market to include a wider range of consumers (age, gender) • introducing automated technologies to improve productivity • following labelling rules on the container and packaging • only using suppliers who ban animal testing • limiting industrial conflict by providing safeguards for factory workers • limiting use of foreign suppliers to reduce excessive tariffs • monitoring and adjusting to exchange rates and interest rate fluctuations • implementing innovative manufacturing technologies • monitoring economic climate and adjusting prices accordingly • limiting industrial conflict and work stoppages in manufacturing plants • keeping up-to-date with current trends in industry.

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

Situation	Macro external environmental factor
Ice cream sales were low this year due to unusually cold weather all year.	
The average Australian family has declined in size with most families having one child only.	
Interest rates have risen to 17% per annum.	
Customers have less money to spend due to a recession.	
The local council has changed zoning laws for a suburb banning future industrial development in the area.	
High rates of unemployment have increased the demand for basic goods (milk and bread).	
A new manufacturing plant has been developed that produces minimal pollution.	
The government has resumed land to preserve the natural ecosystem for future generations.	
The government has increased taxes on imported goods.	
Grocery trolleys are being installed with automatic scanning devices that will calculate the total cost of items as they are placed in the trolley.	
Tighter controls are being placed on the use of billboards for commercial advertising promoting products and services.	

Stakeholders

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

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

Businesses have many stakeholders, which can be individuals, groups or organisations and may be internal or external to a business (Figure 3.14).

Internal stakeholders

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

- Owners are interested in maximising profits.
- Managers and employees want to stay employed and be paid wages or salaries.

Each of these stakeholders is potentially impacted on by the success of the business.



External stakeholders

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

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

Influence of stakeholders on a business

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

Financial impact

The key objective of a business is to make a profit. To do this, it operates to improve revenue, minimise costs and produce a positive financial result. However, a business has a greater role in society and it should also be concerned about the community it operates in. This means a business should implement sustainable environmental practices such as waste management, recycling programs or green energy use (Figure 3.15). By doing this, a business could achieve greater community support and good publicity. However, to implement such programs is costly and could have a financial impact on a business.



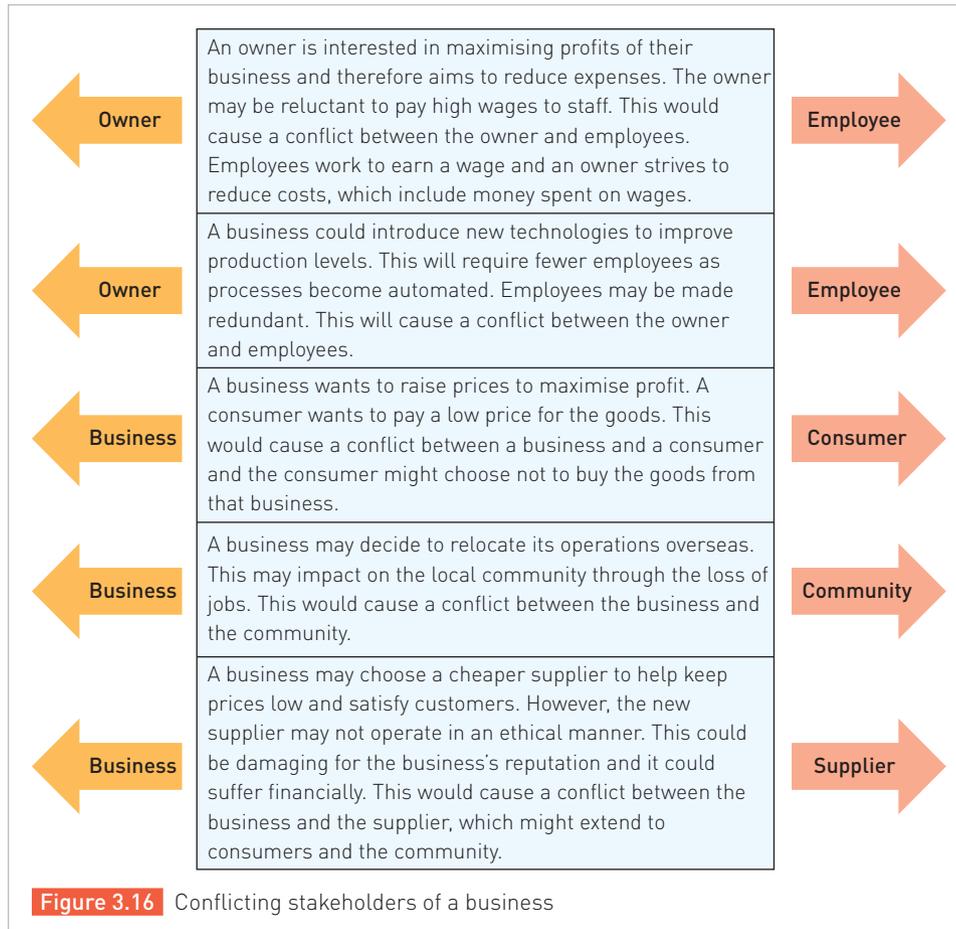
D-Krab/Shutterstock.com

Operational impact

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

Conflicting stakeholders

Stakeholders have different interests in a business, which can lead to conflict between various stakeholders. A conflict could arise when the needs of one stakeholder conflict with those of another. It is important for a business to balance the interests of its stakeholders. Examples of conflicting stakeholders are shown in Figure 3.16.



QUESTIONS 3.6



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

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

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

GAINING INSIGHT 3.4



Wheel turning business

Cycle past this shop and you will see why it has the winning formula. Wheel Cycle is a small bicycle shop located in the township of Port Douglas on the northern coast of Queensland. The business is owned and operated by Estelle King, a keen cyclist. Estelle saw a gap in the market and opened her shop selling bicycles and riding apparel, hiring out bicycles and providing a workshop for repairs. Estelle has also created an online business and provides cycle gear and equipment Australia-wide.

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

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

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

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

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

As a consequence, Wheel Cycle has created a successful business that has a strong customer base.



Figure 3.17 A bicycle store caters to the high tourism demand in Port Douglas.

Africa Studio/Shutterstock.com

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

Questions

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

Business types

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

Key learnings

You will learn about the following types of businesses:

- profit-based businesses
- not-for-profit businesses
- government-owned corporations (GOCs)
- government business enterprises (GBEs).

Profit-based business

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

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

GAINING INSIGHT 3.5



A growing business

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

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



Figure 3.18 Jardiner Gardening Services, a growing business

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

Questions

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

Not-for-profit business

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

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

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

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

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

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

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

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

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

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

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



GAINING INSIGHT 3.6



Brisbane-based bat care group

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

Bat Conservation and Rescue QLD Inc.



Figure 3.19 Bat Conservation & Rescue Qld Inc.

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

Questions

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



Weblink
Bat
Conservation
& Rescue
Qld Inc.

Government-owned corporations (GOCs)

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

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

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



Weblink
Government-owned corporations (GOCs) policies and guidelines

Government business enterprises (GBEs)

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

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

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

Weblink
Government business enterprises (GBEs)

QUESTIONS 3.7



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



Weblink
ACNC

Legal ownership structures

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



Weblink
Business structures tool

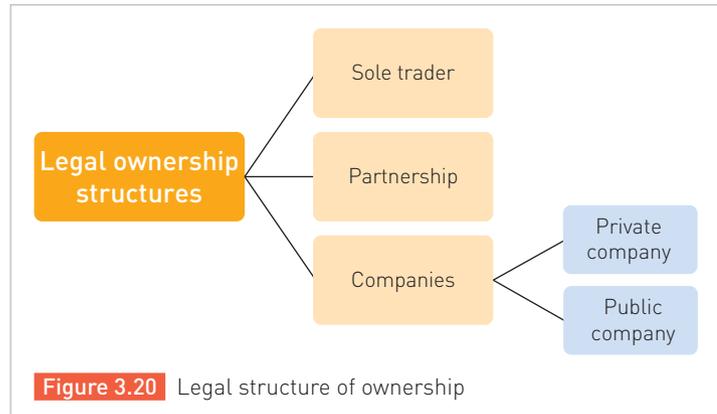
Key learnings

You will learn about the following business legal structures (Figure 3.20):

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

Sole trader

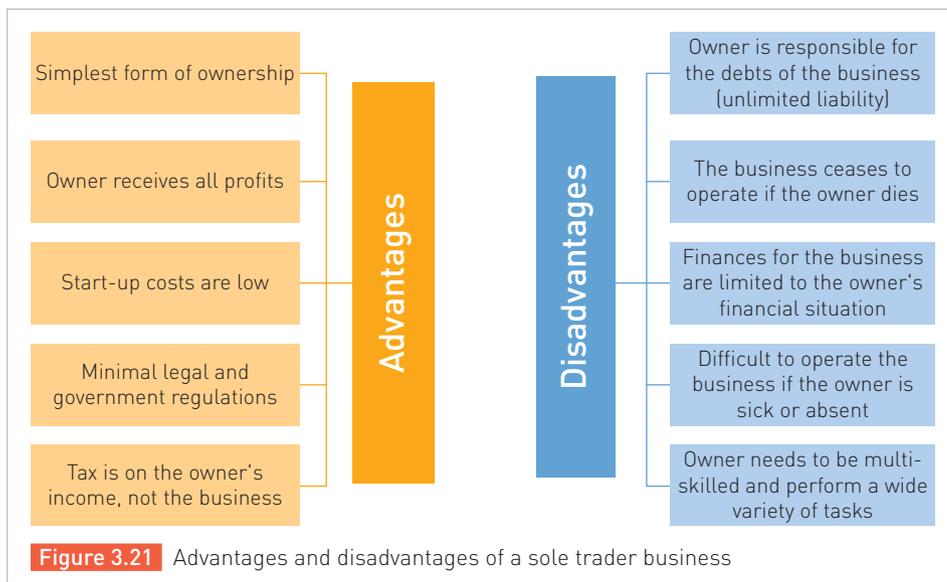
A sole trader is a business owned and operated by one person. It is usually a small-scale business and it is relatively simple and inexpensive to establish. The owner provides all the **capital**, makes all the decisions and takes on all the responsibility for operating the business. The owner can employ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



Features of a sole trader structure

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

- It is simple to establish and easy to operate.
 - The owner uses their personal tax file number (TFN) to lodge returns.
 - It is not a separate entity, therefore the owner is personally responsible for the debts of the business (unlimited liability).
 - The owner has full control of the business and makes all the decisions.
 - The owner can employ people to help operate the business.
 - It is relatively simple to change the business structure as the business grows.
 - There are minimal legal and statutory regulations and it is generally a low-cost structure.
 - The business must be registered for GST if the annual income turnover is over the nominated threshold.
- Figure 3.21 lists the advantages and disadvantages of being a sole trader.



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

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

GAINING INSIGHT 3.7



Sole trader: Orr's Doors



Figure 3.22 Colin Orr, business owner

Orr's Doors, based in Logan City, is a business owned and operated by Colin Orr (Figure 3.22). The business specialises in kitchen refurbishment and Mr Orr is a qualified shop-fitter and builder. After 20 years in the industry, Mr Orr elected to set up his own business as a sole trader. He has been successfully operating his own business for 15 years. Mr Orr said, 'I have always taken pride in my work as a tradesman and I felt I could offer greater customer satisfaction working for myself.'

To establish Orr's Doors, Mr Orr constructed a business plan and established the goals and objectives for his business. He calculated the amount of capital he would require to buy the equipment and resources needed to begin operations. He also projected his future earning capacity and created a financial plan.

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

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



Figure 3.23 Orr's Doors business logo and website

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

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

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

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

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

Questions

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

Partnership

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

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

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

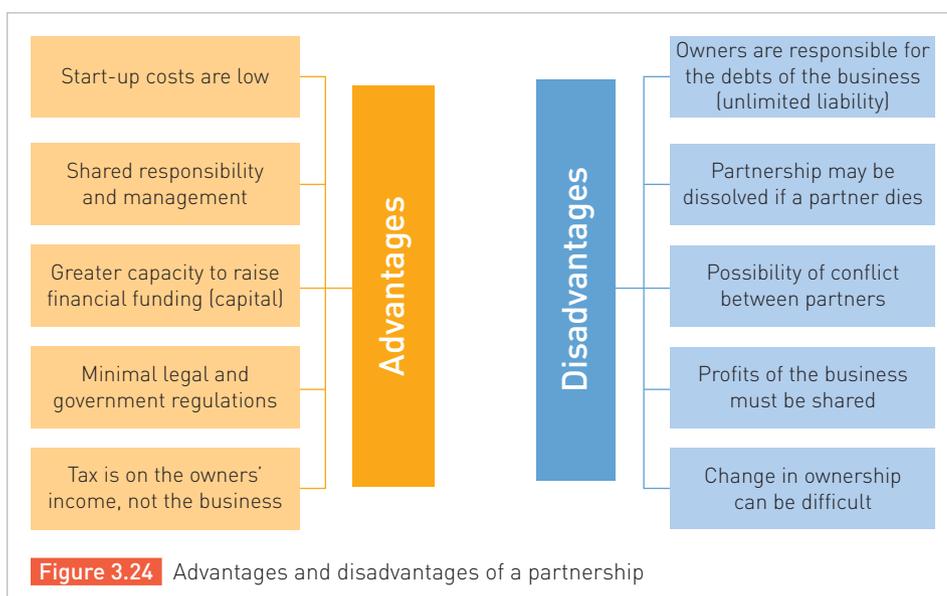
It is important to have a formal agreement to avoid disputes and misunderstandings. It gives partners a clear understanding of the arrangements for the business to operate.

Features of a partnership structure

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

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

Figure 3.24 lists the advantages and disadvantages of a partnership.



GAINING INSIGHT 3.8



Where the country meets the beach

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

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

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

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

Questions

- 1 Define a partnership.
- 2 **Explain** a benefit of operating a business as a partnership.
- 3 **Explain** a challenge of operating a business as a partnership.
- 4 Identify the stage in the business life cycle the proposed business would be best placed.
- 5 **Explain** why this proposed business could be beneficial operating as a partnership.

Company

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

Features of a company structure

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

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

Proprietary: referring to the ownership of a business

Shareholder: an owner of a share in a business



Private company

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

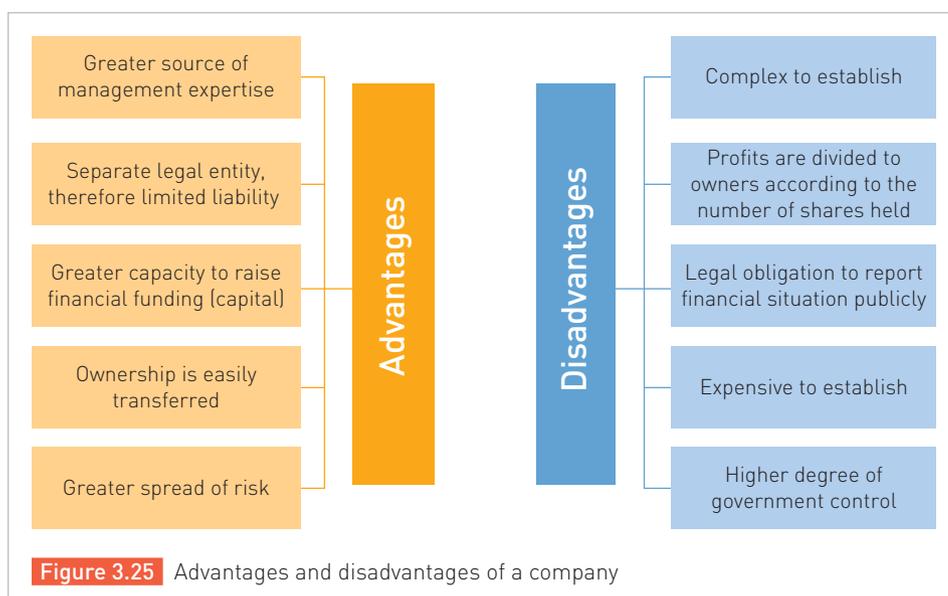
Public company

A public company is also a separate legal entity structure, which owns the business. A public company is a large business that is publicly listed on the Australian Stock Exchange (ASX). This type of structure requires a minimum of five shareholders; there is no upper limit to the number of shareholders. A public company initially issues a prospectus, inviting members of the public to purchase shares in the business. The shares are then freely traded on the stock exchange and there are no restrictions on the transfer of shares or the raising of funds from the public through share offers. A public company has the word 'Limited', often abbreviated to Ltd, in its name. It is required to publish an annual report that details the financial records and activities of the business. Table 3.2 shows a comparison between private and public companies.

Table 3.2 Comparison between private and public companies

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

There are a number of benefits of using a company structure to operate a business. The advantages and disadvantages of a company structure are summarised in Figure 3.25.



GAINING INSIGHT 3.9



A blooming season

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

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

rapidly and the business continues to show a strong growth strategy.

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

Questions

- 1 Identify the features of a private company.
- 2 **Explain** a benefit of operating a business as a private company.
- 3 **Explain** a challenge of operating a business as a private company.
- 4 Identify the stage in the business life cycle at which CropCo Pty Ltd would be best placed.
- 5 **Explain** a benefit to CropCo Pty Ltd of changing its structure to a public company.

QUESTIONS 3.8



- 1 Define the following terms:

a legal structure	f public company	j proprietorship
b sole trader	g shareholders	k partnership agreement
c partnership	h capital	l stock exchange
d unlimited liability	i legal entity	m limited liability
e private company		
- 2 Identify three reasons to establish a business as a sole trader.
- 3 'An effective partnership is one in which the partners always agree on all matters relating to the business.' Do you agree? Provide reasons to support your answer.
- 4 You are currently working as a part-time employee for a sole trader business. The owner has offered you a 35 per cent partnership and you decide to accept the offer. Identify the benefits and risks of being a partner.
- 5 **Explain** the following statement: 'The costs involved in establishing and operating a company are far greater than those of establishing a sole trader or partnership business.'
- 6 **Create** a double bubble map to compare the similarities and differences between a private company and a public company.
- 7 Research business structures in Australia to **create** an attribute list organiser that summarises the key attributes of the four legal ownership structures.

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

Size of a business

When creating a business, the size of the structure is another consideration. A business can come in a variety of sizes, from a small micro home business to a large international organisation. They all compete in a similar environment, but the extent of their operation is different, depending on their size. The size of a business can range from a micro business to a small, medium or large business (Figure 3.26).

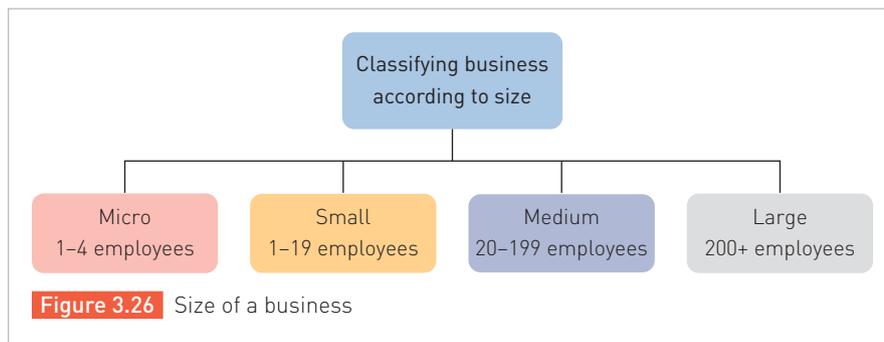


Table 3.3 shows an overview of the various sizes of a business and the attributes that could be used as a measure.

Table 3.3 Measures to determine the size of a business

Attribute	Micro	Small	Medium	Large
Industry examples	Bakeries Tradespeople	Bakeries Tradespeople	Manufacturers Hotel chains	Supermarkets Banks
Legal structure	Sole trader	Sole trader Partnership	Partnership Private company	Public company Government-owned
Employees	Fewer than five full-time employees	Fewer than 20 full-time employees	Fewer than 200 full-time employees	Large number of full-time employees, usually 200 people or more
Market share	<ul style="list-style-type: none"> Very small market share Focus is on the local area 	<ul style="list-style-type: none"> Small market share but not a leader in the market Focus is on the local area 	<ul style="list-style-type: none"> Is a leader in market share Usually operates on a national level 	<ul style="list-style-type: none"> Has a significant portion or a majority of the market share Usually operates on a national and international level

Measures to determine the size of a business

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

- *industry* – the specific field in which a business operates. Usually relates to the product or service provided
- *owners* – the number of owners of a business
- *legal structure* – how a business has been established, such as a sole trader, partnership or company
- *employees* – the number of people who are hired to operate a business
- *market share* – how large a share of the market a business has in comparison with its competitors
- *capital* – the amount of money the owner(s) are required to contribute to operate the business.

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

Business categories

Businesses can also be sorted into various categories, including:

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

GAINING INSIGHT 3.10



Case study A: Dave's Sporting Goods

In the competitive world of retail, Dave owns and operates a successful sporting equipment store in a suburban shopping centre (Figure 3.27). The store has become successful due to the range of goods provided and the customer service. Dave is a keen sports person and employs two full-time staff members who also share his passion for sports. The store opens seven days a week. During the week, Dave usually only requires one staff member to work. On the weekends, the store is extremely busy with customers crowding the store. Dave also employs three part-time shop assistants who only work over the weekend. Dave's business has an excellent reputation and a strong customer following.



Thiti Sukapan/Shutterstock.com

Figure 3.27 Dave's Sporting Goods

Case study B: Big Al's

Big Al's Workshop is a local automotive mechanical repair shop located in an industrial area in the southern suburbs of Brisbane (Figure 3.28). The workshop operates five days a week and is a thriving business. The workshop has 10 vehicle bays, which allow it to provide extensive repair service to customers' vehicles. The business employs 15 full-time qualified mechanics, three office administration officers and two account clerks. Big Al's has been operating successfully for 10 years and has received recognition for being a reliable and honest mechanical workshop.



iStock.com/gilaxia

Figure 3.28 Big Al's Workshop

Case study C: Bunnings Warehouse

Bunnings Warehouse is a leading retailer of home improvement and outdoor living products (Figure 3.29). It is a major supplier to project builders, commercial tradespeople and the housing industry. Bunnings Warehouse operates from a large number of stores across Australia and New Zealand. It caters for both domestic and commercial customers. Bunnings stores stock around 110 000 products, including plants, gardening equipment, lighting products, tools, paint, home storage, building supplies and timber. Bunnings employs over 50 000 people, with the majority of its employees working on a full-time basis.



iStock.com/kokkai

Figure 3.29 Bunnings Warehouse

Questions

- 1 Classify each of the businesses described according to its size.
- 2 Justify your choice of classification.

Strategic planning

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

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

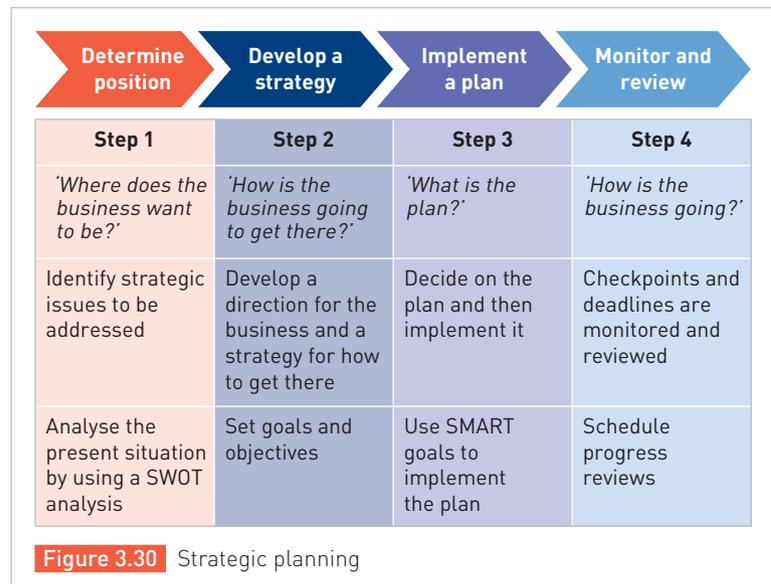
A strategic plan is a multi-step process of creating vision and mission statements, setting goals and objectives and deciding on strategies and tactics for its operations to achieve success.

Key learnings

You will learn the following about strategic planning:

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

A strategic plan determines how a business intends to compete and survive in the marketplace over the long term. There are a variety of models and approaches used in strategic planning. For a business to develop a strategic plan, it may follow the approach shown in Figure 3.30.



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

Benefits of strategic planning

Strategic planning is beneficial to a business as it:

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

ANALYTICAL TOOL 3.1



SWOT analysis: a planning tool

A SWOT is an analytical tool used by a business for strategic planning. It identifies the strengths, weaknesses, opportunities and threats (SWOT) in a graphical format (Figure 3.31). This analytical tool helps a business to focus on its internal environment (strengths and weaknesses) and the external environment (opportunities and threats).

Internal environment

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

- *management* – systems used, expertise of management, resources available
- *operations* – efficiency of operations, capacity to operate, processes used
- *finances* – resources available, performance of business, purchasing systems
- *marketing* – sales, promotion of product, pricing
- *products* – quality of product, features offered, range of products, competitiveness in pricing
- *people* – customer service offered, employees, management.

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



External environment

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

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

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

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

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

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



Template
SWOT
analysis

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

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

For more information on SWOT analytical tools and to download a SWOT analysis template, go to Nelson MindTap.

Developing business strategies

Once a SWOT analysis has been completed, a future direction for the business may become apparent. Using a SWOT could help a business formulate strategies and tactics, as shown in Figure 3.32.

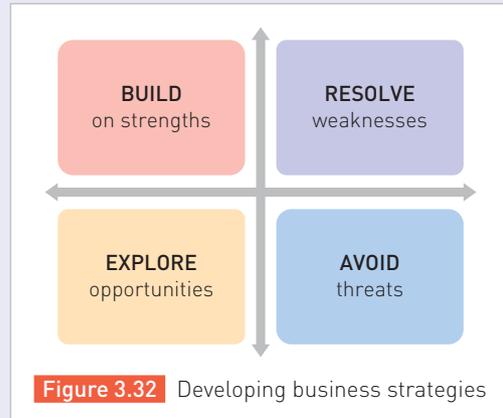


Figure 3.32 Developing business strategies

Questions

- 1 Distinguish between a business’s internal environment and its external environment.
- 2 **Explain** the benefits of using a SWOT analysis as an analytical tool.
- 3 Using the inquiry process, complete a SWOT analysis of your school using the template below.

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

GAINING INSIGHT 3.11



Starting young

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

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

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

STREET FALLS™

Street Falls

Figure 3.33 Street Falls



Street Falls

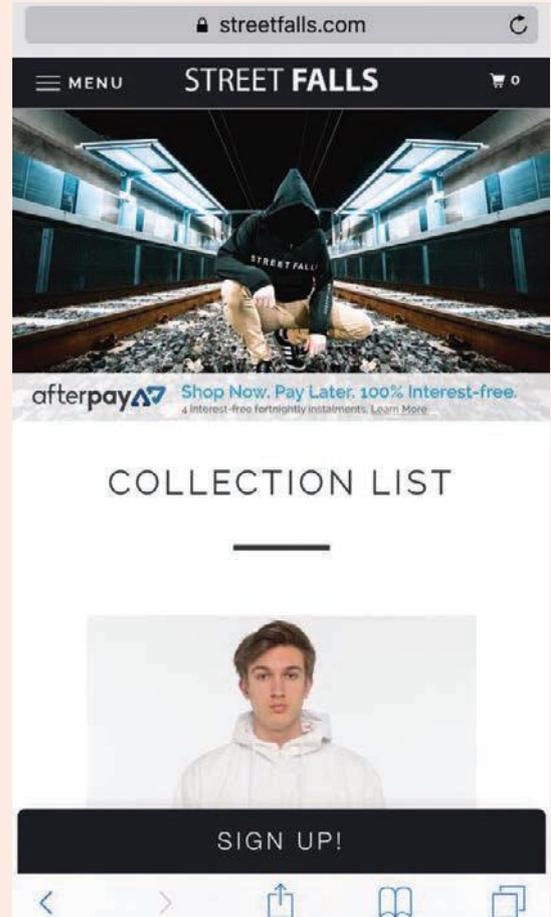
Figure 3.34 Street Falls apparel

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

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

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

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



Street Falls

Street Falls

Figure 3.35 Street Falls website

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

Questions

- 1 Identify and **describe** an external operating business environment that relates to Street Falls.
- 2 Using the stimulus provided, **analyse** Street Falls's business situation and environment to create a SWOT analysis.



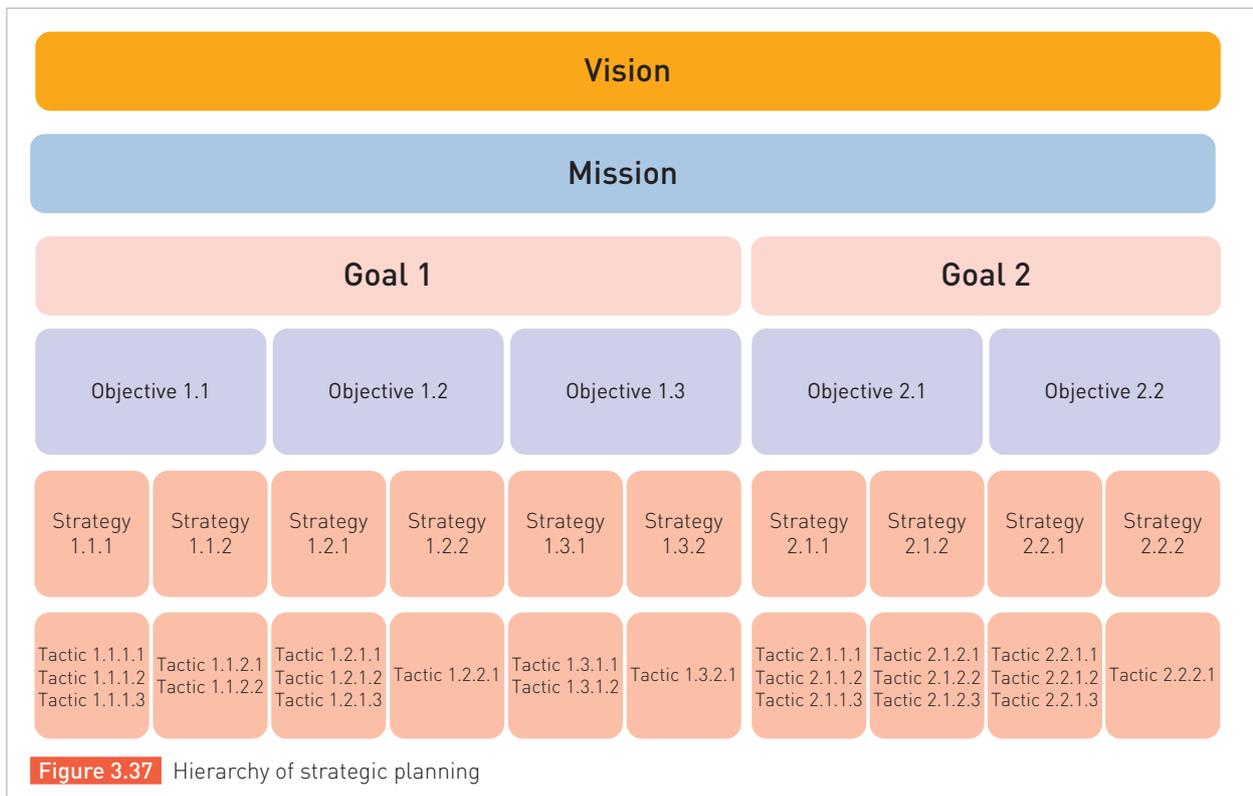
Template
SWOT
analysis

A SWOT analysis template is available for you to download on Nelson MindTap.

Strategic planning documents

Strategic documents are used to establish the purpose of a business (Figure 3.36). The development of vision and mission statements is an essential aspect of strategic planning. The purpose and future direction of a business is established within these documents, which provide a framework to develop the *goals* of a business. These goals are then transferred into operational *objectives*. Each objective will have an associated *strategy* to determine what approach will be used to reach the objective. To achieve the strategy, a *tactic* or action plan will be created. This process is referred to as strategic planning using strategic documents. Figure 3.37 illustrates the basic hierarchy of a strategic plan in a business, which includes:

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



Strategic plans

Strategic documents can be divided into levels, known as the pyramid of purpose (Figure 3.38). Level 1 is the initial planning stage that produces the vision and mission statements. This is known as the ‘why’ phase, in which a business needs to establish the reason for its existence. The next level is where the business needs to determine ‘what’ it intends to achieve. To do this, a business identifies goals, and then objectives to achieve these goals.

The final level is the ‘how’ section, in which a business will need to establish the strategies and tactics needed to reach the goals.

Vision and mission statements

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

Vision statement

A vision statement, or simply a ‘vision’, is a framework for a business’s strategic planning. It is an aspirational statement of what a business would like to achieve in the future. A vision is presented as a written picture of a business in terms of its physical appearance, size and activities, considering its future products, markets, customers, processes, location and staff. It should be a positive statement that is easily understood and provides a clear image of a business’s purpose. A vision statement should challenge and motivate managers and inspire employees to strive to achieve the organisation’s vision. Here are some examples of vision statements (Figure 3.39).



<p>‘To provide access to the world’s information in one click.’</p>	<p>‘To be Earth’s most customer-centric company, where customers can find and discover anything they might want to buy online.’</p>	<p>‘To help people and businesses throughout the world realise their full potential.’</p>

Figure 3.39 Examples of vision statements

Sources: Extract from Google vision statement: <http://panmore.com/google-vision-statement-mission-statement>; Amazon vision statement: <https://businessmodelanalyst.com/amazon-mission-and-vision-statement/#:~:text=Amazon's%20mission%20statement%20is%20%E2%80%9Cto,might%20want%20to%20buy%20online.%E2%80%9D>; Extract from Microsoft vision statement: <http://panmore.com/microsoft-corporation-vision-statement-mission-statement-analysis>

Left to right: NurPhoto/Getty Images; Jonathan Weiss/Shutterstock.com; iStock.com/volkam.basar

How to write a vision statement

The first step in writing a vision statement is to brainstorm and share ideas with key stakeholders in a business. The business’s core values and reason for existence must be established. When writing a vision statement it is important to:

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

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

Mission statement

A mission statement is a plan of action for a business; it is an actionable statement. It states the purpose of a business by defining the business’s culture, values and ethics. The statement should pinpoint what the business does, how it does it and why it does it. It should identify what the business is doing right now that sets it apart

and goes beyond providing a service or product. It should be more precise than a vision statement, articulating in simple and concise terms the purpose of being. A mission statement should be inspirational to internal stakeholders (managers, employees) and present a clear message to external stakeholders (including competitors). Here are some examples of mission statements (Figure 3.40).

		
<p>Our mission is:</p> <ul style="list-style-type: none"> • To refresh the world ... • To inspire moments of optimism and happiness ... • To create value and make a difference. 	<p>Our mission is to be our customers' favourite place and way to eat and drink. We're dedicated to being a great place for our people to work; to being a strong, positive presence in your community; and to delivering the quality, service, cleanliness and value our customers have come to expect from the Golden Arches – a symbol that's trusted around the world.</p>	<p>Our mission. Bring inspiration and innovation to every athlete* in the world.</p> <p>* If you have a body, you are an athlete.</p>

Figure 3.40 Examples of mission statements

Sources: Coca-Cola mission statement: [https://boardmix.com/analysis/coca-cola-mission-and-vision-statement-analysis/#:~:text=Coca%2DCola's%20Mission%20Statement,as%20a%20global%20beverage%20leader](https://boardmix.com/analysis/coca-cola-mission-and-vision-statement-analysis/#:~:text=Coca%2DCola's%20Mission%20Statement,as%20a%20global%20beverage%20leader;); McDonald's mission statement: <http://panmore.com/mcdonalds-vision-statement-mission-statement-analysis>; Nike mission statement: <https://www.nike.com/help/a/nikeinc-mission>

Left to right: iStock.com/
ansonsaw; iStock.com/erminut;
Cineberg/Shutterstock.com

How to write a mission statement

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

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

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

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

Summary of vision and mission statements

Vision and mission statements are strategic tools that are informing, inspiring and energising for the stakeholders of a business. They evoke emotion and build an image of the business in people's minds. To summarise, here are the key attributes of a vision statement and a mission statement for a business (Table 3.4).

Table 3.4 Attributes of a vision statement and a mission statement

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

QUESTIONS 3.9



- 1 Explain** the strategic planning document known as a vision statement.
- 2 Explain** the strategic planning document known as a mission statement.
- 3 Explain** the difference between a vision statement and a mission statement.
- Read the vision and mission statements of the Lemon Squeeze Cafe (Figure 3.41) and answer the questions that follow.
 - a Explain** the reason why this business exists.
 - b Explain** the strengths of this business.
 - Identify the stakeholders of Lemon Squeeze Cafe. According to the statements, how does it intend to fulfil the needs of these stakeholders?
 - d Explain** the internal and external benefits of having both a vision and a mission statement for Lemon Squeeze Cafe.

Lemon Squeeze Cafe

Vision statement for Lemon Squeeze Cafe

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



Mission statement for Lemon Squeeze Cafe

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

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

Figure 3.41 Lemon Squeeze Cafe's vision and mission statements

- Read the mission statements for Lemon Squeeze Cafe and Starbucks (Figure 3.42) and answer the questions that follow.
 - a Analyse** the similarities and differences in elements of the two mission statements.
 - Decide which mission statement you find more inspiring and **explain** why.
- Using the internet, locate the strategic documents of a business to identify the following:
 - the purpose of the business
 - the vision and/or mission statement.



DW/labs Incorporated/
Shutterstock.com

Our mission: With every *cup*,
With every *conversation*,
With every *community* -
We nurture the limitless possibilities of
human connection

Figure 3.42 Starbucks' mission statement

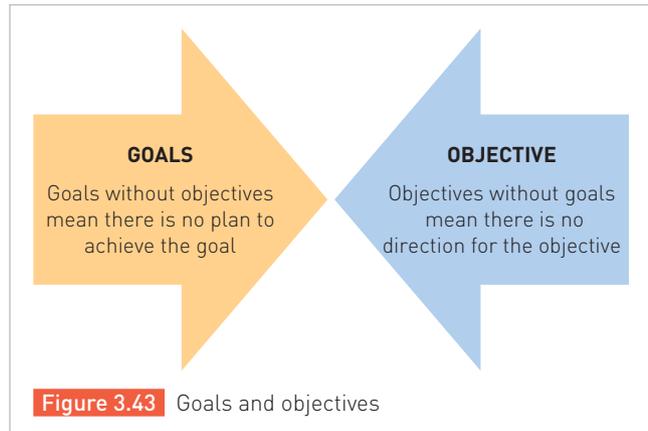
[Source: Updated Starbucks Mission Statement:
<https://stories.starbucks.com/mission>]

Goals and objectives

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

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

Business goals and objectives are strategic planning tools that are used to establish an intended direction for a business, and must be considered together. A goal without an objective means there is no plan to achieve the goal, whereas an objective without a goal means there is no direction for the objective (Figure 3.43).

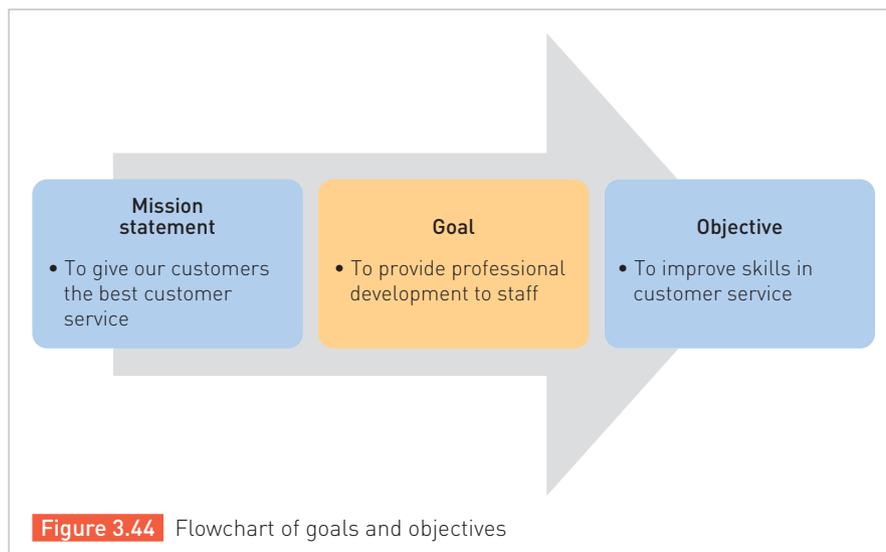


Setting goals and objectives

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

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

Goals and objectives are linked to the mission statement of a business. A goal provides a clear direction of what a business wants to achieve in its mission statement. For example, the mission statement of a business might identify that ‘our mission is to give our customers the best customer service in the industry’. The business could then set a goal to ‘provide professional development to staff’. To achieve that specific goal, the objective for the business could be to ‘improve skills in customer service’. Figure 3.44 shows the flowchart of goals and objectives from the mission statement of a business.



Summary of goals and objectives

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

PLANNING TOOL



SMART goals and objectives

A SMART tool can be used in business to guide goal and objective setting. SMART is an acronym for the five elements of the tool: specific, measurable, achievable, realistic and timely (Figure 3.45). It is important for a business to establish goals and objectives and review these constantly. Having well-defined goals and objectives can:

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

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

Specific

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

Measurable

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

Achievable

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

Realistic

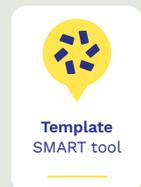
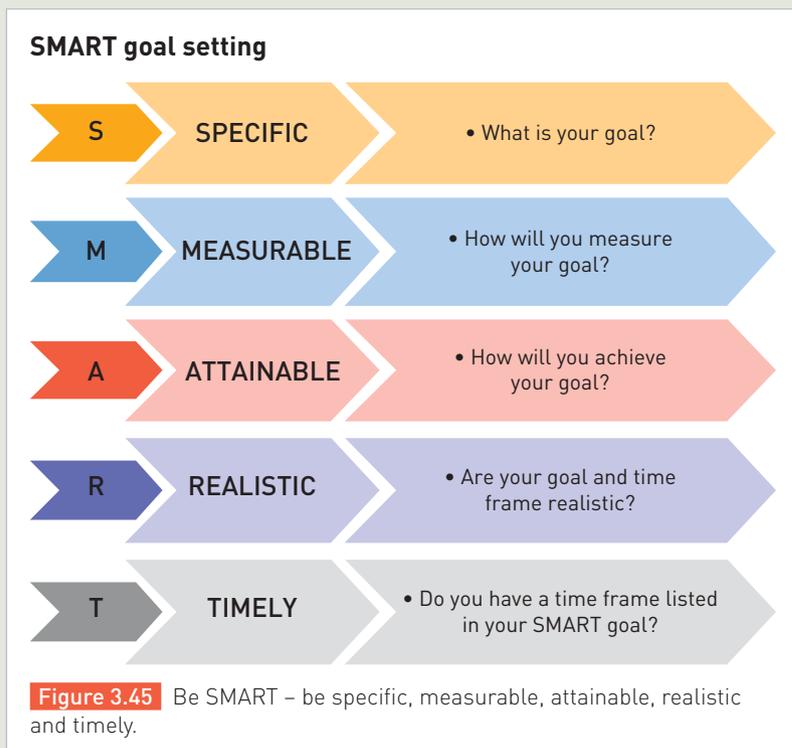
Ensure that the goal/objective is relevant to the direction the business wants to head in. The business needs to consider the strategic documents established, such as the vision and mission statements. The goal/objective also needs to fit in with the intention of the business.

Timely

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

A business can use a SMART framework similar to the diagram in Figure 3.45.

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



GAINING INSIGHT 3.12



Powerful leaders in the industry

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

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

Questions

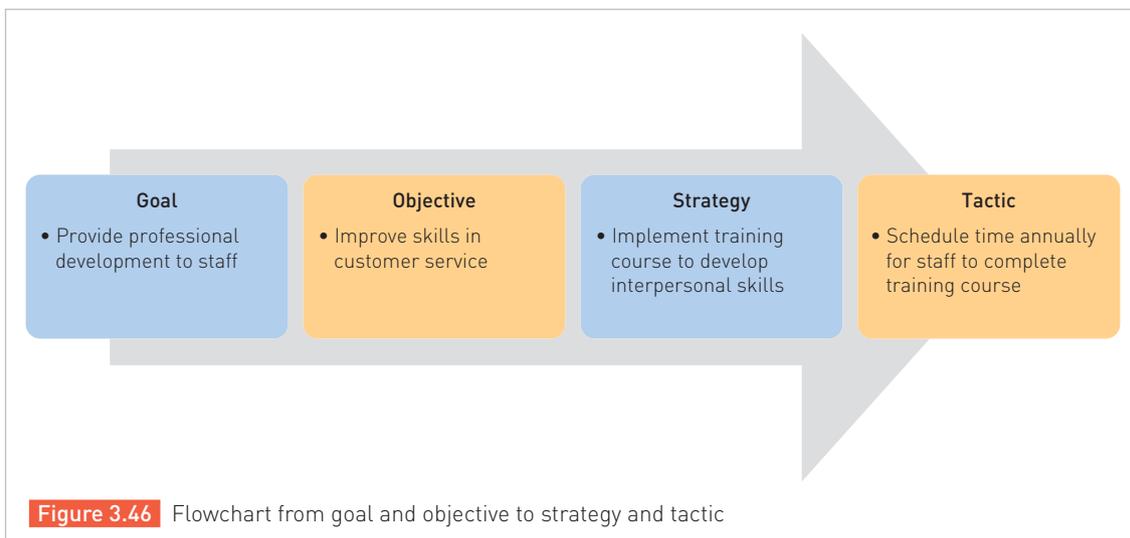
- 1 Identify whether PowerGrid's aim fits the SMART framework.
- 2 **Explain** the importance of the CEO setting an overall aim for the company.

Strategies and tactics

Strategic planning involves three stages (Figure 3.38): setting out *why* the business exists (vision and mission), *what* the business intends to achieve (goals and objectives) and *how* it will achieve this (strategies and tactics). When a business formulates a strategy, it chooses a tactic to achieve this. To be effective, the tactic must align with the strategy.

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

A strategy provides a clear link to how an objective or a goal can be achieved (Figure 3.46). For example, a business may have set a goal to 'provide professional development to staff'. To achieve that specific goal, the objective for the business could be to 'improve skills in customer service'. The strategy for reaching that objective could be to 'implement training courses to develop interpersonal skills'. Finally, the tactic to achieve the strategy could be to 'schedule time annually for staff to complete training courses'.



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

Summary of strategies and tactics

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

QUESTIONS 3.10



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

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

Evaluating plans

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

Evaluating business criteria

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

Decisions

A visual representation for evaluating business practices is a decision-making matrix or tree. These can represent evaluation and decision-making processes, make judgements and decisions, and propose recommendations.

Decision-making matrix

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

Example of a decision-making matrix

A business could use a decision-making matrix to determine the best location for the business (Table 3.5).

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

Table 3.5 Decision-making matrix

Business location					
Factor	Rent	Parking space for customers	Competition close by	Proximity to public transport	Score
Consideration	Lower is better	Higher is better	Lower is better	Higher is better	
Weighting	4	3	5	2	
Location 1	$2 \times 4 = 8$	$3 \times 3 = 9$	$4 \times 5 = 20$	$0 \times 2 = 0$	37
Location 2	$3 \times 4 = 12$	$2 \times 3 = 6$	$3 \times 5 = 15$	$1 \times 2 = 2$	35
Location 3	$1 \times 4 = 4$	$1 \times 3 = 3$	$2 \times 5 = 10$	$0 \times 2 = 0$	17
Location 4	$4 \times 4 = 16$	$3 \times 3 = 9$	$4 \times 5 = 20$	$1 \times 2 = 2$	47

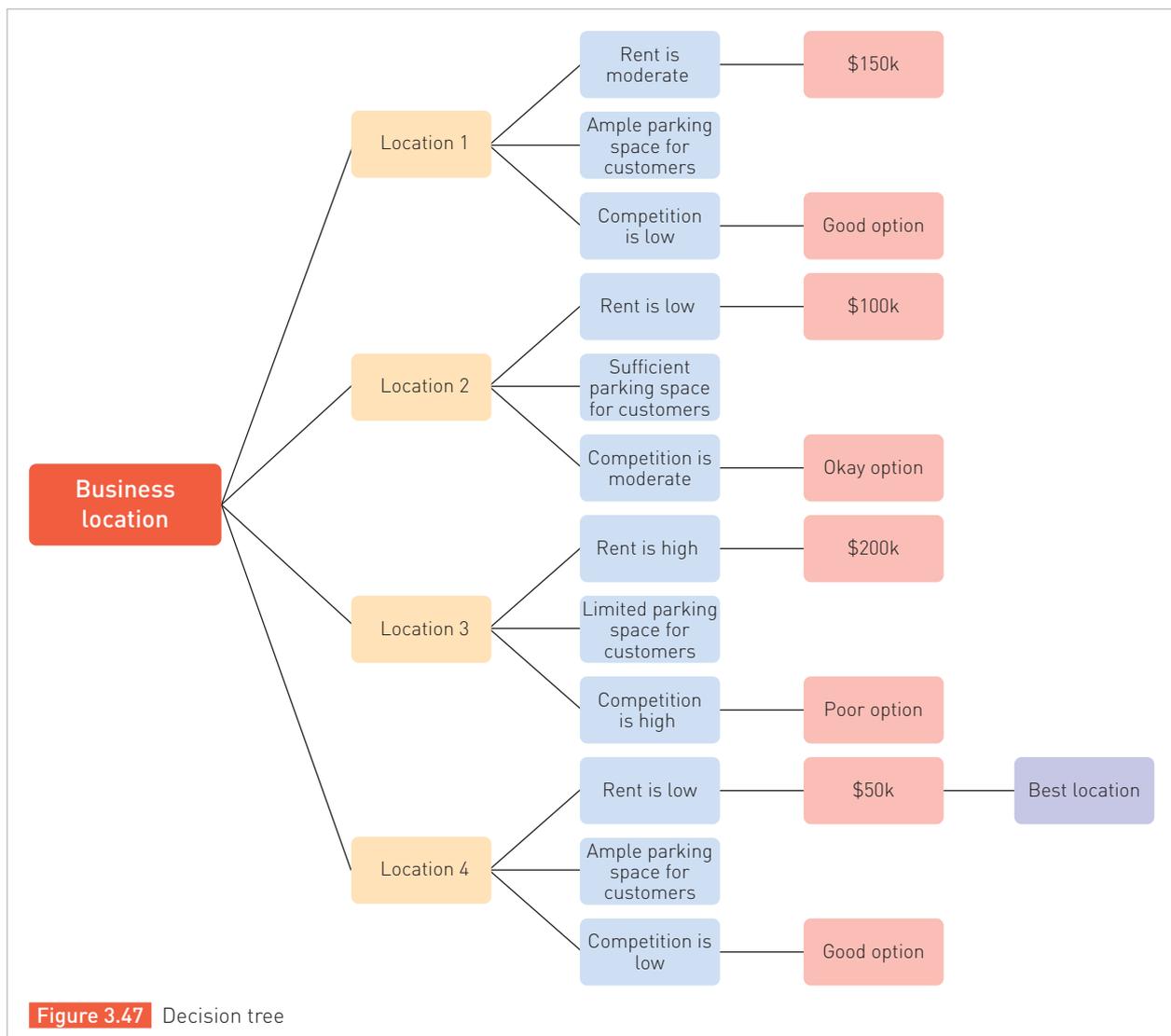
Decision tree

A decision tree is another option that predicts the consequences of choices. It is a visual representation in a tree-like graph that shows possible options and resulting outcomes. It clearly identifies possible solutions for a given decision through a systematic process. It starts with a single problem – the root – and then branches off into options and solutions to form a tree diagram. It is a useful diagram to formally break down a complex decision.

Example of a decision tree

Using the same example as in Table 3.5, a business could use a decision tree to determine the best location for the business (Figure 3.47).

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



GAINING INSIGHT 3.13



Goodbye cash

Businesses are preparing for a cashless society.

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

The benefit of only accepting credit payment is the convenience of conducting financial transactions. A business no longer requires a safe or a cash float, and there is no need to reconcile the cash register at the end of the business day. It also gives a business a certain credibility and makes it easier for many customers to pay (Figure 3.48).

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



Figure 3.48 Many businesses are now completely cashless.

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

Question

- 1 **Create** a table highlighting the advantages and disadvantages of having a cashless business.

Business goals

A business’s primary goal is to maximise profits. To achieve this, specific goals need to be established. Goals give a business a clear direction and provide a means to measure the success of a business. They are a powerful tool that can focus attention on achieving desirable outcomes. When specific goals are set, they identify what a business is trying to achieve and inform all stakeholders. This provides greater strength within a business as both leaders and workers have a purpose and direction to follow. Most businesses also have the desire to improve and grow and to become more efficient and effective. Setting specific goals that focus on these areas will help a business achieve these results. This in turn will make a business more competitive and successful. Figure 3.49 shows the six most common business goals.

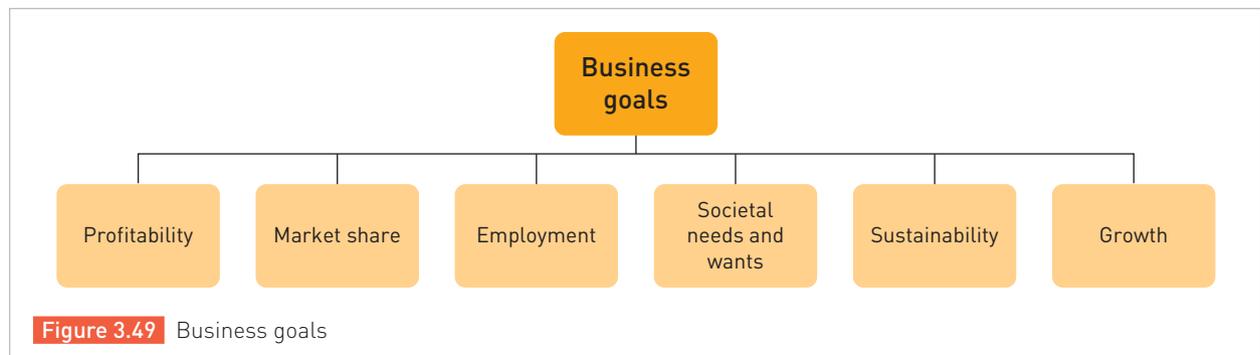


Figure 3.49 Business goals

Key learnings

You will learn about business goals including:

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

Profitability

In a profit-based business, making a profit is critical, and a profitability goal should be created (Figure 3.50). Generating profit can be a means of measuring success and can be critical for a business's survival.

For a business to make a profit, the amount of **revenue** earned must exceed the **expenses** of the business; to calculate profit, deduct expenses from revenue.

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

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



Example of a profitability business goal

The goal of a business could be to increase profits (Figure 3.51). The objective may be to increase profit by reducing costs throughout the year of operation. Therefore the business needs to put in place strategies and tactics to achieve this. The strategy may be to improve productivity, and to do this the business may restructure jobs to improve the workflow. This should achieve the goal as productivity increases through improved workflow.



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

Expense: a cost involved in operating a business

Market share

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

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

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

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

Example of a market share business goal

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

Figure 3.52 gives a simple representation of how the goal of increasing market share can be achieved.



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

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

Employment

The provision of employment is an essential business goal and is crucial for business growth (Figure 3.53). A business needs to project employment levels and have the necessary staff to attain goals. Employment refers to the relationship between two parties in which one party is the employer and the other is an employee. A business (the employer) usually requires workers (employees) to perform the operations of the business and provide a service to consumers. A strong workforce can sometimes give a business a competitive edge over a rival business. Therefore employees are often considered the most valuable assets of a business. This means a business should invest in its employees and develop employment goals.

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

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

Example of an employment business goal

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

Figure 3.54 illustrates of how a goal of improving employment conditions can be achieved.



Figure 3.53 Employment goal

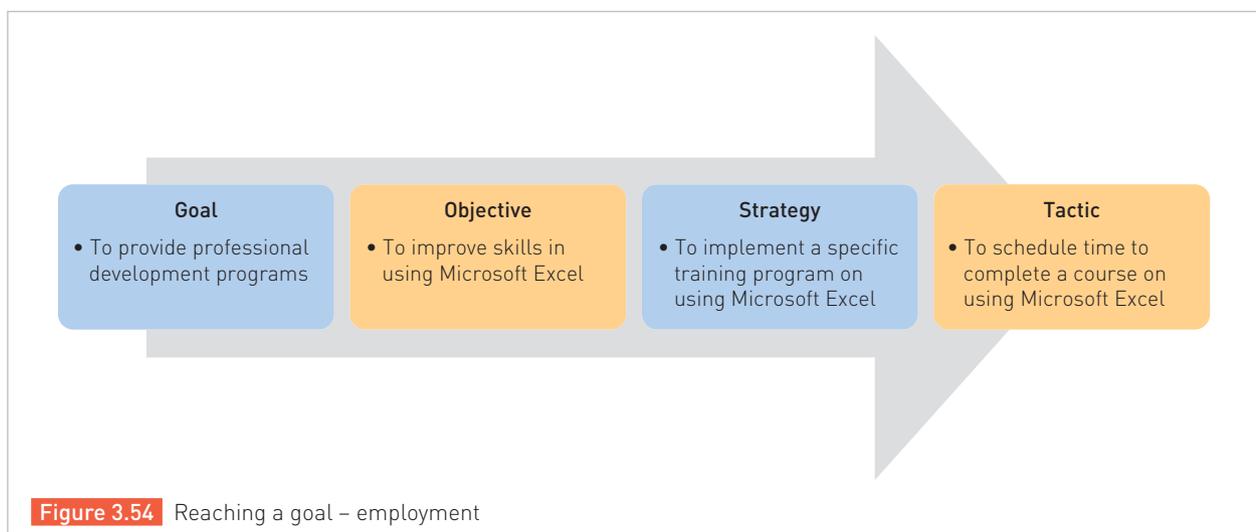


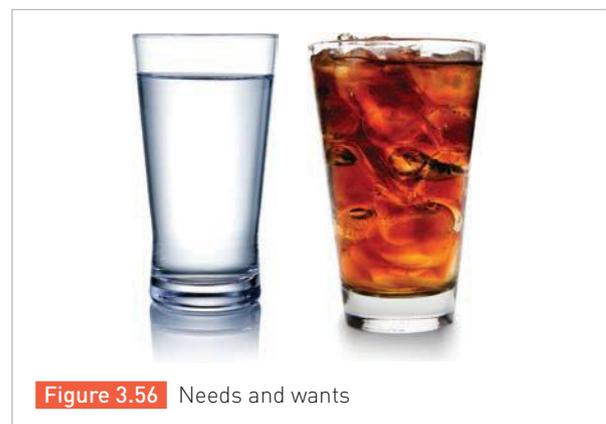
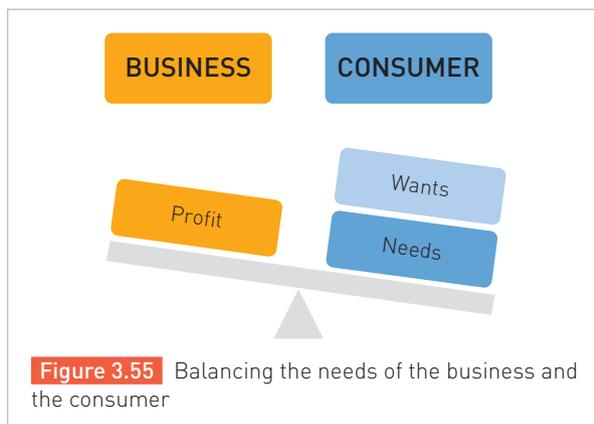
Figure 3.54 Reaching a goal – employment

Societal needs and wants

A business operates within a society and must meet the needs and wants of the people in that society. The needs of individuals and the community as a whole must be met. A business must be able to balance its profit and other goals to achieve the needs and wants of society (Figure 3.55).

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

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

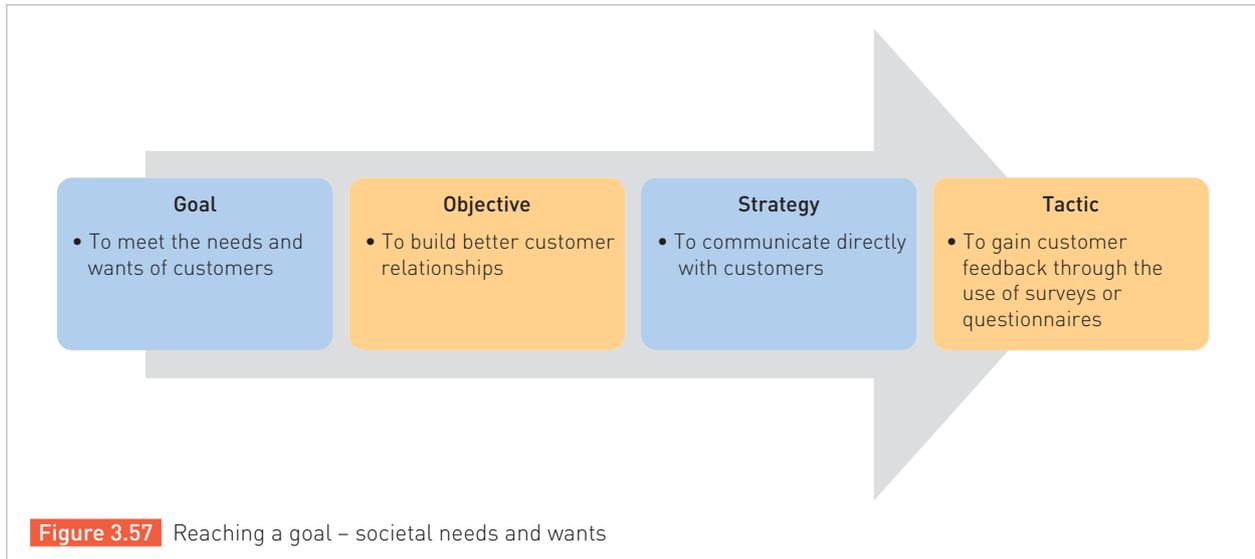


A business must be aware of, and understand, the needs and wants of a society (Figure 3.56). Building a business around these is critical to success.

Example of a societal business goal

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

Figure 3.57 illustrates how a goal of meeting the needs and wants of society can be achieved.



GAINING INSIGHT 3.14



AR platform meeting customers' needs

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

move the furniture around, experiment with different arrangements and add more than one item. It is an AR program designed for your home or office.

Questions

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

Sustainability

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

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

Sustainability: the capacity to endure

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

Consumer demand

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

Reputation

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

Innovation

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

Stakeholders

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

Resource efficiency

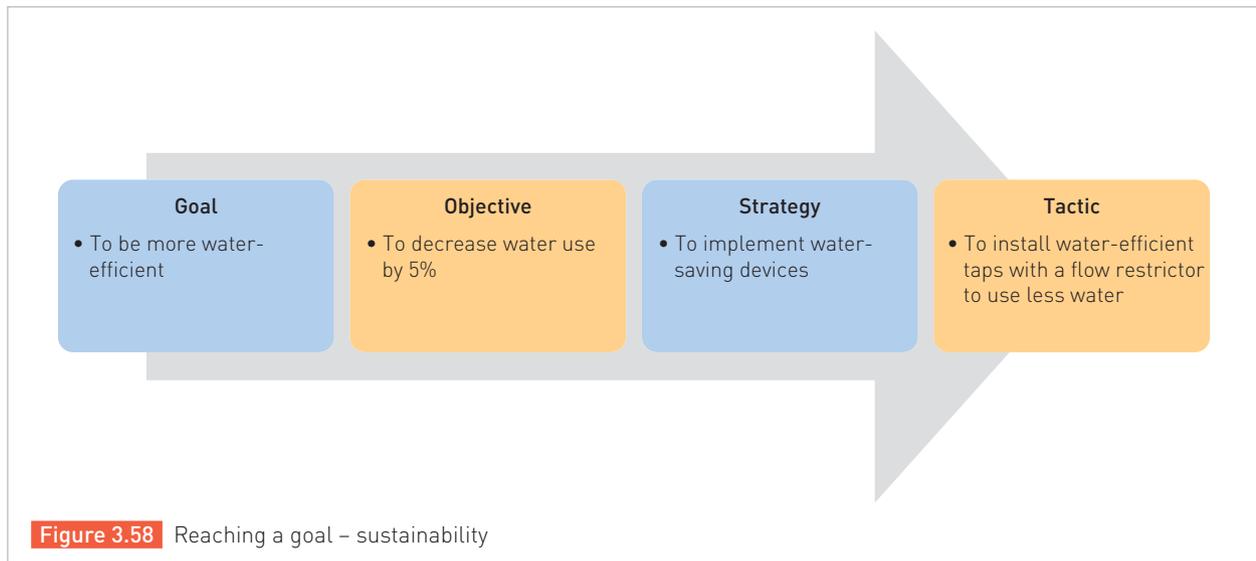
A business that is sustainable often has better use of resources and streamlined practices in its operations. It implements water- and energy-efficient initiatives that decrease costs for the business. It is also concerned about waste products and implements a system to reduce, reuse or recycle waste.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

Example of a sustainability business goal

A business needs to implement sustainable practices in the workplace. A goal of a business may be to be more water-efficient. The objective could be to decrease water usage by 5 per cent. Therefore the business needs to put in place strategies and tactics to achieve this. The strategy may be to implement water-saving devices. The business could install water-efficient taps with a flow restrictor to use less water. This should then achieve the goal of being more water-efficient in the workplace. Follow the weblink to view the 2025 sustainability targets of Brambles, a global supply chain logistics company, for more examples.

Figure 3.58 gives a simple representation of how a goal of sustainability can be achieved.





GAINING INSIGHT 3.15



Poppy Rose: How we're different



All images courtesy Elli Gregory

Figure 3.59 Poppy Rose: How we're different

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

Source: Extract from Poppy Rose homepage: <https://poppyrose.com.au>

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

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

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

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

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

Source: Extract from Poppy Rose website: 'How we're different', <https://www.poppyrose.com.au/how-were-different>

Questions

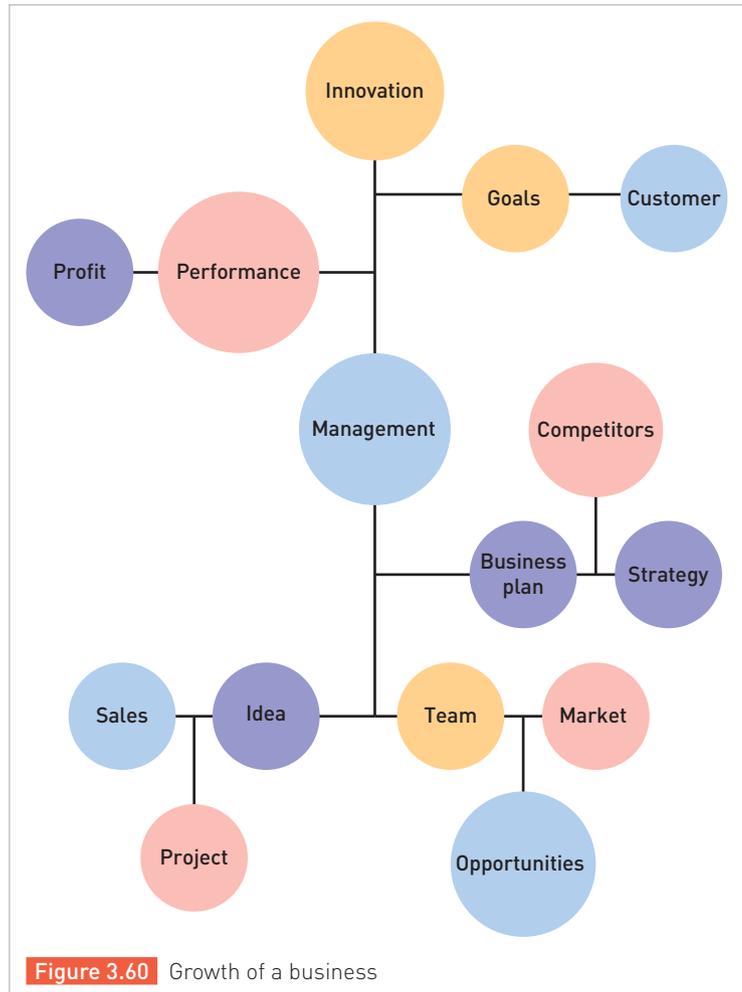
- 1 Distinguish how the business Poppy Rose is different to other florists.
- 2 **Explain** the benefits for the business Poppy Rose in implementing sustainable practices.
- 3 Determine why it is important for businesses such as Poppy Rose to show leadership in developing sustainable practices.

Growth

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

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

A goal of maximising growth is critical for any business and will provide the opportunity to increase market share and grow profits (Figure 3.60).



Example of a growth business goal

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

Figure 3.61 gives a simple representation of how a goal of growth can be achieved.



GAINING INSIGHT 3.16



Bigger burger deal

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

OUR MISSION

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

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

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

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

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

Source: Burger Urge mission statement: https://www.gpmtourism.com.au/members_directory/australia/new-south-wales/port-macquarie/burger-urge-port-macquarie

The business takes an interesting approach to its menu. Its burger names are unique, quirky and a little off-beat, such as 'Zero clucks' and 'Not-a-cheese-burger'.



Stars and Stripes/Alamy Stock Photo

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

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

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

Source: Burger Urge blurb: <https://www.stockland.com.au/shopping-centres/centres/stockland-green-hills/stores/burger-urge#:~:text=No%20one%20does%20it%20quite, sourced%20from%20local%20Aussie%20farmers>

Questions

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

QUESTIONS 3.11



- 1 Complete the following table on business goals.

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

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

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

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

Key business functions

Once a business has been established, it performs key internal functions. Those functions are: finance, human resources, marketing and operations. Regardless of the size, type or activity of a business, it performs all these functions. In a small business, all functions are generally performed by an individual, whereas in a larger business the same functions are usually divided into departmental teams. The bigger the business, the more detailed and involved these functions become. These key functions are linked together to achieve the overall aim and objectives of a business. They have to function together for the business to be effective. Figure 3.62 shows the four key functions of a business.



Key learnings

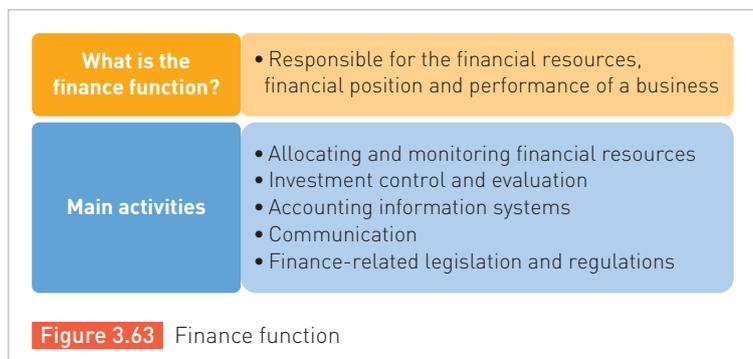
You will learn about the key business functions of:

- finance
- human resources
- marketing
- operations.

Finance

Finance is often regarded as the lifeblood of a business. The finance aspect of a business relates to the acquisition, management and use of financial

resources in a business to achieve its objectives. It is a critical element to the survival of a business. A business succeeds and growth occurs when its finances are managed effectively. Finances in a business include sources of finance, investment and accounting information systems. The goal in finance is to support the business in its operations and marketing by providing sufficient funds to complete activities. The function of finance is summarised in Figure 3.63.



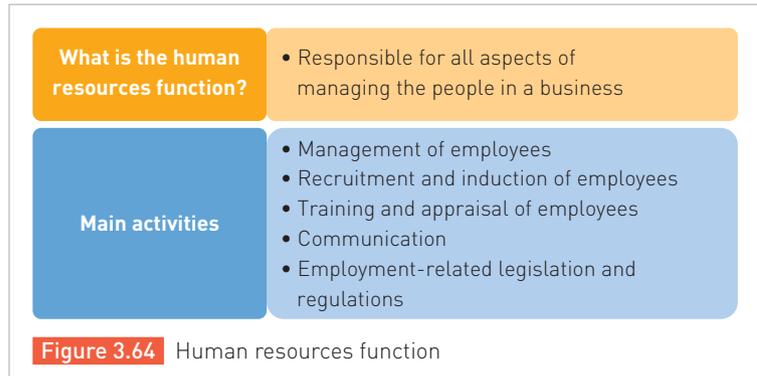
Human resources

Human resources are the people who make up a business – the owners, managers and employees. The human resources function deals with acquiring, developing and maintaining a business's workforce. It involves the recruiting and hiring of new employees, training and motivating of current employees and providing compensation and benefits. Human resources play a critical role in helping a business to gain a competitive edge. In a fast-moving, competitive environment, there is a great demand for high-quality employees. The function of human resources is summarised in Figure 3.64.

Marketing

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

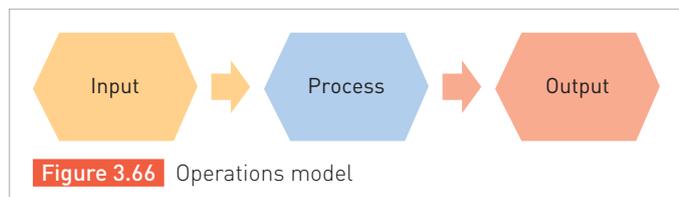
Typically, the marketing process includes performing market research, product (or service) development, market development and market penetration, then creating a strategic marketing plan. It also involves identifying the target market, pricing, promoting and then distributing the product or service. The function of marketing is summarised in Figure 3.65.

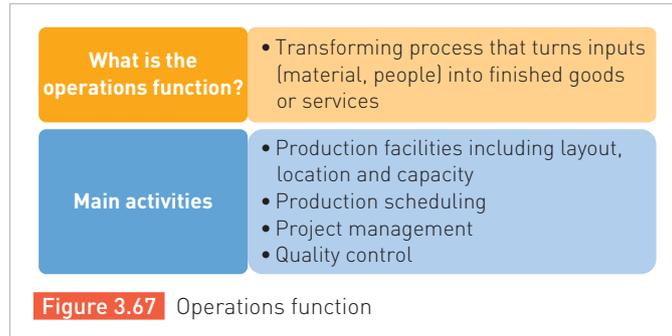


Operations

The operations function refers to a business's production system and the processes it has in place to transform materials and labour into goods and services. It is concerned with creating the highest level of efficiency in operations to ensure that processes are as effective as possible so as to maximise the profit of a business. It is based on a model that flows from input, through process and then to output (Figure 3.66).

The operations of a business involve utilising resources from materials, equipment and technology to acquire, develop and deliver goods and services. This requires determining the size of manufacturing areas, and project management methods including implementing technology networks. The management of operations in a business encompasses the acquiring of goods or services, managing relations with those involved in the process and improving the business's sustainability in using resources. The operations of a business are the key to success. If productivity is high, a business has a greater chance of being a competitive entity. This in turn will lead to a greater chance of success. The function of operations can be summarised as follows (Figure 3.67).





QUESTIONS 3.12



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

Weblinks:

- Active Truth (p.31)
- Knobby Underwear (p.33)
- Clean Up Australia (p.41)
- RSPCA (p.41)
- Australian Chamber of Commerce and Industry (p.41)
- National Indigenous Australians Agency (p.41)
- Lions Australia (p.41)
- Surf Life Saving Australia (p.41)
- ACNC (pp. 50 & 51)
- Bat Conservation & Rescue Qld Inc. (p.50)

- Government-owned corporations (GOCs) policies and guidelines (p.51)
- Government business enterprises (GBEs) (p.51)
- Business structures tool (p.51)
- Starbucks (p.67)
- Brambles (p.79)

Templates:

- SWOT analysis (pp. 62, 63 & 86)
- SMART tool (p.69)

Chapter summary:

- Chapter 3 Fundamentals of business (p.86)

Chapter 3 review

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



Summary
Chapter 3
Fundamentals
of business

3.1 Short responses

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



Template
SWOT
analysis

3.2 Extended response

Using the case study provided, prepare a business report (extract) to present to the owners of the business that:

- **describes** the business situation related to the case study business
- **analyses** the business situation by selecting data and information relating to the strategic planning for the case study business using a SWOT analysis
- **interprets** a relationship or trend in the SWOT analysis to draw conclusions about the implications for the business.

Cruise Wear

Source 1: Business profile

Chloe identified a gap in the market selling cruise wear. Together with her friend Heidi, they created an online store, Cruise Wear, selling bright, colourful clothing. Their specialty is designing matching cruise wear for small and large groups. Chloe and Heidi have focused on Australian flora and fauna when designing their product range and offer fully customised designs. Their business is dedicated to providing exceptional customer service and establishing relationships with their suppliers to produce quality products.

The business offers a range of products for its customers with:

- *Australian made clothing* – the team at Cruise Wear promote Australian made products by manufacturing their designs in Australia
- *quality* – product quality is extremely important to the business to ensure that customer needs and requirements are not only met but exceeded
- *a highly skilled team* – the team at Cruise Wear is a group of highly skilled and passionate employees. These attributes contribute to the business operating efficiently and effectively
- *customer care* – the business focuses on providing quality service to ensure customer expectations are met. The team provides quick, easy and personalised service and delivers excellent customer care.

The business also offers a range of services including:

- *matching designs* – the team at Cruise Wear works with customers to design and create matching clothing for groups. They have a range of fun cruise shirt designs to order or inspire customers
- *custom-made clothing* – a design studio is used to help customers create 'the look' they want. The business has developed an online app that steps customers through the operations process and provides a gallery of images to help with designing and creating products.



Stock Essentials/istock

Figure 3.68 Cruise wear

Source 2: Future goals

Chloe and Heidi aim to expand their range to ensure the long-term sustainability of the business by introducing a range of innovative products and to improve packaging.

Source 3: Customer feedback

Cruise Wear uses social media to gain customer feedback (Figure 3.69).

★ **one week ago**

Good products but I'm only giving them 1 star because of the time it takes for delivery. It took a month to be delivered.

★★ **one month ago**

Such an awesome store with great products. They just need to improve their delivery; it takes too long to receive an order.

★★★★★ **two months ago**

The design of the shirt was so bright and colourful, it is perfect. And it is so unique, no-one else will be wearing it on the cruise. I highly recommend this store and in particular, Heidi who helped me with the design.

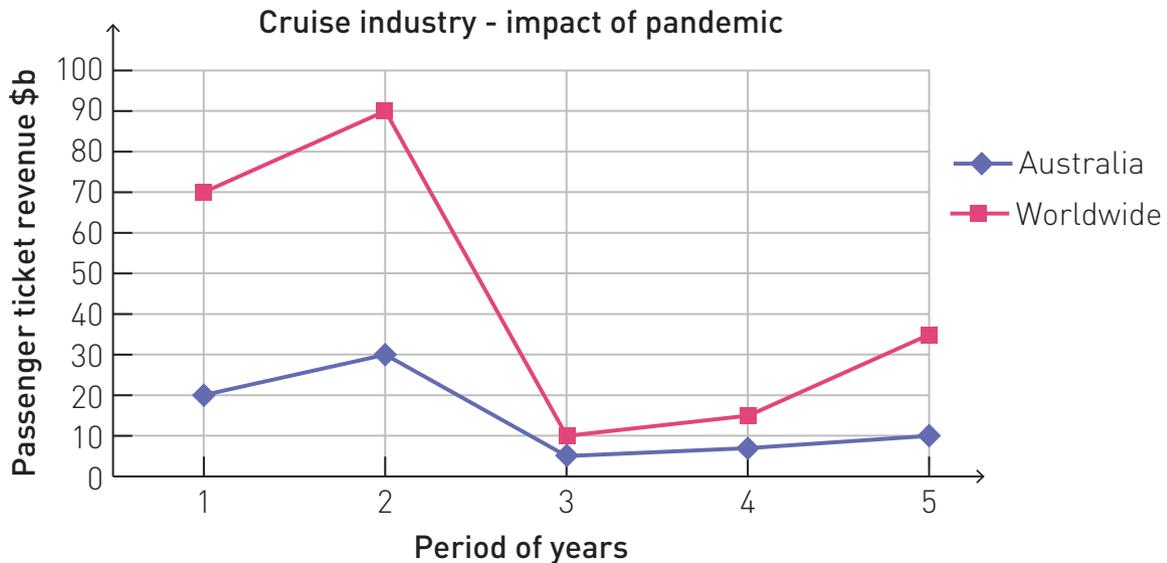


© Sally Adams/Cengage

Figure 3.69 Customer feedback

Source 4: Cruising forecasts

The popularity of cruising increased after the cruise industry suspended operations in 2020 and 2021 due to the global pandemic (Figure 3.70).



© Sally Adams/Cengage

Figure 3.70 Impact of pandemic on cruise industry

It is predicted that cruising will become the holiday of choice for many Australians. Here are some reasons why cruising has become so popular:

- *All-inclusive* – on a cruise, everything is included in the one place and in the price. A cruise holiday includes accommodation, food, activities and entertainment on the cruise ship. It is that simple.
- *Same room, different destination* – there is a variety of accommodation to suit every budget and need. Also, once you are on the cruise you stay in the same room; it is the ship that changes location. So, there is no need to pack and repack as you move from one destination to another.
- *Variety cruises* – cruise lines offer a variety of cruise options to suit all travelers. You can select a family cruise, themed cruise (such as a disco party), comedy cruise, retirees cruise and even a State of Origin cruise. Cruise lines operate all over the world. There is a cruise for everyone!
- *Caters for large groups* – cruise lines can offer accommodation for large groups. It has become a popular way for families to holiday together and for businesses to hold professional development and training. The trend that keeps growing is wearing matching clothing for the whole group.

4

LEADERSHIP AND MANAGEMENT

What you will learn

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

This chapter will provide you with the opportunity to:

- **describe** business situations and environments relating to businesses in the various stages of the business life cycle
- **explain** business leadership, management roles and leadership styles relating to the fundamentals of business
- **analyse** and **interpret** business situations, environments and the key business functions relating to the fundamentals of business using a SWOT analytical tool
- **evaluate** strategic planning to make decisions and propose recommendations
- **create** responses that **communicate** meaning to suit audience, context and purpose.

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The analytical tool used in this chapter is a SWOT analysis.



GAINING INSIGHT 4.1



A leader with style and management

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

Tracy Knight

Partner, Bentleys Corporate Recovery (Brisbane)

Tracy Knight (Figure 4.1) is a successful leader and manager. She is a highly accomplished businesswoman with experience in strategic and operational management, and has demonstrated leadership in business.

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

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

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



Tracy Knight

Figure 4.1 Tracy Knight – a leader and a manager

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

Qualifications, professional memberships and appointments

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

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

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

Questions

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

Organisational design

Organisational design is the ‘big picture’ that describes a business. It involves the relationships that exist between various elements of a business (Figure 4.2).

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

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

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

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

The right organisational design (Figure 4.3) is critical to a business’s performance and success.



Figure 4.2 Building a business

Billion Photos/Shutterstock.com



Figure 4.3 Elements of an organisational design

Key learnings

You will learn about organisational design by examining:

- organisational structures
- organisational culture.

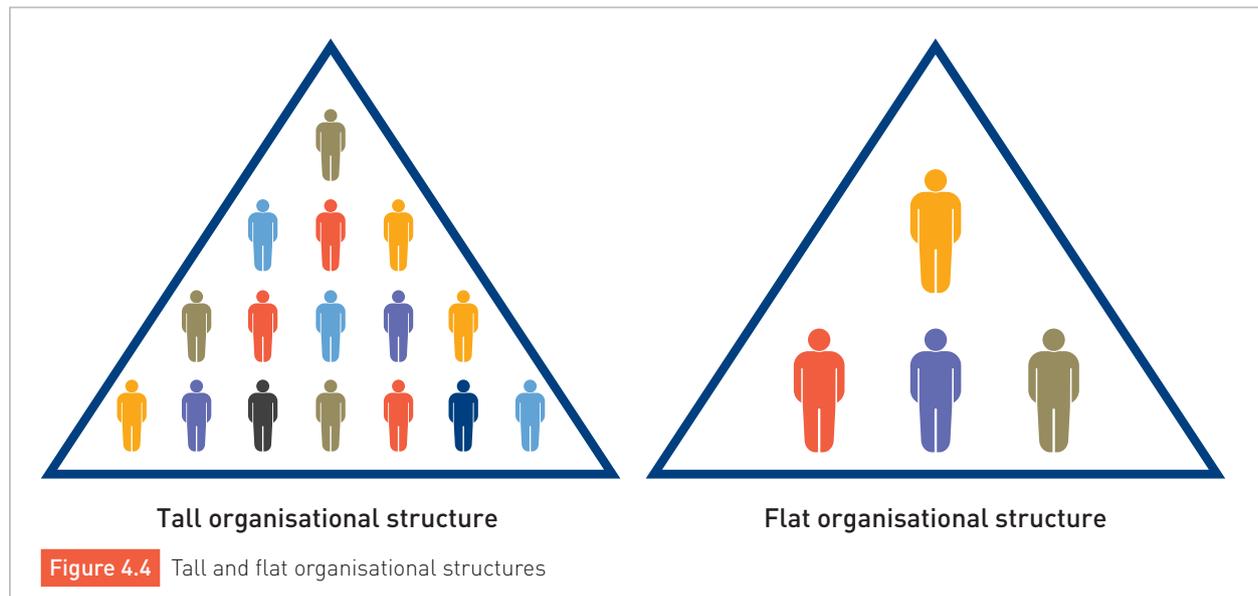
Organisational structures

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

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

Elements of an organisational structure

An organisational structure can be either a 'tall' structure or a 'flat' structure (Figure 4.4) and can be either centralised or decentralised.



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

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

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

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

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



Factors in deciding an organisational structure

The organisational structure that a business uses may depend on several factors. These could include those shown in Table 4.1.

Table 4.1 Factors in deciding an organisational structure

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

Steps to determine the best organisational structure

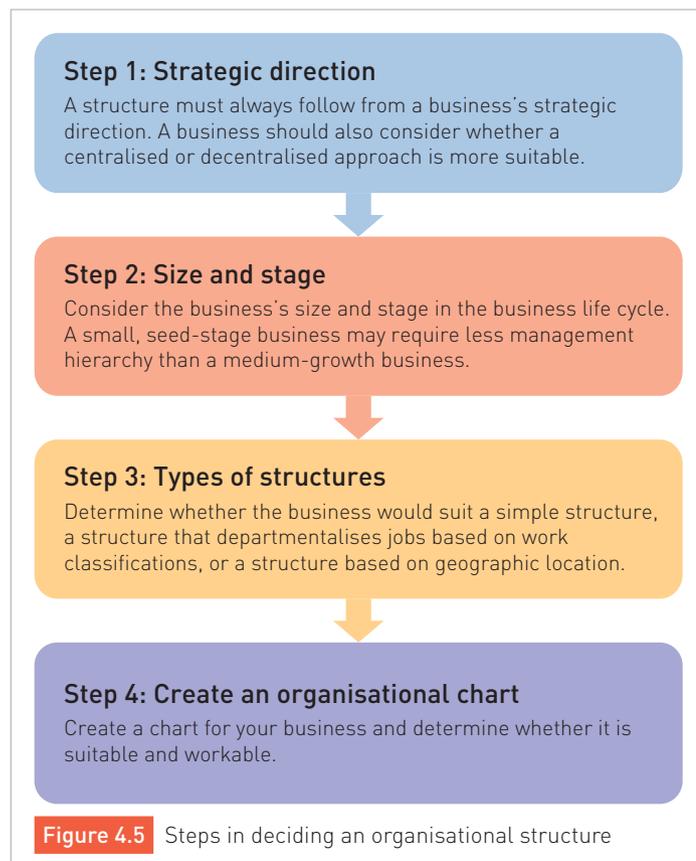
An organisational structure arranges the roles and responsibilities in a business and the level of command needed. This will help a business achieve its strategic goals. The right structure will allow the best use of resources and foster effective working relationships throughout the business. The steps outlined in Figure 4.5 may help determine the best structure for a business.

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

Why develop an organisational structure?

An organisational structure:

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



GAINING INSIGHT 4.2



Simple but effective

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

authority. Figure 4.6 is a typical organisational chart for a supermarket store. This structure has four layers of management within a store. It clearly defines the level of command and communication to provide a fast flow of information.

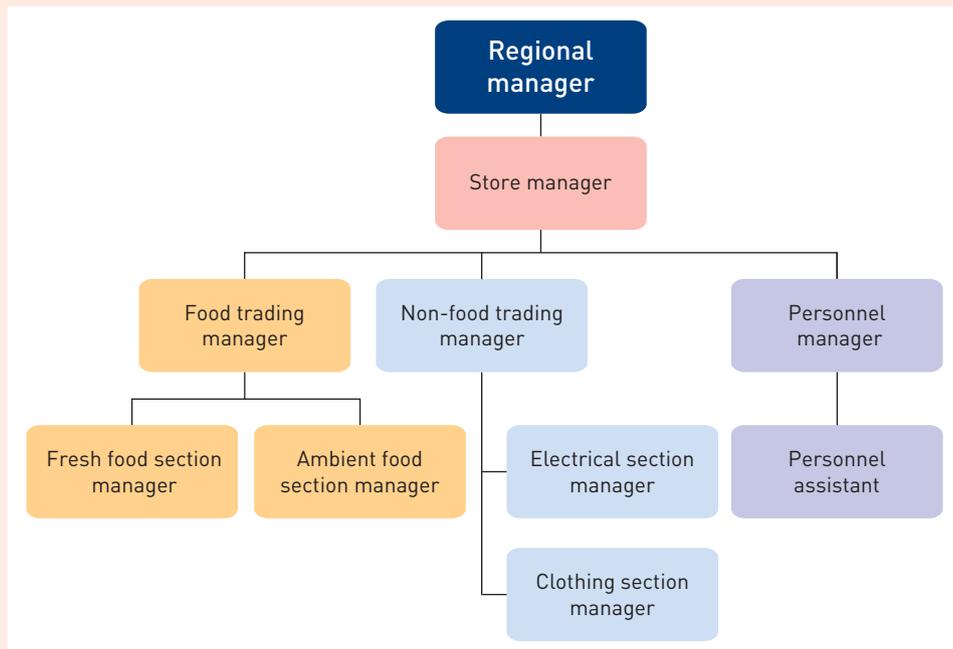


Figure 4.6 A typical organisational structure at store level

Questions

- 1 Draw an organisational structure for your school and identify the key levels of management.
- 2 **Explain** a benefit of having an organisational structure in your school.
- 3 Identify and **explain** why a business would require an organisational structure.
- 4 **Explain** the difference between a centralised and a decentralised organisation.
- 5 Identify and **explain** a benefit for a business in using a 'tall' structure.
- 6 Identify and **explain** a benefit for a business in using a 'flat' structure.
- 7 **Explain** why the size of a business should be considered when deciding on an organisational structure.

Types of organisational structures

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

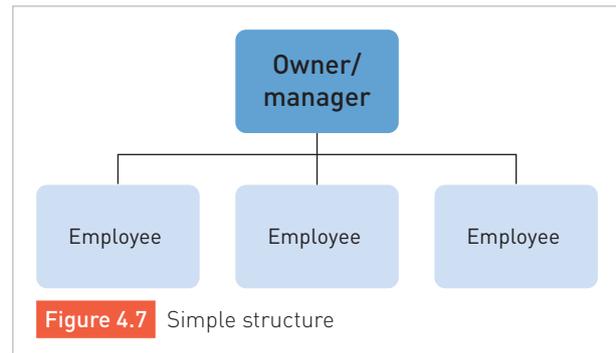
- simple structure
- functional structure
- divisional structure.

Simple structure

A simple organisational structure is a basic system that has limited specifications or specialisation. There is a centralised authority, usually the owner, who has all the power and authority. There is no hierarchical level in a simple structure, as depicted in Figure 4.7.

Features of a simple structure

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



Advantages of a simple structure

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

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

Disadvantages of a simple structure

The weaknesses of a simple structure are:

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

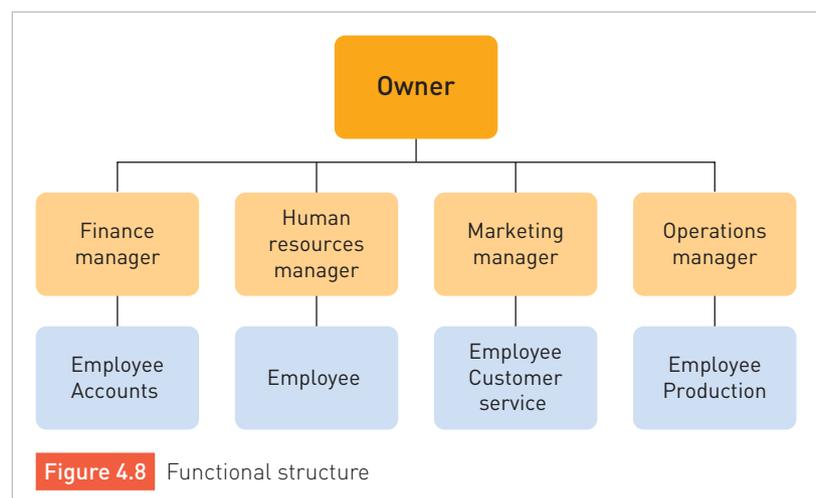
Functional structure

A functional organisational structure is one of the most common structures. In it, people are grouped into departments in specialised areas. It is a very structured, hierarchical system, as depicted in Figure 4.8.

Features of a functional structure

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

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



Advantages of a functional structure

There are advantages to grouping by function, including:

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

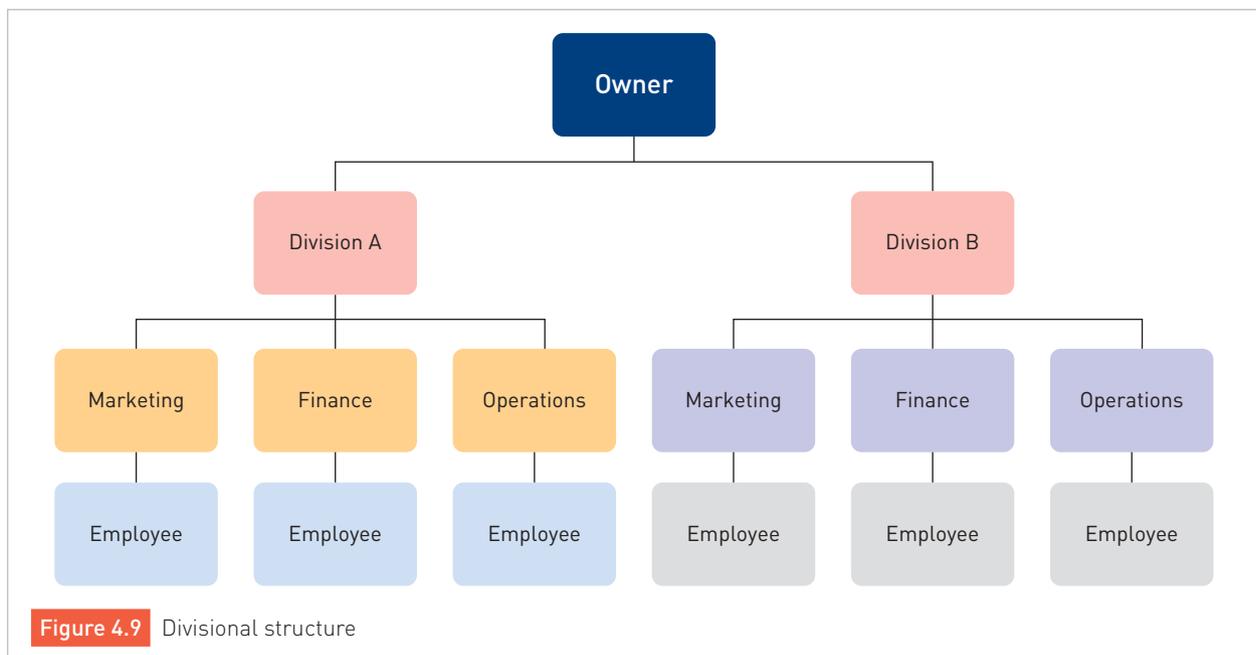
Disadvantages of a functional structure

The functional structure has some disadvantages, including:

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

Divisional structure

A divisional organisational structure is a type that groups by divisions that exist within a business. These divisions could correspond to product lines, customers or geographical locations. It is a very structured, hierarchical system, as depicted in Figure 4.9.



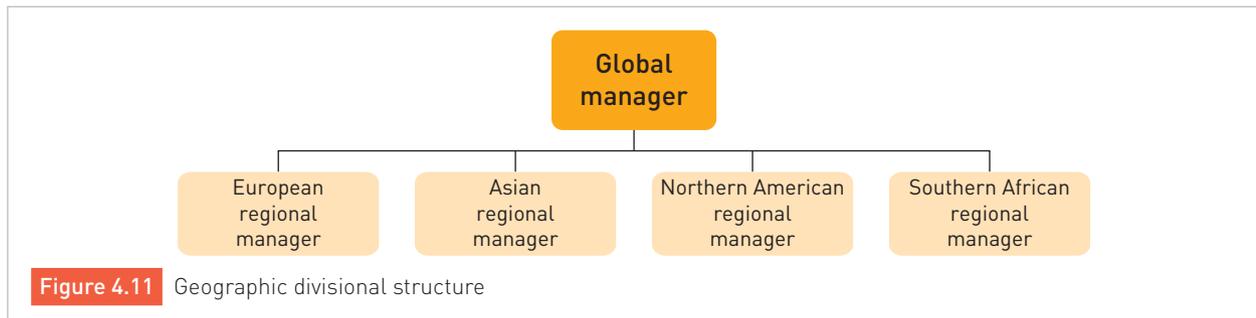
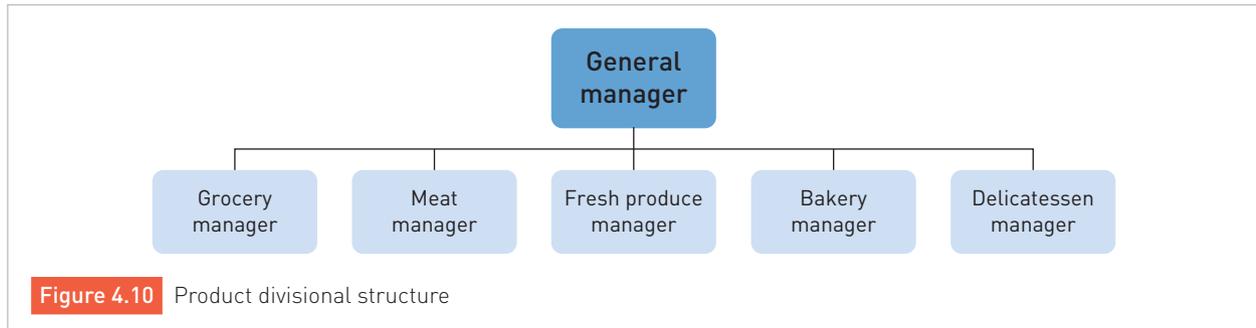
Features of a divisional structure

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

- *products* – a business may group sections according to the products they sell. For example, in a supermarket, the business may be divided into food sections, such as grocery department, meat department, fresh produce department, bakery department, delicatessen department (Figure 4.10).

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

- *geography* – a business may group sections according to their location, for example into regional, state, national or international divisions; or by continents and/or countries, such as European region, Asian region, Northern American region or Southern African region, with managers in each (Figure 4.11).



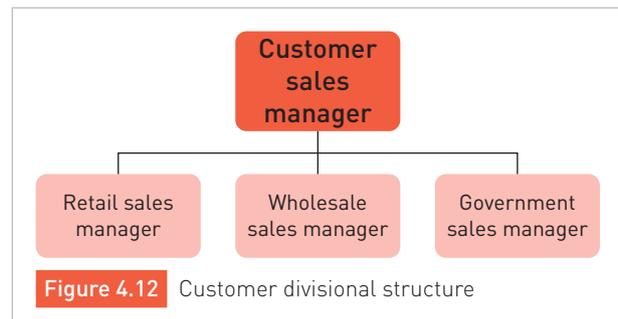
A geographical departmentalised structure provides more effective and efficient handling of specific regional issues that arise. It provides a unique service to a specific geographic market.

- *customer* – a business may be grouped on the basis of common customers, for example retail customers, wholesale customers and government customers; or local customers, national customers and international customers (Figure 4.12).

A customer departmentalised structure allows

for greater attention to specific customers' needs

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



Advantages of a divisional structure

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

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

Disadvantages of a divisional structure

The divisional structure has disadvantages, including:

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

QUESTIONS 4.1



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

GAINING INSIGHT 4.3



Delicious Dishes

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

The structure of this business has been working well, but Hua is considering expanding her business. She is contemplating taking on a partner and expanding her operations in two ways. She plans to provide a dinner



© Saly Adams/Cengage

Figure 4.13 Delicious Dishes

catering service and will increase the area of operations to include the southern suburbs of Brisbane.

Questions

- 1 Draw an organisational structure for Delicious Dishes (before expansion) and identify the key levels of management.
- 2 Identify the type of structure that best describes the Delicious Dishes arrangement.
- 3 **Explain** a benefit of this type of structure for this business.
- 4 **Explain** a challenge this structure could create for the business.
- 5 Discuss how the organisational structure could change if Caroline takes on a partner.

Organisational culture

Organisational culture is a critical element in defining a business. It plays a crucial role in shaping the behaviour in an organisation. The culture can be described as the personality of a business. Each business has a unique personality. It cannot be duplicated; it is exclusive to that particular organisation. It is a sustainable point of difference and is integral to a business's success. An organisational culture is the dynamics that make up a business (Figure 4.14).

What is organisational culture?

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



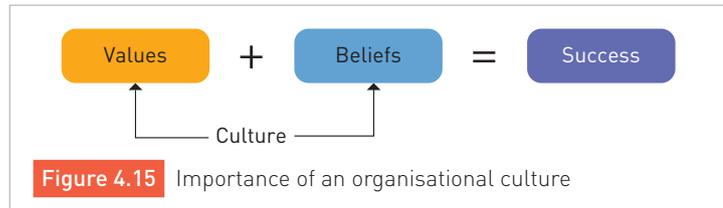
An organisational culture is a powerful force that influences the behaviour of the group. It can dictate how they dress, act and perform their job in an organisation. Each organisation develops its own unique organisational culture, which acts as a guideline for workers to follow. It connects and integrates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

Importance of an organisational culture

It is important for a business to establish an organisational culture. It is a powerful force that affects the way an organisation thinks and behaves. An organisational culture is vital because it shapes and guides a business and helps it to achieve success (Figure 4.15).

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

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



Elements of organisational culture

Each business has a unique organisational culture. The culture has nothing to do with the type of work a business performs; it is about the interaction between people in an organisation. Important elements of an organisational culture are shown in Figure 4.16.

Leadership: 'Lead it'

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

Communication: 'Tell it'

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



Relationship: ‘Work it’

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

Achievement: ‘Reward it’

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

Developing an organisational culture

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

Step 1: Start with a purpose

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

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

Your answers should be authentic, inspirational and aspirational.

Step 2: Determine the values and beliefs

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

Step 3: Lead by example

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

Step 4: Treat people well

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

GAINING INSIGHT 4.4



A leading Australian business

McCullough Robertson is a leading Australian law firm. It has established a reputation for providing first-class advice that comes from a deep understanding of how external factors can affect its clients’ businesses and personal interests. This pragmatic business approach ensures McCullough Robertson can provide the best possible outcome for all who work there, and will see the firm continue to protect, grow and plan with its clients well into the future (Figure 4.17).



Source: McCullough Robertson

Figure 4.17 McCullough Robertson Lawyers

Our DNA

Our DNA

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

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

McCullough Robertson

Our history

Unlocking success. Together

For nearly 100 years we have been, and are still, uniquely McCullough Robertson.

We value our unique down to earth culture.

We do great work for great clients, nationally and internationally, and partner with them to unlock success together.

McCullough Robertson

After 98 years, McCullough Robertson is still growing and evolving. The firm continues to provide commercial solutions for its clients – individual clients as well as organisations – to see them through their most critical challenges.

Through hard work, good management and strong client relationships, McCullough Robertson has grown from serving the state's primary producers to become Queensland's largest law firm, expanding from a strong agribusiness focus to numerous other practice areas. McCullough Robertson delivers solutions that challenge industry norms and contribute to shaping a future legacy for all legal professionals.

McCullough Robertson has significant reach across Australia, including Brisbane, Sydney, and Canberra, as well as regional and international hubs. Therefore, their geographic spread and breadth of experience sees them actively traverse both nationally and internationally.

The firm has built a reputation for providing first-class advice that comes from a deep understanding of how external factors can affect their clients' business and personal interests. It's this pragmatic business approach that ensures they can provide the best possible outcome for all who work with them, and it will see them continue to protect, grow, and plan with their clients well into the future.

Our values

Our values

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



GENEROSITY



COMMERCIAL FOCUS



COMMITTED



DOWN-TO-EARTH

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

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

McCullough Robertson

Our expertise

Expertise

We know the law – but more importantly we are commercial, solutions focused and understand industry.

We work in small partner led teams, and our experience allows us to be innovative and join the dots.

McCullough Robertson

QUESTIONS 4.2



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

Role of leadership and management in business

Key learnings

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

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

The role of leadership and management in business is an important factor in making an organisation successful. It is the process of influencing people to perform assigned tasks willingly, efficiently and competently. A framework that businesses can use for leadership and management is POLC (Figure 4.18). This is a process that requires four functions to be performed: planning (P), organising (O), leading (L) and controlling (C). The POLC model outlines a process in which each step builds on the one before. First is to plan, then organise according to the plan, lead others to work towards the plan and finally control the plan by evaluating its effectiveness. Each step must be performed properly to achieve success.

Plan

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



Levels of planning

The three levels of planning are strategic, tactical and operational planning (Figure 4.19).

Strategic planning

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

Tactical planning

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

Operational planning

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

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

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



Organise

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

The steps needed in the organising phase include:

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

Lead

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

Control

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

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

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

QUESTIONS 4.3



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

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

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

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

GAINING INSIGHT 4.5



Silver lining for Silvery?

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

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



Image Source Limited/Alamy Stock Photo

Figure 4.20 Skateboard manufacturing

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

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

Questions

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

business. To assist the company with strategic planning, complete a SWOT analysis on the business.

A SWOT analysis template is available for you to download on Nelson MindTap.



Management

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

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

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

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

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

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

1 Select the right people

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

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

2 Show empathy

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

3 Communicate clearly

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



Monkey Business Images/Shutterstock.com

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

4 Lead by example

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

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

5 Delegate

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

6 Be positive and constructive

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

7 Thank and reward your people

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

8 Develop your people

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

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

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

9 Encourage innovation

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

10 Be flexible

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

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

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

Source: Careerfaqs.com.au is Australia's number 1 careers and course search website. Career FAQs is renowned for their expert career advice and resources, helping millions of people kickstart and advance their career each year. Josie Chun & Zahra Campbell-Avenell, *Career FAQs*, <https://www.careerfaqs.com.au/news/news-and-views/top-10-management-practices-of-effective-leaders>

QUESTIONS 4.4



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

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

Leadership and management roles in business

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

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

Owners

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

Description of a business owner

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

Directors

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

Description of a business director

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

Managers

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

Description of a business manager

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

operations of the business. A manager supervises employees with the intention of balancing the efficiency and effectiveness of operations in a specific area (Figure 4.21).

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



Summary

The leadership and management roles in business are summarised in Figure 4.22.

Entrepreneurs and ‘intrapreneurs’

Entrepreneurs and ‘intrapreneurs’ set themselves apart from other leaders in a business. They are passionate people who have the courage to face new challenges. They are visionary, they see an opportunity in the marketplace and they have the passion and drive to turn it into a reality. The main difference between the two is that an entrepreneur starts their own business, whereas an intrapreneur works within the limits of a business. Table 4.2 shows a comparison of an entrepreneur and an intrapreneur.

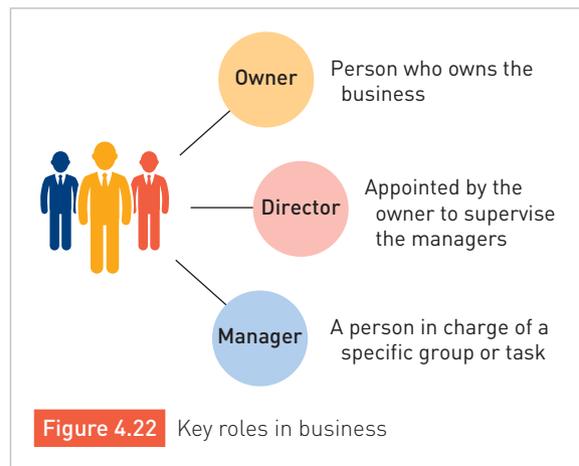


Table 4.2 Comparison between an entrepreneur and an intrapreneur

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

Entrepreneurs

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

Intrapreneurs

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

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

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

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

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

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

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

Karen Stocks, managing director at Twitter Australia

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

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

Naomi Simson, founder and CEO of RedBalloon

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

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

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

Janine Allis, founder of Boost Juice

'Listen more than talk.'

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

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

Daniel Flynn, co-founder and managing director of Thankyou

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

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

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

Jodie Fox, co-founder of Shoes of Prey

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

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

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

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

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

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

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

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

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

QUESTIONS 4.5

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

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

How to become an entrepreneur or an intrapreneur

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

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

Can you make it happen? Entrepreneurs and intrapreneurs are 'dreamers who do'. They take a hands-on approach for creating innovation and start something new – an idea, process, product or method. They have the determination and endurance to face obstacles and challenges (Figure 4.23).

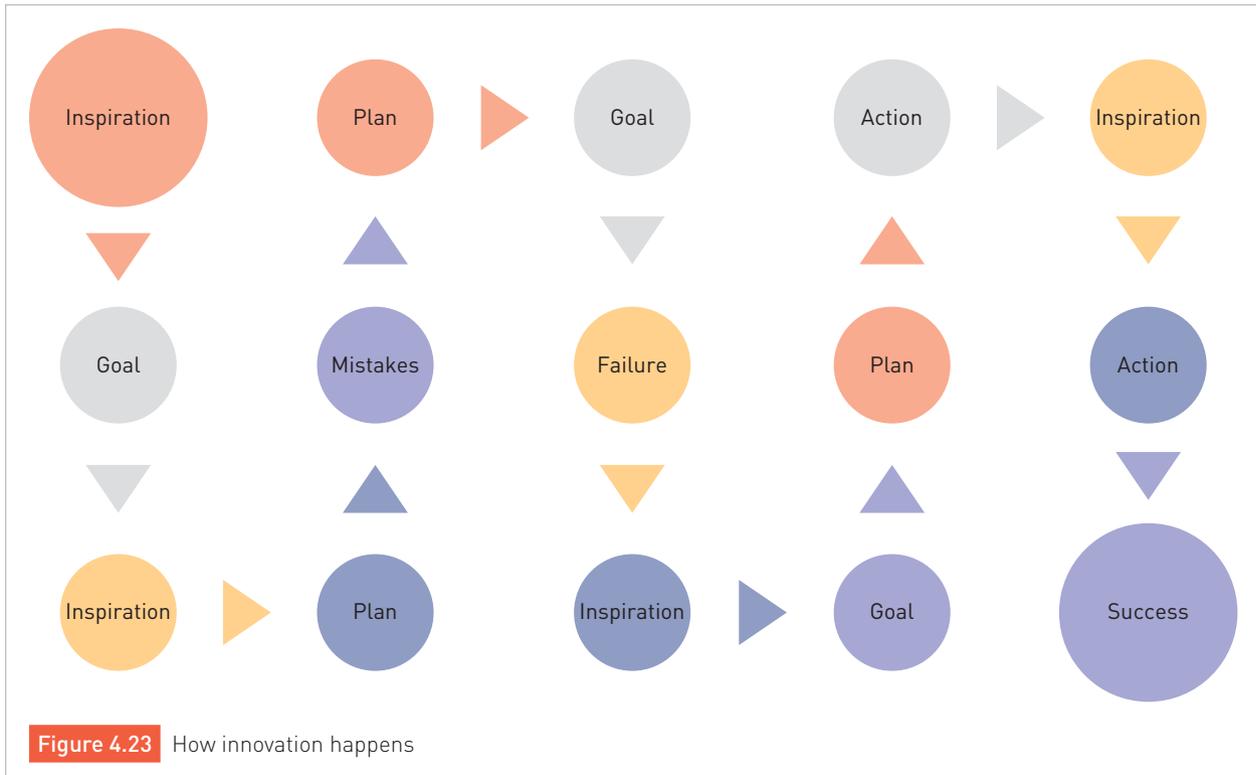


Figure 4.23 How innovation happens

QUESTIONS 4.6



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

GAINING INSIGHT 4.6



Tech cricket tool works on muscle memory



If you're batting in a game of cricket and want to avoid an LBW or you've often stared down the pitch at an intimidating googly, you need the unique training tool, Techshot (Figure 4.24). We chatted to company founder Will Prowse about his incredible training aid for cricket, which works on the body's muscle memory.



Figure 4.24 Techshot alerts the user when their body is not in the correct batting position.

So tell us about your idea ...

Techshot is a unique training tool for cricket, specifically for batting (Figure 4.25). The product draws on the principles of resistance training to train the fundamental late striking position. The late striking position is the most efficient body position in cricket. A player that has struck the ball in this position, will hit the ball with relative ease and maximise power and timing. All high performing batsmen look to get into the late striking position as much as possible, at the point of contact with the ball. The position is very unnatural and unique to cricket, so the average batter or even the advanced player can have difficulty training their body positioning, and the late striking position can easily be forgotten without repetitive practice. Through its innovative design, Techshot alerts the user when they do not position their body in the correct position. Repetitive use can convert the late striking position to muscle memory. Techshot will also include an online training program to support users to get the most out of the product, as well as incorporate the idea into specialised training sessions for amateur cricketers.

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

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



Figure 4.25 Techshot product

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

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

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

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

What are the benefits of being an entrepreneur in Queensland?

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

Source: Queensland Government, <https://medium.com/advance-queensland/tech-cricket-tool-works-on-muscle-memory-d480cbf4103e>. Permission has been given by Sandra Wilson, Sandra.Wilson@dsiti.qld.gov.au

Questions

- 1 What is the product that Will Prowse has developed?
- 2 **Explain** how Advance Queensland Ignite Ideas supports entrepreneurs.
- 3 Identify and **explain** a benefit of being an entrepreneur in Queensland.

Leadership styles

Key learnings

You will learn about the most common styles of leadership:

- authoritative
- charismatic
- bureaucratic
- authentic
- transactional
- transformational.

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

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

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

There are different styles of leadership, but there are similar character traits that leaders share (Figure 4.26).



Leadership style is the way in which a person leads other people. Every leader has their own unique style of leadership (Figure 4.27). A leader needs to develop an appropriate leadership style that suits the function of the leader, the team members and the situation.

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

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

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

Authoritative

An authoritative leader is one who dictates and enforces the operation of all activities. They have full control over the team and they make all decisions and give all directions (Figure 4.28).

Description of an authoritative leader

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

An authoritative leader exhibits certain attributes. They are:

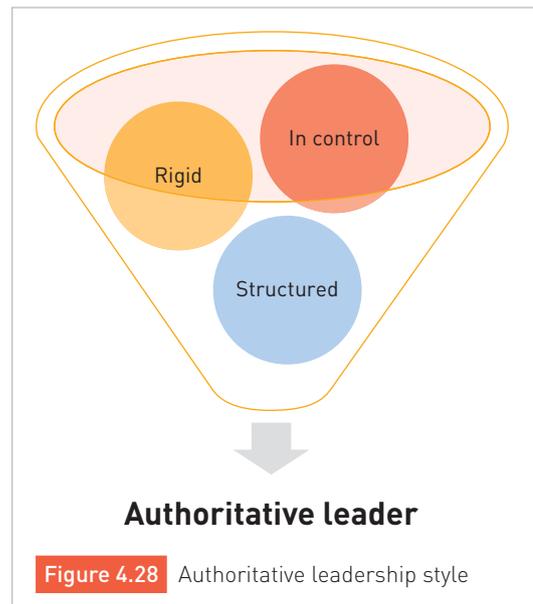
- *controlling* – the leader tells and enforces
- *intimidating* – the leader is inflexible
- *regimented* – the leader is organised and very strict.

Situations in which this style is effective

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

Situations in which this style is ineffective

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



Example of an authoritative leader

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

Charismatic

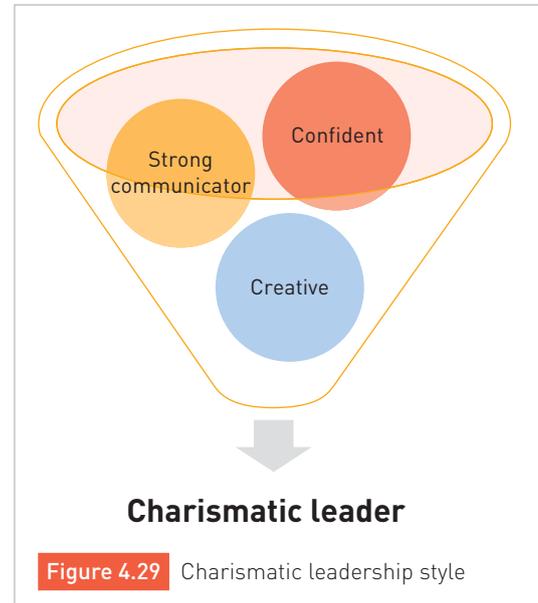
A charismatic leader is one who inspires and motivates others to follow based on their personality and charm (Figure 4.29).

Description of a charismatic leader

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

A charismatic leader exhibits the following attributes:

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



Situations in which this style is effective

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

Situations in which this style is ineffective

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

Example of a charismatic leader

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

Bureaucratic

A bureaucratic leader is a person who relies on rules and regulations under a fixed hierarchy of authority (Figure 4.30).

Description of a bureaucratic leader

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

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

A bureaucratic leader exhibits certain attributes. They are:

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

Situations in which this style is effective

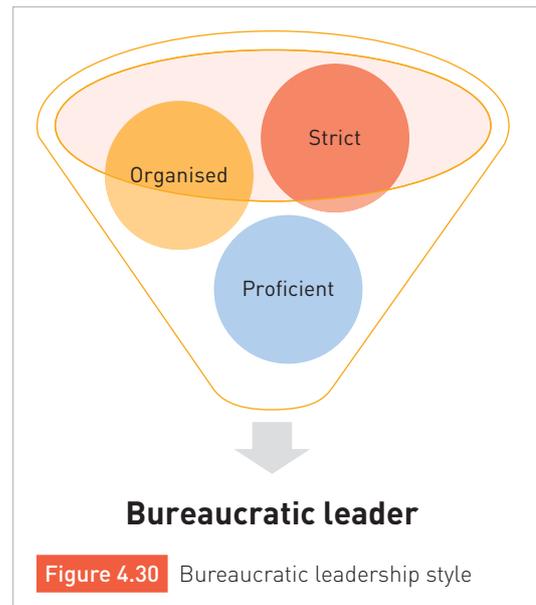
This style of leadership is effective when team members are willing and able to complete routine tasks following a set of rules and guidelines. Team members understand the procedures and can work effectively under a bureaucratic leader.

Situations in which this style is ineffective

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

Example of a bureaucratic leader

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



Authentic

An authentic leader is a person who establishes a relationship built on honesty and ethical foundations (Figure 4.31).

Description of an authentic leader

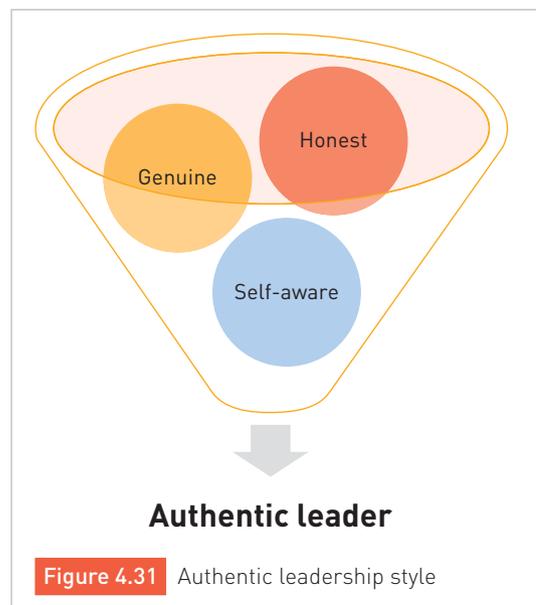
Authentic leadership is seen when a person takes initiative and leads by example. They are self-actualised, or mature and autonomous, individuals who are aware of their strengths and limitations. They lead with their heart and not just their mind. An authentic leader is a genuine person who has strong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

An authentic leader exhibits the following attributes:

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

Situations in which this style is effective

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



Situations in which this style is ineffective

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

Examples of authentic leaders

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

Transactional

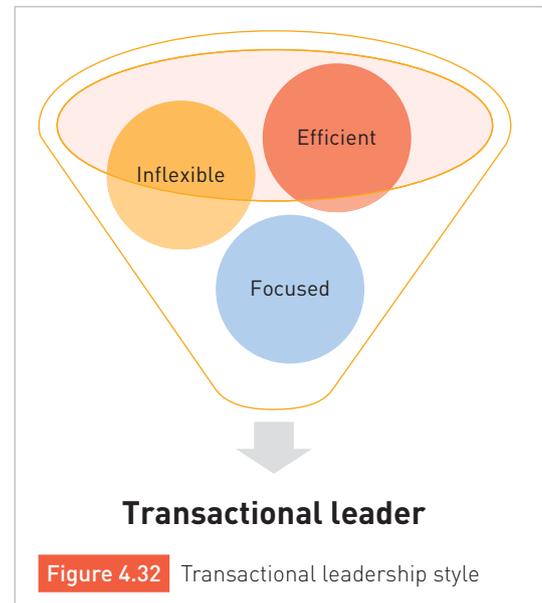
A transactional leader is a person who focuses on supervision and performance and values structure (Figure 4.32).

Description of a transactional leader

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

A transactional leader exhibits the following attributes:

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



Situations in which this style is effective

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

Situations in which this style is ineffective

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

Example of transactional leaders

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

Transformational

A transformational leader is a person who is visionary, and inspires and motivates team members to achieve (Figure 4.33).

Description of a transformational leader

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

A transformational leader exhibits certain attributes. They are:

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

Situations in which this style is effective

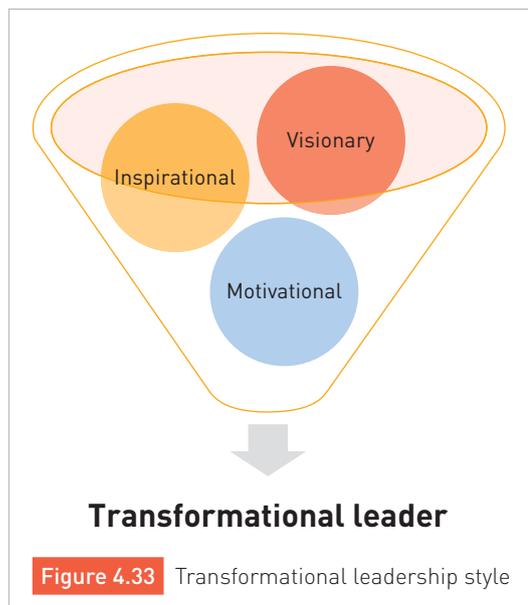
A transformational leadership style is ideally suited to a situation where change is needed. The leader is visionary and will be able to take control and motivate the team members to move in a new direction.

Situations in which this style is ineffective

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

Example of a transformational leader

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



QUESTIONS 4.7



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

Template:

- SWOT analysis
(pp. 107, 122 & 131)

Chapter summary:

- Chapter 4 Leadership and management (p.122)



 Nelson MindTap

To access resources above, visit
cengage.com.au/nelsonmindtap

Chapter 4 review

This chapter introduced the fundamentals of business leadership and management and showed how organisations are structured. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.



Summary
Chapter 4
Leadership
and
management

4.1 Short responses

- 1 **Explain** why a business should create an organisational structure.
- 2 Differentiate between a simple and a functional organisational structure.
- 3 Identify the benefits of creating a functional organisational structure.
- 4 Identify the type of business structure that would suit a simple organisational structure. **Explain** your choice and why it would suit this business type.
- 5 **Explain** the various types of divisional organisational structures that a business could use.
- 6 What is an organisational culture?
- 7 **Explain** why a business should establish an organisational culture.
- 8 What impact does an organisational culture have on a business?
- 9 Identify the elements of the POLC framework.
- 10 How does the POLC framework benefit leadership and management in a business?
- 11 **Explain** the following roles in a business:
 - a owner
 - b director
 - c manager
 - d leader
- 12 Differentiate between an entrepreneur and an 'intrapreneur'.
- 13 Identify and **explain** the key features of the various leadership styles.
- 14 Differentiate between an authoritative and an authentic leadership style.
- 15 Differentiate between a transactional and a transformational leadership style.

4.2 Extended response

Using the following SWOOSH case study, prepare a business report (extract) for the managing director of the business that:

- 1 **describes** the business situation related to the case study business
- 2 **analyses** the business situation by selecting data and information relating to strategic development using a SWOT analysis.

A SWOT analysis template is available for you to download on Nelson MindTap.



Template
SWOT
analysis

Swoosh

Source 1: Business profile

Swoosh is a small business that provides a cleaning service in the Toowoomba region. Swoosh has 25 years' experience and employs over 70 people from the local area. The business provides a wide variety of services in the domestic cleaning industry.

Swoosh operates as a family-run private company and has in place a vision that it strives to achieve through its practices (Figure 4.34).



'Our vision is to be the dominant residential cleaning business in our industry.'

Figure 4.34 Vision statement for Swoosh

Swoosh has established a positive mission statement, which is outlined in Figure 4.35.

Our mission is to positively contribute to:

- Homeowners we service by delivering efficient and quality services
- People we employ by providing equitable and fair employment conditions.

Figure 4.35 Mission statement for Swoosh

Source 2: Swoosh organisational chart

The business is organised into various sections (Figure 4.36) to ensure the efficient operations of the business.

The managing director is committed to workplace democracy and has established a culture that places value on all employees. Swoosh is about employee ownership and participation, and focuses on meeting customers' needs. Employees design their own work arrangements by setting their own hours and managing their own work schedules. There are no managers at Swoosh. There are team leaders, but leadership depends on their performance over a

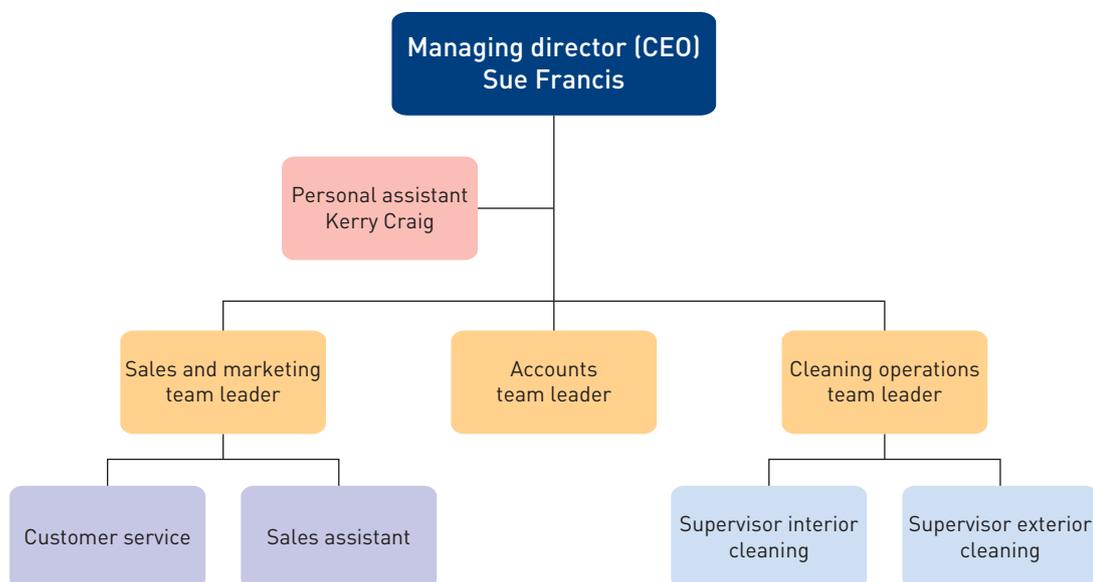


Figure 4.36 Organisational chart for Swoosh

six-month period. A leader who fails to maintain an acceptable standard will lose their team leader role and could face termination of employment.

Employees are provided with information about work standards and expectations. They are provided training to keep up with industry standards. The workplace environment is flexible and the managing director is involved in every aspect of the business. This has resulted in staff turnover rates reducing from 55 per cent to 10 per cent and lower rates of absenteeism (reduced from 45% to 19%). However, productivity of employees has reduced significantly.

Source 3: Market factors

- Toowoomba is a city of Queensland located 125 kilometres west of Brisbane.
- According to the Australian Bureau of Statistics, the population of Toowoomba is 178 399, showing growth from the previous year.
- Toowoomba is the sixth-largest city in Queensland.
- The population growth rate of Toowoomba is very consistent and strong, ranging from 1.0 per cent to 1.76 per cent annually.
- Toowoomba's unemployment rate has improved and is now below the national average. Australia's unemployment rate is low at 4.1 per cent.
- The main occupations of people living in Toowoomba are: professional (20.8%), trade worker (13.9%), labourer (13.4%), administrative worker (12.6%).

Source: Australian Bureau of Statistics, www.abs.gov.au.

Source 4: Industry factors

The graph shown in Figure 4.37 represents the main cleaning businesses in the Toowoomba region. Last year Swoosh was the leading business having the largest market share. This has now changed. Competitor A has introduced environmentally friendly cleaning products, which has increased its market presence significantly.

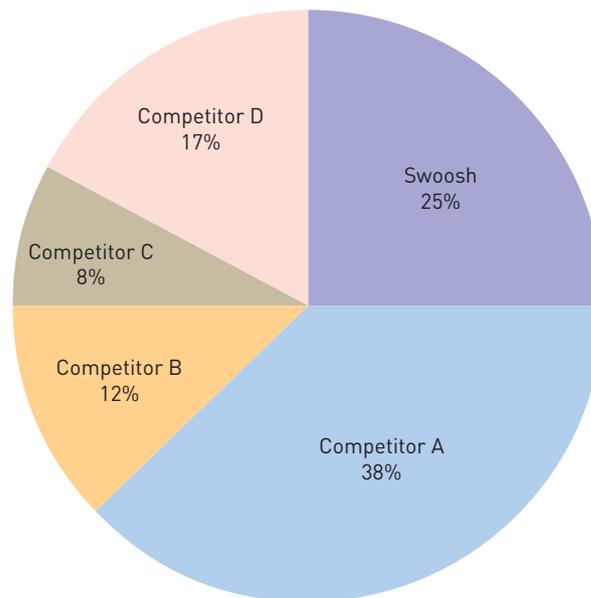


Figure 4.37 Cleaning businesses in Toowoomba region

© Saily Adams/Cengage



Case study 1: Fundamentals of business

CJ's Island Pizza

Source 1: About the business

CJ's Island Pizza is a beachside eatery located on North Stradbroke Island in the township of Dunwich. It is popular with both local residents and holiday-makers to the island and has become a 'must do' when visiting North Stradbroke. Established in 2011 by father and son, Charlie Jia and Solomon Jia, this business has built a reputation for exceptional food and friendly customer service.

CJ's Island Pizza is a family-owned business that is about creating an environment that people want to be part of. The heart of this business is the people. In a small town like Dunwich it is about building a brand that people will talk about and remember. This is what CJ's Island Pizza has established. It has created a culture that focuses on keeping the business and service personal. People come for the food and to share a conversation. This customer-centric approach is a big part of this business and has proven to be a winning recipe.

Source 2: North Stradbroke Island

North Stradbroke is known as 'Straddie' or Minjerribah. The traditional custodians of this land, the Quandamooka people, have a relationship with the island that dates back thousands of years and their connection to it is still strong today. Straddie is a subtropical island about 30 kilometres south-east of Brisbane, Queensland, and is the world's second largest sand island (Figure C1.1).

The population on the island is small but the number of people grows significantly on weekends and during the holiday season. The island is only accessible by passenger or vehicular ferries from Cleveland. Tourism is a major and growing industry on the island.

Source 3: Interview with the owner

David Foster, a regular visitor to the island and frequent diner at CJ's Island Pizza, interviewed the owners, Charlie (Figure C1.2) and Solomon Jia, about their business and future plans.

David: How did you get started in this business?

CJ: We started our business in the midst of uncertainty surrounding the mining, tourism, Native Title determinations and increasing access concerns to the island. We took the leap, investing our own savings in August 2011.

David: What is the most rewarding thing about running your own business?

CJ: The most rewarding aspect for us is being involved in the island's community in many different aspects. We have created a number of jobs and training opportunities for the island's youth, sponsored and supported local projects ranging from school fundraisers [to] work experience excursions and community wildlife projects, but also we've given Straddie a much needed food service that was simply not available to locals or tourists on the island beforehand.

David: Have you set any goals for next year for your business?

CJ: Absolutely, over the next year we'd really like to implement a solid social media presence, which will help us to promote our business relevant to the many events and fluctuating times of 'traffic' throughout the year. Furthermore, we are currently training a 2IC, which will allow us more time to focus on the above-mentioned social media, but also increase what we offer as we evolve into what has become CJ's Cafe and Pizza.



CJ'S ISLAND PIZZA
enjoy a slice in paradise

Charlie Jia



iStock.com/CraigRJD

Figure C1.1 Location of North Stradbroke Island

David: How do you plan to remain competitive with other food businesses on the Island?

CJ: Simply by providing a consistent and quality experience, that not only covers great-tasting food, but also a friendly and welcoming family business environment with superior customer service. This has kept us at the top of the list regarding places to eat on Straddie for many years, however we realise without evolving we will become stagnant, offering opportunity for our competition to catch up by attempting to replicate our existing business model.

For this reason, over the next year we really want to plan ahead to cater to the events and seasons on the island to provide appealing 'specials', and 'promotions' that value our locals specifically, while also giving visiting tourists a reason to stop by.

David: Where do you see your business in the next five years?

CJ: We see CJ's as becoming a must-visit location for tourists visiting the island, and the most reliable and quality place to get a coffee and some food. Over the next five years, when asked what you should do on Straddie, it will be, 'Definitely go on the gorge walk, have a swim at Cylinder Beach, cool down with a gelati from the gelati shop afterwards, take a drive out to Brown Lake, and then stop in at CJ's afterwards for some delicious pizza or a fresh juice as you watch the sunset'.

David: What obstacles will you have to overcome?

CJ: With the closure of the sand mines on the island, we're finding that most miners and their families are moving away from the island for other employment opportunities. With this comes a sense of urgency for all business and the local economy to transition to a tourism-based economy. While continuing to look after our locals who are customers year round, we must promote ourselves to a wider audience, at the right times, to ensure those visiting the island, from all over Brisbane and beyond, know even before they arrive that they can't leave Straddie without visiting CJ's first. Due to our location being adjacent to the ferry terminals, where 99 per cent of tourists pass through to commute to and from the island, we also acknowledge that we are quite often the last stop for Straddie visitors. The island's reputation and appeal can be won or lost by us and other businesses in our area, so we believe it is crucial to maintain a high standard of service. This not only benefits us, but the greater good of tourism, Straddie's reputation and the survival of our island's economy.



Charlie Jia

Figure C1.2 CJ's Island Pizza owner, Charlie Jia

Source 4: Customer feedback and reviews

CJ's Island Pizza has established a Facebook page to connect and communicate with customers (and potential customers) and as a means of promoting the business. They use it as a way to talk to and get direct feedback from their customers. It provides a means of gathering customers' reviews and feedback (Figure C1.3).



Images: Charlie Jia

Figure C1.3 Customer feedback and reviews

CJ's Island Pizza has used social media to personalise its business through postings, personal tidbits, conversations and interactions with reviewers. The Facebook page is also useful to post relevant information such as menu updates and trading hours and to offer incentives and promotions (Figure C1.4).



Images: Charlie Jia

Figure C1.4 Facebook posts

Source 5: Competition

Places to eat on North Stradbroke Island

Visitors to the island are encouraged to bring their own food supplies due to the limited shopping facilities available. However, the island provides a number of eateries (Table C1.1) that cater for both locals and tourists.

Table C1.1 Competition on North Stradbroke Island

Location	Cafe/restaurant	Specialty
Amity Point	Rufus King Seafoods	Seafood
	Sealevel 21	Steak, fish, pasta
Dunwich	CJ's Island Pizza	Pizza and takeaway
	Little Ship Club	Burgers, schnitzel, steak, salads
	Perry's Seafood	Fish and chips and burgers
	Straddie Island Bakery	Freshly baked bread, cakes and slices
	The Barn Cafe	Burgers and sandwiches
Point Lookout	Fins and Fries	Fish and chips
	Fishes Cafe	Seafood and steak
	Manta Ray Bistro	Seafood, steak, schnitzel, salads
	Oasis on Straddie	Mexican
	Stan's Chicken	Chicken, burgers, fish and chips
	The Blue Room Cafe	Coffee, cake and sandwiches

Source 6: Business support

Support for CJ's Island Pizza

The South East Queensland Indigenous Chamber of Commerce (SEQICC) is a leading Indigenous business membership organisation that was established in 2006. It was formed by a group of visionary Indigenous business leaders who wanted to see Indigenous business owners come together and share their knowledge. SEQICC is a not-for-profit organisation that is committed to supporting Indigenous business owners through building capability, fostering trade, advocating and creating wealth. SEQICC promotes CJ's Island Pizza in its Indigenous Business Directory (IBD; Figure C1.5).

South East Queensland Indigenous Chamber of Commerce

Home Indigenous Business Directory Membership News Events Contact About

South East Queensland Indigenous Chamber of Commerce > Business Directory > CJ's Island Pizza

Business Profile - CJ's Island Pizza

CJ's Island Pizza

Business Overview

Situated on North Stradbroke Island, CJ's Island Pizza offers a range of delicious pizzas, prepared fresh each day from the pizza base up. Open **4pm DAILY** and located in Dunwich, a CJ's pizza is a **"MUST DO"** when visiting North Stradbroke Island.

Please visit the [CJ's Island Pizza Facebook page](#) for our menu, weekly deals, island news, and customer feedback ("Like" us).

Products/Services:

Across the counter sales, pick up or delivery, CJ's continues to build its reputation for excellent food and great customer service. Delicious Traditional and Gourmet Pizzas as well as an assortment of side dishes and snacks including BBQ Spare Ribs, Lasagne, Chicken Wings, Potato Pots and Pizza breads.

CJ's offers a discounted catering service (10 or more pizzas) and happy to discuss your event, your needs and your budget.

PHONE
07 3415 2445

BUSINESS ADDRESS
Shop 1
7 Ballow Road
DUNWICH, Stradbroke Island
Queensland

Charlie Jia

Figure C1.5 SEQICC page

The Queensland Government also provides support and networking for Indigenous business owners that Mr Jia could access. Indigenous Business Australia (IBA) provides financial assistance, expert advice and training programs to start and grow a viable and sustainable business.

Source 7: Future for CJ's Island Pizza

CJ's Island Pizza is a success story. In a small community with a population of fewer than 2000 people, CJ's Island Pizza has become a popular, well-known and frequented eatery. To further the success of this business, the owners have made the following changes:

- expanded operations to focus on providing more cafe food options
- changed the name to CJ's Cafe & Pizza and updated its logo (Figure C1.6)
- changed trading hours to accommodate the new food services available (Figure C1.7).



Charlie Jia

Figure C1.6 New business logo for CJ's Cafe & Pizza



Figure C1.7 New menus for CJ's Cafe & Pizza

Source 8: Australia's favourite fast foods

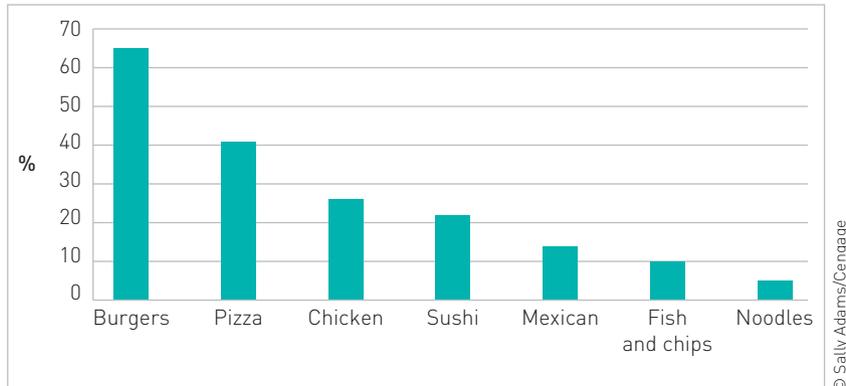


Figure C1.8 Australia's favourite fast foods

Source 9: Tourism industry

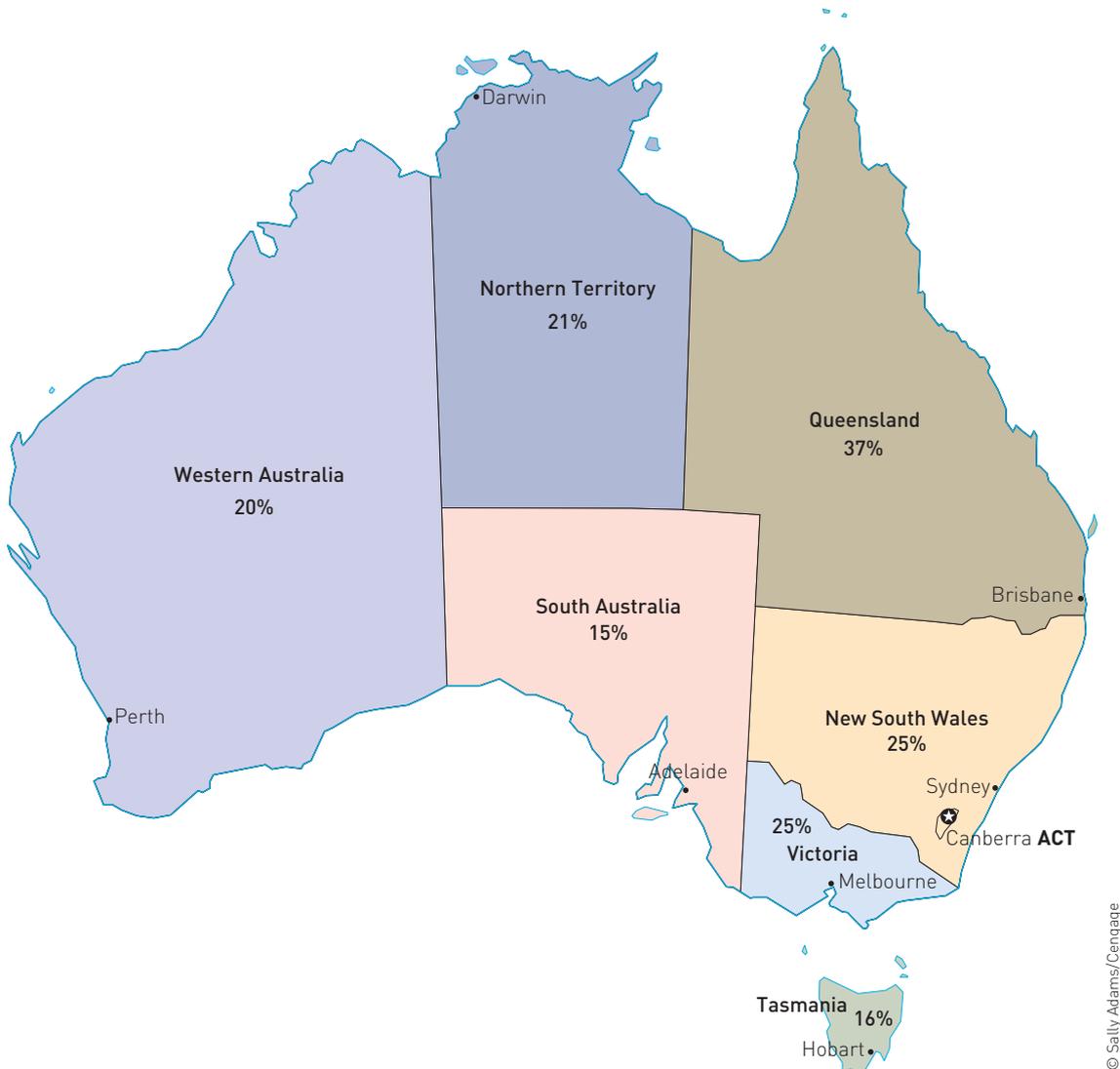


Figure C1.9 Where do tourists visit in Australia?

Questions

Using the case study on CJ's Island Pizza, complete the following questions.

- 1 **Describe** the business situation related to the case study business.
- 2 **Analyse** the business situation by selecting data and information relating to the strategic planning for the case study business using a SWOT analysis. **Interpret** a relationship or trend in the SWOT analysis to draw conclusions about the implications for the business.
- 3 **Evaluate** one strategy that CJ's Island Pizza could use to expand its operations using two business criteria. Make a decision about the suitability of this strategy and propose a recommendation for its implementation.

Prepare a business report (extract) to present your findings to the owners of the business.

A SWOT analysis template is available for you to download on Nelson MindTap.



Template
SWOT
analysis

Unit

1

Business creation

Topic 2

Creation of business ideas

MOTIVATION FOR START-UPS AND NEW IDEAS



Identified needs



Opportunity in the market



Passion



Creating value



Changing the world



Being in control

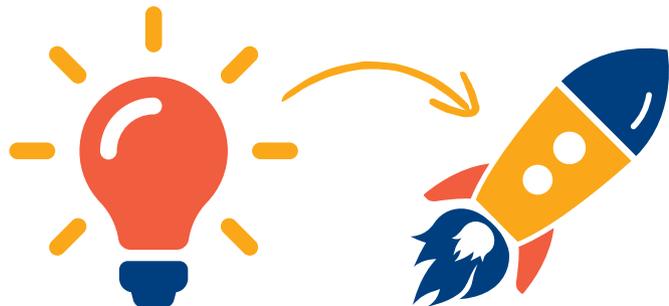


Making money

THE CREATION OF BUSINESS IDEAS



Seed stage in the business life cycle

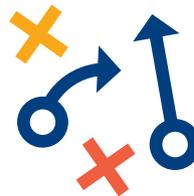


Motivation leads to the generation of ideas, which leads to a start-up business

NEW BUSINESS IDEAS



Humans are competitive by nature and new business ideas must also be competitive in order to progress through the life cycle



Strategies employed by business owners will impact the viability of business ideas and success of start-up businesses

COMPETITIVE ADVANTAGE



The more sellers of a similar product or service, the more competitive the environment



Differentiation can be based on product, price, quality and service

DRIVERS OF INNOVATION



Profit related reasons



Competition, demand and market-related drivers

- Be at the cutting edge of the industry
- Increase responsiveness to customer needs
- Ensure the business' products are competitively priced
- Increase or maintain market share
- Establish new markets
- Increase export opportunities
- Any of the above competition, demand and market-related drivers*



Production and delivery drivers

- Increase efficiency of supplying/delivery goods or services
- Improve quality of goods or services
- Improve IT capabilities or better utilise IT capacity
- Increase capacity of production or service provision
- Any of the above production and delivery drivers*



Reduce environmental impacts



Improve safety or working conditions



Response to government regulations



Adherence to standards

Other reasons

BARRIERS TO INNOVATION

- Lack of access to additional funds
- Government regulation and compliance
- Uncertain demand for new goods or services
- Lack of skilled persons within the labour market
- Lack of skilled persons within the business
- Adherence to standards
- Lack of access to knowledge or technology to enable innovation
- Cost of development or introduction/implementation

PROTECTING IDEAS

Some ways to protect business ideas include



Copyright



Trademark



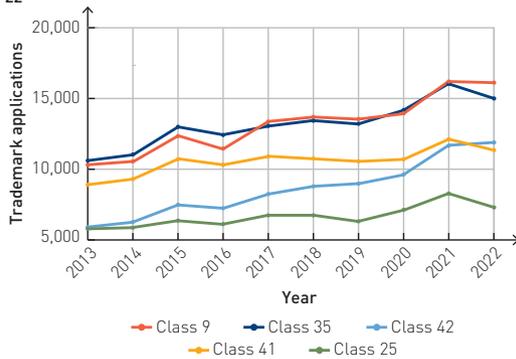
Patent



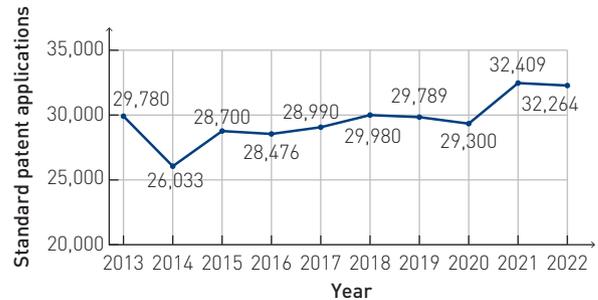
Registered designs

Top 5 trademark classes and applications filed, 2013–2022

	Class 9 Technological and electrical apparatus and instruments	Class 35 Advertising	Class 42 Scientific and technological services	Class 41 Education, training and entertainment	Class 25 Clothing, footwear, headgear
Applications	16,113	15,026	11,886	11,389	7,327
Share of total classes	10.5%	9.8%	7.8%	7.4%	4.8%
Change in applications, 2021–22	-0.7%	-6.5%	1.7%	-6.1%	-11.6%



Standard patent applications in Australia, 2013–2022



Design right registrations and certifications 2007–2022



Source: Data from Australian Government Intellectual Property website: <https://www.ipaustralia.gov.au/tools-and-research/professional-resources/data-research-and-reports/australian-ip-report/chapter-2-trade-marks>

Source: Data from Australian Government Intellectual Property website: <https://www.ipaustralia.gov.au/tools-and-research/professional-resources/data-research-and-reports/australian-ip-report/chapter-2-trade-marks>

Source: Data from Australian Government Intellectual Property website: <https://www.ipaustralia.gov.au/tools-and-research/professional-resources/data-research-and-reports/australian-ip-report/chapter-2-trade-marks>

5

IDEAS AND INNOVATIONS

What you will learn

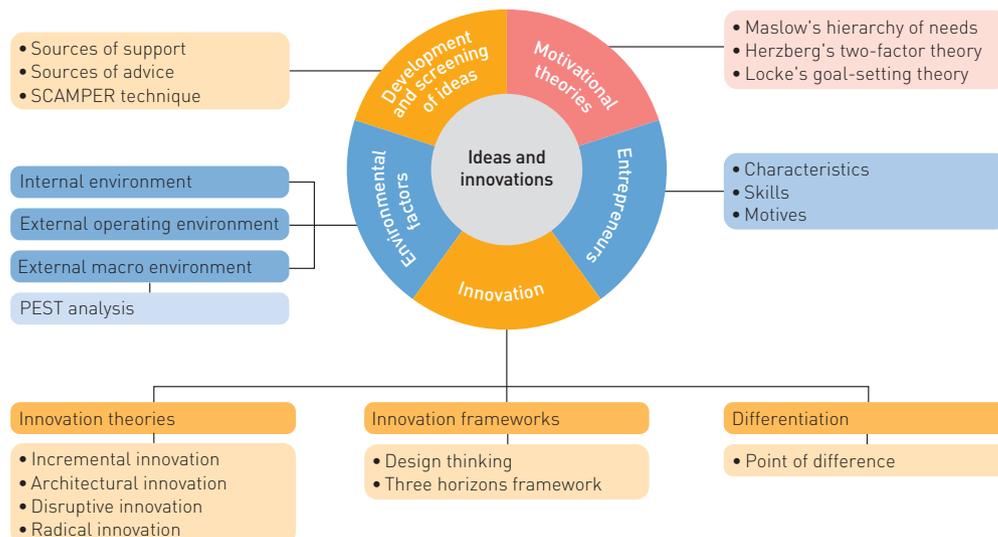
All businesses start with an idea. The ability or motivation of a person to see how this idea can become a business drives entrepreneurship and the opportunities for new business. A business in the seed stage of the business life cycle may start with an idea for an invention or an idea for innovation. Invention is the creation of a product for the first time; innovation is the value that is added to an existing product or service and occurs when an original invention is improved upon, or a significant contribution is made to the existing product, process or service.

This chapter will provide you with the opportunity to:

- **describe** business facts and characteristics of internal and external operating and macro environmental factors that influence the creation of business ideas
- **describe** business facts and characteristics of business situations in the seed stage of the business life cycle
- **explain** the skills and characteristics of entrepreneurs, motivational theories, innovation theories and the available sources of support and advice for business ideas
- **analyse** and **interpret** the political, economic, socio-cultural and technological forces (PEST analysis) and draw conclusions about the implications of business ideas
- **evaluate** business ideas to make decisions and propose recommendation(s) on the viability of proceeding to the start-up of the business life cycle
- **create** responses to communicate business ideas to stakeholders.

Business 2024 General Senior Syllabus © State of Queensland (QCAA) 2024, licensed under CC BY 4.0

The analytical tool used in this chapter is PEST analysis.



GAINING INSIGHT 5.1



me&u

Remote or smart working is the new future; office life has changed forever and there are new innovations that were driven or expedited by the COVID-19 pandemic. There was a clear and immediate need for problem-solving solutions in unexpected and unprecedented times.

While the pandemic may now seem like a distant memory, COVID-19 was not only a worldwide health and economic crisis, but it was also a driver for innovation and digital transformation. The pandemic and the legislative restrictions that occurred during lockdowns, have changed the world of business forever.

Two businesses that were forced to innovate in Australia are me&u and Mr Yum, which merged under the business name me&u. me&u is a web-based platform that allows hospitality venue guests to place orders using their mobile devices, designed to deliver the best possible customer experience while doubling as a business automation tool for hospitality venues.

In the hospitality industry, mobile innovations and ordering applications were influenced by the desire to minimise interactions and keep distance between consumers and staff. This led to the increase in popularity of a number of innovations and mobile ordering services to allow minimal movement and exchange of money or cards in a transaction.

'It makes a lot of sense from a business point of view to stop butting heads and start working together. But it makes even more sense from a customer perspective because we can build a best-of-the-best product that venues and their guests love.'

me&u CEO, Kim Teo

Since they were both founded as tech start-ups in 2018, me&u based out of Sydney has been in competition with Mr Yum in Melbourne. Both provided the hospitality industry with mobile ordering and guest marketing through QR code technology. Throughout Australia, New Zealand, the UK and the USA the companies collectively serviced 6000 venues and processed over AUD \$2 billion of restaurant transactions annually.

This innovative technology enabled restaurants to go digital for food orders and ditch physical menus. When the lockdown arrived, Mr Yum quickly pivoted, adding affordable takeaway and food delivery services that helped struggling venues stay afloat. With new lockdowns and new restrictions, Mr Yum responded with new features, including one that let Melbournians search for takeaway food within 5 kilometres of their home. Mr Yum's pivots continued into 2021 with a tab service, so patrons could use Mr Yum to pay for food on pre-approved credit cards.

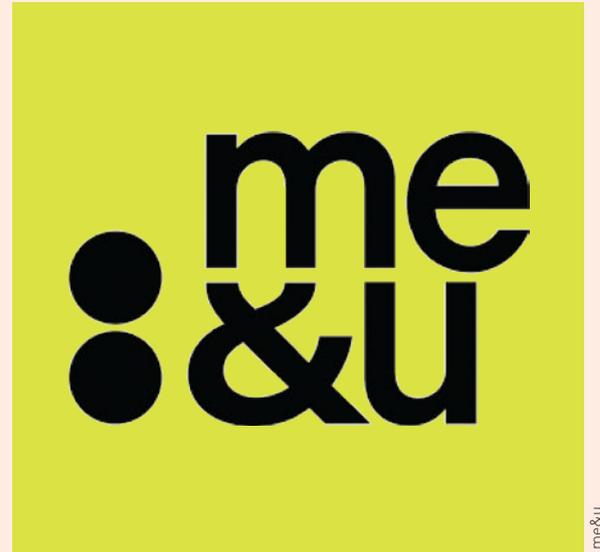


Figure 5.1 The new brand icon represents togetherness and perfect pairings: technology & humanity, server & customer, restaurants & community.

In 2023, it was announced that the two businesses would merge. The merged business operates as me&u, with a fresh visual identity that pays homage to the best of both brands. The merger intended to create the world's largest ordering and payments platform for the hospitality industry and deliver accelerated product innovation, continued international expansion and collective investment in one platform.

Regardless of the idea or industry, problem-solving is at the core of innovation. The problems do not need to be big, but there needs to be a willingness to look for solutions. me&u CEO Kim Teo says innovation is all about hiring the right people. 'More than anything, we just hire people that are creative ... that have a track record of trusting their gut and their instincts, and making good decisions. And try as much as possible to get out of their way.'

Source: *The Australian Financial Review*,
Nine Entertainment Co. Pty Ltd.



Figure 5.2 Mr Yum and me&u merged to create a food-tech super team

Questions

- 1 **Describe** the business opportunity that Mr Yum and me&u saw in the market.
- 2 **Explain** the innovations that me&u offers to the hospitality industry.
- 3 **Explain** how me&u might protect its unique business idea to minimise the possibility of competitors copying its approach.
- 4 **Explain** what the CEO Kim Teo means when she says 'More than anything, we just hire people that are creative ... that have a track record of trusting their gut and their instincts, and making good decisions. And try as much as possible to get out of their way.'
- 5 **Explain** why there are advantages to competition, particularly in the hospitality industry.
- 6 **Analyse**, using a PEST analysis, the environmental factors that me&u need to consider as they continue to grow and expand.
- 7 Using the criteria of competitiveness and efficiency, **evaluate** two innovation strategies used by me&u to differentiate itself in the market.

Business opportunities

Key learnings

You will learn about the motives of entrepreneurs through examining:

- potential business opportunities
- reasons for finding business opportunities.

While a business opportunity or the idea to solve a problem can come from anywhere, the ideas for a new business **invention** or **innovation** usually do not just suddenly appear. Often, ideas stem from a person trying to solve a specific problem or achieve a particular goal. This idea or solution becomes a potential business opportunity with the feasibility of this idea along with the skills, motives and characteristics of the entrepreneur needed for business success.

GAINING INSIGHT 5.2



Airbnb

Go to the interview of Brian Chesky, co-founder of Airbnb and watch the founding story of Airbnb.

Questions

- 1 **Describe** the business idea, innovation or invention that Brian Chesky has been responsible for.
- 2 Identify the problem that needed solving or the opportunity that Brian Chesky saw in the market.
- 3 Brainstorm the possible motives to make the business opportunity he saw into a successful start-up.
- 4 List the skills or characteristics that Brian Chesky identifies about himself.

When Brian Chesky co-founded Airbnb, his mum said, 'You're not an entrepreneur, you're unemployed'— now he's worth \$9.3 billion

Brian Chesky, Co-Founder and CEO of Airbnb:
Designing a 10-star Experience



Weblink
Brian Chesky
interview

© Sally Adams/Cengage

Invention: the creation of a product for the first time

Innovation: occurs when an original invention is improved upon, or a significant contribution is made to the existing product, process or service

Whether a new invention or an innovation, the motives or opportunities to find new business ideas can come from a number of areas, including:

- *the desire to solve a problem* – an idea for a business often comes from the desire to find what is missing and then fix it, or from finding an answer to a problem that hasn't yet been solved. For example, when Drew Houston forgot his USB stick one day, his solution to the problem was, 'I really need to make my files live online'. This was the beginning of Dropbox
- *needs of the target market* – this may include bringing a good or service to a new location, creating a new good or service that fulfils an identified need of the target market or a response to a change in consumer needs
- *changes in fashion or tastes* – continually changing trends, seasons and influences on the market lead to the creation of new products to satisfy the desire of consumers to keep up to date. Many businesses come and go to cater for changing fashion needs, but now business ideas in the fashion industry have evolved to offer something innovative or creative, not just the latest fashion trend
- *the desire for self-employment* – many start-ups stem from the desire of a person to create their own financial gain, enjoy flexibility and take control of their employment. Others are the result of an inability to secure alternative employment.



Figure 5.3 Business ideas can be inventions or innovations and aim to solve a problem or make a process more efficient.

Shutterstock.com

GAINING INSIGHT 5.3



The rise of mobile businesses

Technology has made it easier than ever to take your business on the road, hence the growing popularity of mobile businesses. Even though mobile businesses are not a new phenomenon, they have gained popularity due to their lower startup costs, flexibility, and digital connectivity. Entrepreneurs have recognised that mobile businesses provide huge benefits in comparison to traditional brick-and-mortar businesses. This includes bringing their products and services directly to customers and not being tied down to a specific physical location. From food trucks to dog grooming, these ventures offer innovative solutions to meet evolving consumer demands. By embracing technology, addressing challenges, and staying adaptable, entrepreneurs can thrive in the dynamic world of mobile business.

Advantages

One reason behind the skyrocketing popularity of mobile businesses is their lower startup costs compared to traditional brick-and-mortar businesses. This accessibility makes mobile businesses an attractive option for aspiring entrepreneurs with limited capital. Traditional retail businesses require significant upfront costs including rent for the physical premises, fit out, signage, security, equipment and repairs. On the other hand, ventures that operate from food trucks or smartphones typically require less initial investment.

Another advantage of mobile businesses is their flexibility. These ventures can quickly adapt to changing market conditions, customer preferences, and emerging trends. The ability to respond promptly to evolving needs and adjust services in real-time is a key factor driving their appeal.

The landscape of modern businesses has evolved with the digital revolution. The power of social media allows these ventures to provide real-time updates, engage with customers directly, and build strong followings. Online platforms allow easy scheduling and bookings, while online payment systems mean sales can occur at any time of day or night. Moreover, if a business is based in a single physical location, then there are limited potential customers. On the other hand, if the business is mobile, it can potentially reach audiences worldwide, breaking down geographical barriers and expanding their customer base. This connectivity enhances customer convenience, broadens market reach, and improves business efficiency.

Challenges

Mobile businesses face a range of challenges in their operations.

These include:

- understanding local laws in relation to where they can park their mobile business and for how long each day

- establishing a steady customer base due to their nomadic nature
- marketing to ensure the right people can find them at the right time
- budgeting for fuel costs and emergency repair work on vehicles
- adapting to changing market conditions and customer preferences
- dealing with unpredictable weather conditions that can impact operations
- managing their online presence and maintaining cybersecurity

Overcoming these challenges requires strategic planning, adaptability, and a customer-centric approach.

Popular mobile business ideas

When it comes to mobile business ideas, the possibilities are endless. It can be a business that people visit, like a food truck or coffee cart (Figure 5.5), or it can be a mobile service you provide, such as pet grooming or car detailing.

Specialised food trucks

Mobile food businesses have experienced a surge in popularity over the last 10 years. The best food trucks usually have a certain niche or speciality, such as ice cream, artisanal coffee, burgers or even a certain nationality of food. They provide a flexible, cost-effective alternative to traditional brick-and-mortar shops and cafes, and can service a diverse customer base at locations such as concerts, festivals, markets and sporting events.

Tutoring

Tutoring is a popular business choice for qualified teachers, or university students looking to



Sandra Matic/Alamy Stock Photo

Figure 5.4 Mobile businesses continue to rise in popularity.



Monkey Business Images/Shutterstock.com

Figure 5.5 Mobile food and beverage businesses provide a flexible, cost-effective alternative to traditional brick-and-mortar establishments.

supplement their income. Apart from expertise in a particular subject or musical instrument, there is very little else that is required. Tutoring is great as a part-time job because most of the work is after school hours. It can be offered in person as a one-on-one or small group service, or online. Running an online model allows the business idea to be scaled to various locations and more students.

Car detailing

Car detailing businesses do not require a huge outlay, apart from advertising and car cleaning equipment. This service comes directly to the customer, providing convenience so that they do not have to wait while the job gets done.

Cleaning services

The benefit of cleaning services is that they can be offered to a diverse range of domestic and commercial clients. Domestic cleaning generally uses the cleaning products and appliances from the home they are servicing, therefore there are minimal costs. However, for commercial cleaning such as offices and other businesses, specialised equipment and a larger work force may be required.

Personal training and wellness services

With a booming fitness industry, there is no shortage of people who want expert health and fitness trainers to keep them motivated and achieve their fitness goals. This training can be achieved one-on-one, boot camp style, or virtually. Many personal trainers use public areas to work with their clients, which means there are no overheads. And best of all, while some workout equipment may be needed to get started, there is a whole range of body weight and cardio exercises which can be performed without any equipment at all.

Pet care services

The popularity of pet ownership and society's readiness to spend money on pet-care services has led to the profitability of the pet care industry. This industry ranges from dog walking, grooming services, pet sitting, and even veterinary services. The level of outlay ranges from advertising costs for dog walking, to customising a van and purchasing specialised tools for dog grooming.

Party services and equipment hire

Party hire services have surged in popularity thanks to improved economic conditions in which people host more parties and events. With endless inspiration online for perfectly curated children's parties, designer weddings and enviable corporate events, there is a wide range of party services and equipment hire which can be delivered directly on-site to clients. This ranges from balloon installations, children's entertainers, linen, lighting and wedding

decorations. There is often a significant cost for the initial outlay for the products, but if the selection of products are in high demand, they soon pay for themselves the more they are hired.

Questions

- 1 **Describe** two macro environmental factors influencing the rising popularity of mobile businesses.

- 2 **Explain** how digital connectivity contributes to the success and growth of mobile businesses.
- 3 **Interpret** the implications that can be drawn from the increasing demand for mobile health and wellness services in underserved areas.
- 4 **Evaluate**, using business criteria, two strategies to overcome some of the challenges of mobile businesses.

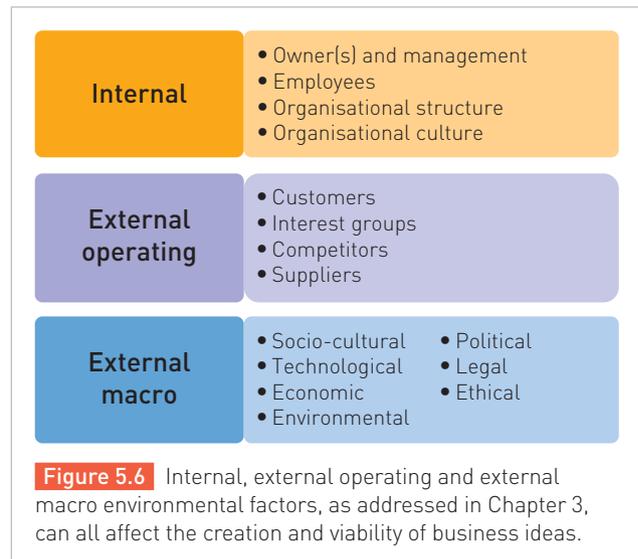
Environmental factors

Key learnings

You will continue to learn about the environmental factors that influence the creation of business ideas through examining:

- internal environmental factors
- external operating environmental factors
- external macro environmental factors (PEST analysis)

As introduced in Chapter 3, the environmental factors are internal, operating and macro factors (Figure 5.6). In ideation, these internal and external factors can affect the viability, growth and sustainability of business ideas and start-ups.



Internal environment

The internal environment for a start-up business is generally made up of one person or very few people. It is the easiest of the environments to control at the ideation stage and includes employees, managers, location and business structure. When an entrepreneur or business founder is turning a new business idea into a start-up business, they must carefully consider how they will legally structure their business, where they will be located and how they will manage operations and staff. These factors will all have a significant impact on the viability of the business idea and will be continually revisited as the business grows and progresses through the business life cycle.

External operating environment

As explained in Chapter 3, the external operating environment comprises the factors that directly influence the operations of a business. It consists of stakeholders that are outside of the business's internal structure and that impact on how the business functions. At the ideation phase, it is important to consider these stakeholders and how they will respond and contribute to the development of the business idea. For example, the business idea must establish a customer base for success and for sustainability of the business. Keeping customers happy and loyal will ensure the business idea can successfully progress from the seed to the start-up stage of the business life cycle, and that the business has long-term viability. These external stakeholders can also influence the creation of new ideas, or innovations to existing products and services, based on their changing needs and impacts on the business.

ANALYTICAL TOOL 5.1



The tool: PEST analysis (macro environmental factors)

A PEST analysis is a simple tool used to analyse the political, economic, socio-cultural and technological factors or changes in a business environment (Figure 5.7). In this context, it helps a business to understand the macro or external environmental forces of change and to take advantage of the possible opportunities that they present. Variations of the PEST analysis, including PESTLE and STEEPLE, will be used in later chapters.

How to use the tool

A PEST is completed with an environmental scan. Within this scan, each of the environmental factors are analysed with consideration to the specific business idea or situation. The questions asked in each factor may change depending on the location and situation surrounding the business idea and can be broad or specific. When analysing business ideas, the questions in each factor for the business idea under analysis will revolve around the viability of progressing the business idea to the start-up stage.

Political factors

- What pending legislation or taxation changes affect the new business idea, either positively or negatively?
- Is there a trend towards regulation or deregulation in the industry for the new business idea?
- When is the next local, state, or national election? How could this change government or regional policy that is relevant to the business idea?
- How will business regulation, along with any planned changes to it, affect the new business idea?
- How does government approach corporate policy, corporate social responsibility, environmental issues and customer protection legislation? What impact does this have on the new business idea?

Economic factors

- How stable is the current economy? Is it growing, stagnating or declining?
- Are there any key exchange rates that impact on the new business idea? Are these stable, or do they tend to vary significantly?
- Are the target market's levels of disposable income rising or falling? How is this likely to change in the next few years?
- What is the unemployment rate? Will it be easy to build a skilled workforce? Or will it be expensive to hire skilled labour?
- How is globalisation affecting the economic environment that the new business idea will enter?

Socio-cultural factors

- What is the population's growth rate and age profile for the market of the new business idea? How is this likely to change?
- What employment patterns, job market trends and attitudes toward work exist in the market? Are these different for different age groups? How will this affect the new business idea?
- What social attitudes and social taboos could affect the business idea? Have there been recent socio-cultural changes that might affect the viability of the business idea?
- How do religious beliefs and lifestyle choices affect the population? Will these choices impact on the business idea?

Technological factors

- Are there any emerging technologies that the new business idea will make use of?
- Are there any emerging technologies on the horizon that could radically affect the business idea or the industry?
- Do any competitors have access to emerging technologies that could redefine their products?
- In which areas do governments and educational institutions focus their research? Does the new business idea take advantage of this?
- Could infrastructure changes and work patterns – for example, levels of remote working – affect the new business idea?

Figure 5.7 A PEST analysis is used to scan and analyse the macro environmental factors.

Visit Nelson MindTap for more focus question ideas or to explore the PEST analysis in greater detail.

Activity

Complete a PEST analysis tool for one or more of the following business ideas:

- a new tour guide in your local area to showcase your region to tourists
- a new coffee shop out of your garage for locals in the area
- a new childcare service for shift workers, offering babysitting 24 hours a day.



Template
PEST
analysis

GAINING INSIGHT 5.4



Persollo instant checkout

About Persollo

We are an Australian company powered by awesome brands and people, for all those doing what they love. We've crafted Persollo to empower brands, influencers, bloggers, freelancers and artists who want to sell their work directly to their inspired audience anywhere and anytime.

Persollo is the first instant checkout e-commerce platform for influencer marketing. It is the fastest way from impression to sale!

Persollo is an instant checkout e-commerce platform for brands and influencers that are looking for ways to monetise their content and increase conversion.

Persollo enables brands and influencers to convert social and digital media engagement into sales in less than 15 seconds. Persollo bypasses online shops and cumbersome shopping carts,



Source: Persollo

Figure 5.9 Persollo provides AI insights to businesses using emerging technologies or promotional strategies such as influencers.

capitalising on impulse purchasing behaviour at the point of interest, ultimately optimising conversions. Designed for mobile and social media, the tech allows click-through payments straight from social networks, digital magazine, video, blog and through the key influencers.

Source: <https://persollo.com/contact>

Questions

Go to the Persollo website and read more about the platform, then answer the following questions.

- 1 **Describe** the business idea of Persollo.
- 2 **Create** a PEST analysis to **analyse** the political, economic, socio-cultural and technological factors that lead to the development of Persollo.



WebLink
Persollo

Template
PEST analysis

You can download a PEST analysis template on Nelson MindTap.



Source: Persollo

Figure 5.8 Persollo leverages machine-learning and AI technology.

External macro environment

The external macro environmental factors that may influence the creation or feasibility of business ideas are those over which the business has no control. Potential business owners, entrepreneurs and innovators must be aware that these factors can affect the viability of all businesses and business ideas. When taking a business idea to the start-up phase, the impact of external macro environmental factors – socio-cultural, technological, economic, environmental, political, legal and ethical considerations, often referred to as PEST, PESTLE or STEEPLE analysis – must be considered. Specifically, when looking at ideation or the formation of new business ideas, the impact of these environmental factors on the viability of a business idea is analysed in an environmental scan. It can also be from completing such scans that innovations and new business ideas are generated for existing businesses in the growth, maturity or post-maturity stages of the business life cycle. It may be from necessity that an innovation is needed to meet a new legal or regulatory standard, or a change in exchange rates may affect the viability of manufacturing a product.

GAINING INSIGHT 5.5



Australian inventions

The Aborigines – Australia's first inventors

Long before English colonisation, Indigenous Australians were already leading the world. Aborigines were first living in Australia about 50 000 years ago. Aboriginal people were the first peoples to use ground edges on stone cutting tools and the first to use stone tools to grind seeds, everyday tools which were developed only much later by other societies.

A unique Australian invention, the boomerang, had many uses and purposes. The genius and aerodynamics of the boomerang make it one of humanity's greatest inventions. The boomerang is known as an aerofoil, a surface which is designed to lift by making use of air current. A boomerang has the profile of a bird's wing with the upper surface being greater than the one underneath. This characteristic produces a difference in pressure which generates lift when the boomerang is thrown through the air.

The woomera, a type of spear thrower, is another well-known hunting tool. The woomera, attached to a spear, propels the spear quickly over distance. Until the invention of the self-loading rifle in the 1800s, the woomera with spear was the fastest weapon in the world.

In modern times, Aboriginal people have contributed to Australia's reputation as a nation of innovators. David Unaipon made significant contributions to science and literature and to improvements in the conditions of Aboriginal people. In 1909 he patented an improved handpiece for sheep-shearing and his many other inventions included a centrifugal motor, a multi-radial wheel and a mechanical propulsion device.

Based on the principle of boomerang flight, Unaipon anticipated the helicopter as early as 1914. He gained a reputation at the time of being 'Australia's Leonardo' for his promotion of scientific ideas and is commemorated on Australia's \$50 note (Figure 5.10).

Go to Australian inventions to have a look at more of the inventions that Australians have been responsible for.



Weblink
Australian
inventions

Source: © Commonwealth of Australia, CC BY 3.0 AU licence.
As at <http://www.australia.gov.au/about-australia/australian-story/austn-inventions>

Questions

- 1 **Describe** the environmental factors that led to three Australian inventions you explored.
- 2 **Explain** some of the challenges that may have been experienced during the development of these three inventions.



Historic Collection/Alamy Stock Photo

Figure 5.10 David Unaipon – 'Australia's Leonardo' – depicted on the \$50 note

Motivational theories

Key learnings

You will learn about the relationship between **motivational theories** and the creation of business ideas through examining:

- Maslow's hierarchy of needs
- Locke's goal-setting theory
- Herzberg's two-factor theory.

In business, motivational theories help us to understand why employees, consumers, suppliers and competitors behave in certain ways, and what rewards encourage or discourage certain actions. Understanding what motivates each of the different stakeholders in a business environment, from the start-up stage through to post-maturity, is necessary to ensure the viability of the business idea and sustained stakeholder satisfaction. Motivational theories help to explain what drives the creation of new business ideas before they move into the seed or start-up stage. Whether as a business idea for a start-up or for a post-maturity business looking to renew its share in the market, motivational theories are applicable at all stages in the business life cycle and to all four business functions.

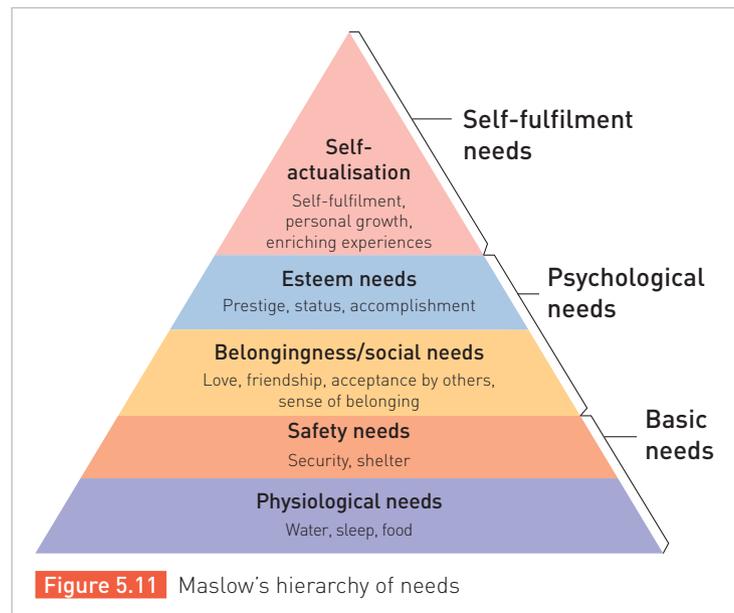
The strategies that arise from these motivational theories can be used for a range of business purposes. They can motivate:

- entrepreneurs, intrapreneurs and innovators to solve problems or identify gaps in the market
- businesses to meet the needs and wants of the market through the creation of new ideas and start-up of new businesses
- businesses to outperform competitors and maximise their competitive advantage
- consumers to choose one business over another and to generate customer loyalty
- employees to work for the benefit of the business in effectiveness, efficiency and quality
- employers to implement strategies for employee satisfaction and to establish themselves as an employer of choice.

Maslow's hierarchy of needs

Abraham Maslow's hierarchy of needs (Figure 5.11) is a theory based on the understanding that all human beings have needs, and these needs can be ranked. This hierarchy identifies that there are needs that range from basic through to higher order needs and it is necessary to meet the more basic needs before the motivation to meet higher needs can exist.

In business ideation, this means that the market must first satisfy the basic needs of consumers before it can focus on business ideas to satisfy higher order needs. Therefore, when looking for a business opportunity or a gap in the market, a potential business must determine what needs will motivate consumers to buy their goods or services, or to leave another business for theirs.



Motivational theories: theories about the concepts and processes that describe the activation of goal-orientated behaviours in humans

Maslow's hierarchy can be applied to business ideation, innovation, marketing strategies, human resources and change management. Understanding where stakeholder needs sit in the hierarchy enables a business to ideate the necessary products or services to satisfy their motivations.

From most basic to higher order, Maslow's hierarchy identifies the following categories of needs:

- *Physiological needs* are the most basic, like the need for food and water, and other biological needs. When they are not being met, the search for them may override all other urges. For example, supermarkets were initially established to provide access to all of a customer's physiological needs in one place.
- *Safety needs* become important once physiological needs are satisfied. They include the need to be safe, free from pain and secure. For example, insurance companies offer a service to help meet the safety needs of their customers to ensure their belongings are protected.
- *Social needs* include the need to bond, to be loved and to form lasting attachments with others. The desire for interpersonal attachment is a fundamental human motivation. For example, social networking sites have found great success by providing platforms for people to connect with family, friends and partners.
- *Esteem needs* are the desire to be respected by one's peers, feel important and be appreciated, including the need for status and recognition. For example, many tertiary education providers offer their particular courses and qualifications as an incentive to become recognised in a particular field.
- *The need for self-actualisation* is the need to reach one's full potential, and includes the desire to master new skills, take on new challenges and behave in a way that will lead to being the best a person can be. For example, self-help books and classes, and wellness retreats, are all products that seek to provide for the need of self-actualisation.

Understanding what people need and where their motivation to fulfil needs comes from gives a business insight into understanding its customers. The hierarchy is a way of thinking. In business ideation, innovators, entrepreneurs and businesspeople are motivated to meet the different needs of stakeholders within the market through new business ideas, new businesses or new approaches. For some serial entrepreneurs, their own esteem and self-actualisation needs drive them to continually ideate new products and business ideas for the market.

QUESTIONS 5.1



- 1 **Explain** how Maslow's hierarchy of needs impacts on the creation of new business ideas.
- 2 Brainstorm or research an example of a product or service that may have been motivated at each level of Maslow's hierarchy.

Locke's goal-setting theory

In 1968, Edwin Locke, while working with Dr Gary Latham, showed that clear goals and appropriate feedback motivate employees. Their study highlighted that working towards a specific goal with opportunities for relevant feedback is a major source of motivation (Figure 5.12). According to Locke and Latham, these specific goals need to be measurable, as well as sufficiently challenging that accomplishing them means something. The same principle applies to entrepreneurs, innovators and those who ideate new business ideas. Setting specific goals for a business idea or start-up contributes to higher and better performance; therefore, using goal-setting strategies such as SMART goals, as explained in Chapter 3, is an essential part of the ideation and start-up phase of a business and helps turn a business idea into a viable business opportunity.



GAINING INSIGHT 5.6



The challenges of goal-setting for change

On 23 April 1985, the Coca-Cola Company took the biggest risk in consumer goods history, announcing that it was changing the formula for the world's most popular soft drink (Figure 5.13). The Coca-Cola Company introduced reformulated Coca-Cola, often referred to as 'New Coke', marking the first formula change in 99 years. The company intended to re-energise its Coca-Cola brand, and the cola category, in its largest market, the United States.

One of the challenges in goal-setting is that the focus it brings can create a sense of tunnel vision. [When] Coca-Cola set the goal of reformulating its signature cola to make it sweeter and more competitive with Pepsi, the company's focus on that goal trumped researching whether or not customers wanted the product to change. As a result, the release of New Coke ... remains one of the biggest product failures in history. While a focus on goals doesn't always lead to spectacular failures, it can also lead to employees abandoning more mundane, but still necessary, tasks as they focus on the 'one big thing'.

Source: Steve Lander (2017, 21 November), 'The negative side of goal-setting theory', Small Business – Chron.com. <http://smallbusiness.chron.com/negative-side-goalsetting-theory-74687.html>

Questions

- 1 **Explain** the challenges faced by Coca-Cola during the attempt at innovation described above.
- 2 **Analyse** the political, economic, socio-cultural or technological forces (PEST) that may have led to the decision by Coca-Cola to change their recipe.
- 3 **Interpret** a relationship or trend in the PEST analysis to draw conclusions about the implications of changing the recipe.
- 4 **Explain** why using a theory such as Locke's goal-setting theory may have changed the outcome of Coca-Cola's reformulation.
- 5 **Explain** three examples of SMART goals that a potential start-up business might set at the ideation phase.



Figure 5.13 The impact of goals must be carefully considered.

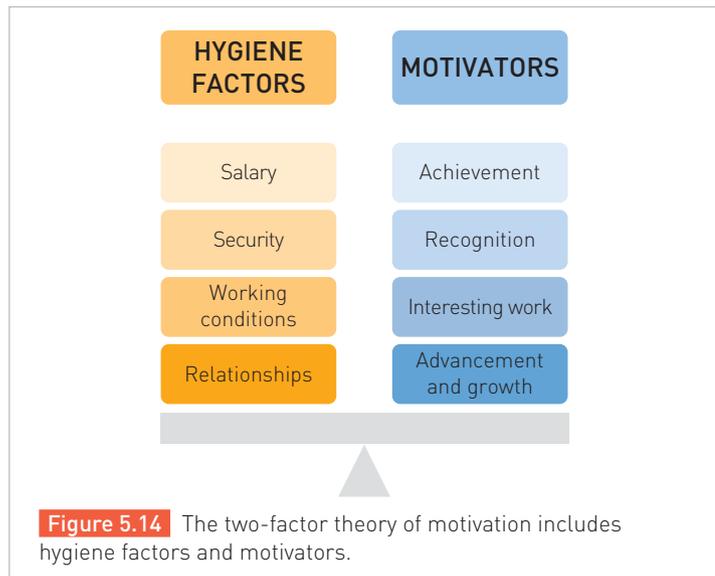
The Advertising Archives

Herzberg's two-factor theory

Frederick Herzberg's theory involved studying workers to try to understand employee satisfaction. From this study, Herzberg identified two factors that have an impact on the motivation of employees: hygiene factors such as working conditions, salary, safety and security of the job, and motivators such as achievement, recognition, increased responsibilities, advancement and growth opportunities. When considering business ideation, these factors can be applied to drivers or deterrents to ideation, and the performance of an entrepreneurial activity, in the same way Herzberg applied them to employee performance.

According to Herzberg's research, these factors both affect motivation, but they do it in different ways. The absence of hygiene factors motivates employees, entrepreneurs, innovators and the community to want these items back. When they are present and readily available, they are taken for granted and no longer serve as motivation; when absent, however, these hygiene factors drive stakeholders to seek to fulfil these needs.

On the other hand, motivators are factors whose presence motivates – for example, achievement motivates further achievement, and interesting work motivates greater drive and commitment to the workforce (Figure 5.14). Their absence does not cause any particular dissatisfaction; it just fails to motivate. In business ideation, the absence of hygiene factors in a particular location or business, or for a particular person, may motivate the creation of certain business ideas, while the presence of these hygiene factors and the presence of motivators will lead to ideation of varied business ideas and innovations.



GAINING INSIGHT 5.7



The motivations behind Gourmet Garden

Founded in Australia in 1999, Gourmet Garden is now a recognised global brand and was sold to McCormick's for US\$114 million in 2016. It has approximately 200 employees and a modern manufacturing facility on the Sunshine Coast. Australian agribusiness leader, Doug Shears, who is known for building up brands such as Uncle Toby's and Berri Juice before selling them on to strategic owners, was involved in the development of Gourmet Garden.

The motivation for Gourmet Garden arose when two Australian brothers (both food scientists) became frustrated with the short life of culinary herbs. This led them to develop the 'Eva Fresh' technology, which extends the natural shelf life of fresh herbs without the need for heat treatment or acidification. This technology was a response to a growing trend towards fresh food, and the motivation to continue to develop new

products is seen in the ever-growing range that Gourmet Garden produces and retails. Gourmet Garden has been a leader in innovation in its industry; its Lightly Dried product range, for example, is a world first.

The motivation to be sustainable and a market leader in the industry is evident in all the decisions that Gourmet Garden makes. For example, the company's headquarters, built in 2006, which houses the factory, laboratories and offices, boasts the biggest refrigeration plant of its kind, which is 50 per cent more energy-efficient than a typical refrigeration plant. Rainwater is harvested from the rooftop, stored in four rainwater tanks and used both for fire protection and within the factory. A 40-metre 'green belt', surrounding the back of the site and equipped with a walkway and some 8000 native trees, was gifted to the community.

Gourmet Garden has grown from a small, privately owned company to a global success, exporting to more than 15 countries around the world and appearing on shelves in over 35000 supermarkets across Asia and Europe and in countries including the United States, New Zealand, Canada and the United Kingdom.



Figure 5.15 Gourmet Garden began because of a love of herbs and a dislike of waste.

Questions

- 1 **Describe** the business opportunity and environmental factors that led to Gourmet Garden's creation.
- 2 **Explain** the challenges faced by Gourmet Garden during the seed stage of the business life cycle.
- 3 **Explain** the levels of Maslow's hierarchy of needs that can be applied to the invention of the Eva Fresh technology and the Gourmet Garden Lightly Dried range.
- 4 **Explain** the motivation theories that can be applied to the development of Gourmet Garden's headquarters.

QUESTIONS 5.2



- 1 **Explain** the similarities between Maslow's hierarchy of needs and the hygiene factors in Herzberg's two-factor theory.
- 2 **Create** paragraph responses to **explain** the relationship between each of the motivational theories and business ideation.
- 3 Research an established business to find an example of one of the motivational theories in practice and **explain** how the motivational theory applies to its business idea.

Entrepreneurship

Key learnings

You will continue to learn about the motives of entrepreneurs through examining:

- entrepreneurship as a career
- the skills and characteristics of entrepreneurs.

Entrepreneurship, now considered as a career option and an avenue of postgraduate study, is the process of creating, starting and maintaining businesses that often involve initiative, innovation and risk. It is widely accepted and established that the best business ideas come about when entrepreneurs or innovators come upon a problem in their own lives for which they are motivated to find a solution. By addressing an issue or problem that is relevant to their everyday lives, entrepreneurs are deeply connected to the business idea, their mission, and the goals that solving the problem aims to achieve. Along with the ability to ideate possible solutions, potential or serial entrepreneurs must have the skills and characteristics to follow the business idea from conception through to the start-up phase.



Figure 5.16 The motivation for business ideas can come from different levels of human motivation, including necessity, demand and aspiration.

iStock.com/baramee2554

Skills and characteristics

There is considerable research about the skills, characteristics and personality traits of entrepreneurs (Figure 5.17). The list of skills and traits continues to evolve with influences and advancements in the market; however, some universal and often unchanging characteristics have been identified. They are those that can be applied in any industry, or to any business idea that an entrepreneur is seeking to develop.

Passion

Passion is often considered the most important trait of a successful entrepreneur. Anyone with a new business idea must genuinely love their work and believe in the importance of their ideas and the problem they are aiming to solve. Entrepreneurs must be willing to put in the extra hours needed to take their idea to start-up, and then on to the growth phase, to make the business succeed. Passion is important in an entrepreneur as it means they get their success from more than the money a business idea or opportunity may generate, and their passion fuels the drive and determination required to be successful.

Motivation

Motivation is the reason behind why a person acts in a certain way. For entrepreneurs, motivation is the reason why they want to create something new, solve a problem, or renew and revitalise something already existing. Motivation is an essential characteristic and, while specific motivations may differ from one entrepreneur to another, it is important that entrepreneurs have a reason to take risks, challenge ideas and keep trying. Motivation is complementary to the other characteristics and helps to ensure that an entrepreneur doesn't lose their drive or determination, and that their passion doesn't fade away when challenges are faced.

Confidence

Entrepreneurs must demonstrate intrinsic confidence in themselves and their ideas. They are confident with the knowledge that they have the abilities and skills that will turn their business idea into a successful start-up, and that any failures they encounter will be progress on their journey to success.

Boldness

Entrepreneurs realise that every event and every situation is a business opportunity. They have the boldness to take risks on their ideas, to invent or to innovate when they know a job can be done more effectively or more innovatively. Bold entrepreneurs focus on finding creative solutions to problems or challenges, and are constantly generating new ideas.

Enthusiasm

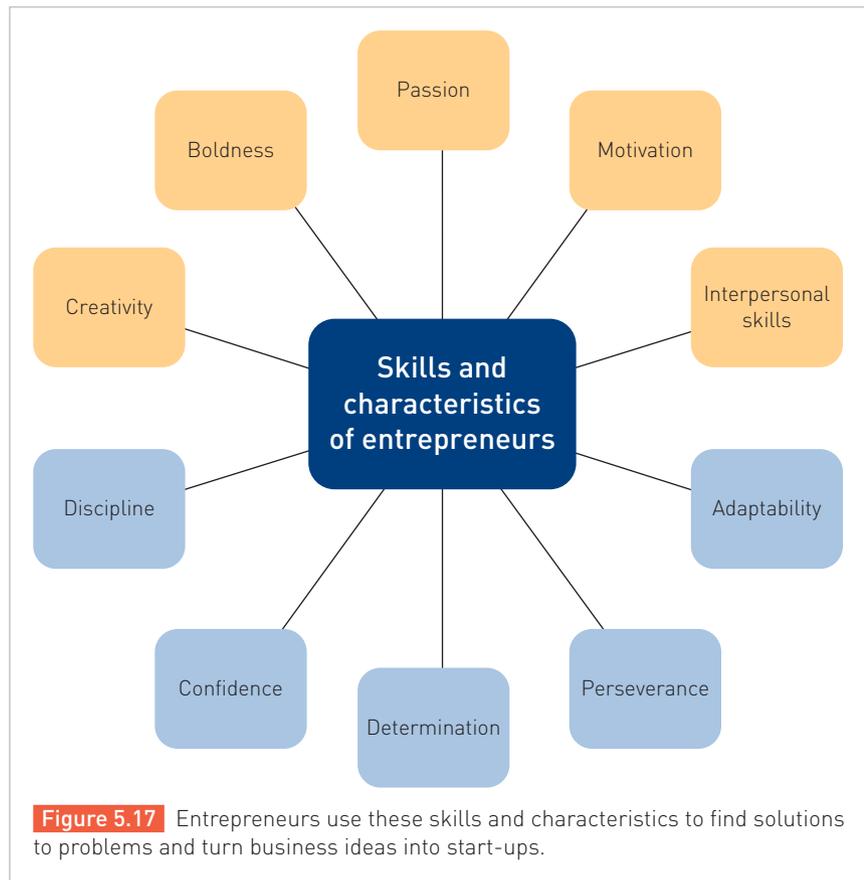
Entrepreneurs are enthusiastic about their ideas, their passions and their abilities. They see opportunities and future advancements, often before anyone else does. This enthusiasm is sometimes exhibited as impatience, but entrepreneurs must exude passion and high energy to maintain their pursuits in turning opportunities and ideas into viable businesses.

Creativity

Entrepreneurs are always learning, designing, creating and thinking of new ways to repurpose or reintroduce products for new markets. Entrepreneurs often have the ability to come up with solutions that are the creative mixture of other items. Industries must constantly change and evolve to keep up with technology, changing stakeholder needs, demand and competition.

Determination

Entrepreneurs learn from their failures and are unwavering in their attempts to make their business ideas succeed. This means entrepreneurs will try again and again, until they find the solution to the problem or make their idea a success. Successful entrepreneurs have the determination to make their ideas reality, and generally do not believe that something cannot be done.



Discipline

Entrepreneurs are focused, and know they must stay focused to make their business ideas work. They have an ability to set clear and SMART goals and eliminate distractions in achieving their goals. Successful entrepreneurs will often spend seemingly endless hours working on their business ideas.

Interpersonal skills

Entrepreneurs must have strong interpersonal skills. They use these skills to interact effectively with others. Interpersonal skills include paralinguistics, and verbal and non-verbal communication. These skills are needed to sell the business idea. Successful entrepreneurs know the importance of effectively networking with people who not only have the ability to help their business in the immediate present, but may have the potential to help them in the future. Entrepreneurs also know how to recognise when they can help someone else's business ideas and provide value to others in their networks.

Adaptability

Entrepreneurs need to have the ability to respond when things don't go to plan, whether because of a failure, an unexpected outcome or a business setback. When they are in the ideation and start-up phase, many entrepreneurs perform all of the major business roles, including receptionist, bookkeeper and salesperson. Successful entrepreneurs are open-minded and are always looking for new and better ways to adapt their thinking. They are resourceful and are able to determine what they have to do and what they need, and adapt as needed to find ways to achieve their goals and objectives.

Take the BBC quick quiz 'Would you make a good entrepreneur?' and discuss your results.



Innovation

Key learnings

You will learn about the application of innovation theories through examining:

- open and closed innovation
- architectural innovation
- incremental innovation
- disruptive innovation
- radical innovation
- innovation frameworks.

The word 'innovation' is often seen as a buzzword or a catchy sales term, but in essence, as identified earlier in the chapter, innovation is actually adapting something existing, or contributing to it, to make it better. Over time, the definition and use of the term 'innovation' has evolved as innovators and entrepreneurs become more creative, better at predicting what the future might hold, and more prepared to take risks. Innovations can occur in a number of ways, and to any number of processes or products within a business. These innovations can be applied to the product, process, marketing or organisational methods (Figure 5.18).



OECD/Eurostat (2005). *Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data* (3rd edn). The Measurement of Scientific and Technological Activities. OECD Publishing, Paris. <http://dx.doi.org/10.1787/8789264013100-en>

Open and closed innovation



Along with the ways in which innovation can occur, there are many theories about the processes that this innovation takes. Innovation is not a new concept in business; in fact, it has been happening throughout history, in every area of our life, and is the catalyst for human development. It is how those innovation theories are applied and the way information is used that categorises an innovation as open or closed (Figure 5.19).

A business needs to acquire information, support and advice from a variety of sources and cannot only rely on the expertise or knowledge of people within the business. Emerging technologies and access to information drive open innovation over closed innovation.

Society now reaps the rewards of those innovators who saw better ways to communicate, better ways to generate power, better ways to produce data and information, and were open with these innovations. It often appears that innovation is simply the response to an identified problem, but today's entrepreneurs and innovators are not only solving problems, they are predicting the problems of the future and innovating solutions before the problem arises.



GAINING INSIGHT 5.8



Innovation is problem-solving ... and a whole lot more



Follow the weblink to an article by Larry Miller in *Forbes* magazine. Read the article and answer the questions.

Questions

1 **Describe** the levels of innovation that are detailed in the article above.

2 **Analyse** and discuss the strengths and weaknesses of the mindset of the innovator at each level.

3 Debate the statement, 'All levels of innovation are no longer important to today's business ideas; instead, businesses should strive for level 3 and 4 innovation only'.

Innovation theories

Regardless of the level of innovation occurring, all businesses are constantly striving to be better than their competition, whether it is in reputation, customer satisfaction, product or service. While everyone can innovate or come up with new ways of doing things, finding the most effective way to innovate and bring innovation to a business idea is necessary to save time and money, to become a viable business opportunity and, ultimately, to make a profit. Behind all of the levels, types and approaches to innovation are **innovation theories** or the recognised methods or strategies that have been tried, tested and evidenced with anecdotal data.

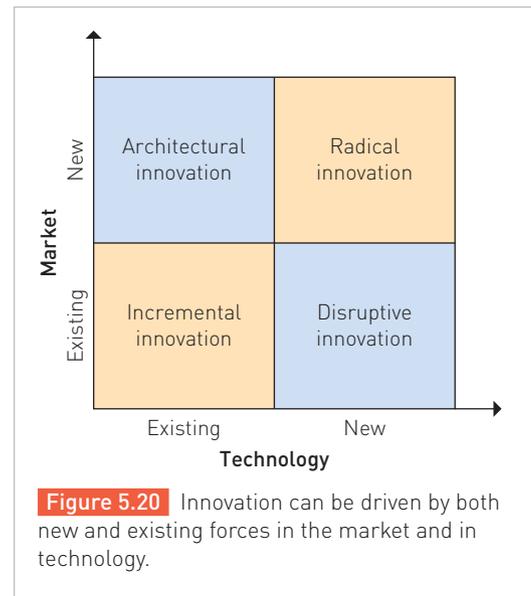
Innovation is generally driven by market forces or emerging technologies. The innovation theory applies depending on whether the market force exists or is new and whether the technology force exists or is new (Figure 5.20). While there are many innovation theories already in practice, and new theories are continuously being introduced through research and development, these are four key innovation theories that will be explored in detail:

- **incremental innovation**
- **architectural innovation**
- **disruptive innovation**
- **radical innovation**.

Incremental innovation

Innovation that occurs over time through a series of small improvements is called incremental innovation. Many businesses use incremental innovation to help maintain or improve a product's market position. Incremental innovation has become a common tactic in the consumer technology industry, as companies strive to regularly improve personal devices with customer-friendly features. This is the most common style of innovation and, while incremental innovation may not lead to the breakthrough products that change lives, it is the continual application of incremental innovation that improves the products.

The iPhone is an example of a product that has continued to undergo incremental innovation since its inception. Apple didn't invent the smartphone, but found ways to innovate this technology to make it more effective and more user-friendly with additions such as a much larger screen and the introduction of the app store. Incremental innovation often builds upon the basic or beginning platforms that a disruptive or radical innovation can present to the market.



Innovation theories: ideas regarding the technological, organisational, financial and commercial activities necessary to create, implement and market new or improved products or processes

Incremental innovation: innovation that occurs over time through a series of small improvements

Architectural innovation: taking the components of a product and reassembling or redesigning them in a new way to introduce to a new market

Disruptive innovation: innovation that happens when a smaller business with fewer resources is able to successfully challenge an established business in the market by focusing on the market segment that is overlooked and then moving into the mass market

Radical innovation: involves the harnessing of new technology and a new business model simultaneously. It does not seek to take the market share of another business or product but rather to create an entirely new and currently non-existent market segment.

GAINING INSIGHT 5.9



Incremental innovation of the razor

Shaving traces its history back to the dawn of civilization. In 3000BC, early metalworking led to the first blades for removing body hair. 'Modern' shaving arrived in 1800s England with the creation of the first straight steel razor. This soon was followed by the first 'hoe-type' razor that puts a single blade perpendicular to the handle. The timeline continues and by the 1880s, the safety razor was invented.

By the 20th century, a salesman named King Camp Gillette helped create the first double-edged, disposable safety razor blade. High quality and low priced. Gillette are renowned as one of the great innovation leaders but in actual fact, the brand is a great example of a company that has used incremental innovation to stay ahead of the competition. Gillette razors started life with a single blade but their product

has evolved, adding different features and more blades as the company has sought to better meet customer needs.

Sources: Robert Brands, 'Gillette, shaving and the challenge of innovation', <http://www.innovationcoach.com/2010/06/gillette-shaving-and-the-challenge-of-innovation>; Emma Muckersie, '4 examples of incremental innovation in action', <http://www.freshminds.net/2016/08/4-examples-of-incremental-innovation-in-action>

Questions

- 1 Discuss the statement 'One of the secrets to Gillette success is that every decade or so, it launches a new incremental product improvement – slightly better, slightly more expensive, slightly more profitable ...'.
- 2 Describe the environmental factors that may have influenced the increments between innovations becoming smaller over time.



Figure 5.21 Gillette continually applies incremental innovations to the razor.

Gillette

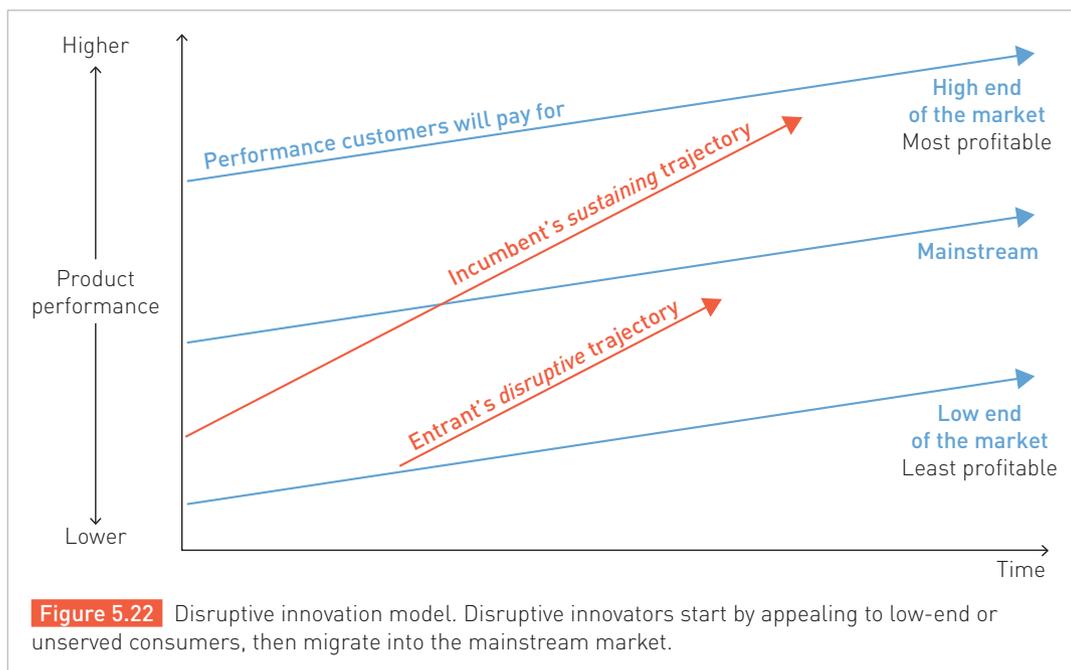
Architectural innovation

Architectural innovation is the process of taking the components of a product and reassembling or redesigning them in a new way to introduce to a new market. This means the core purpose or function of the product is relatively unchanged. This innovation theory focuses on bringing new markets and customers to an existing product or business idea and has a low risk involved. It is often simply a reintroduction of an existing or proven technology or idea. For example, the Apple Watch took the purpose and function of an iPhone and integrated it into a wearable device. This architectural innovation created a new market of health- and fitness-focused customers, and expanded the number of products existing customers purchase from Apple.

Disruptive innovation

Disruptive innovation is the process whereby a smaller business with fewer resources is able to successfully challenge an established, **incumbent** business in the market. Clayton Christensen, a Harvard Business School professor, first used and defined the term ‘disruptive innovation’ in an article in which he explained that such disruption displaces established businesses, products or networks that lead a market by focusing on the market segment that is overlooked.

Focusing on this section of the market allows disruptive innovators to create a product with functionality that is more suitable for these overlooked customers, and frequently this offering comes at a lower price. Then, as they continue to develop and improve this new offering, they start to capture the mainstream market and this is when disruption has occurred. It is important to understand that the distinguishing factor in Christensen’s disruptive innovation theory is that disrupters start by focusing on the lower-end or unserved consumers, and then migrate to the mainstream market. They do not build a position in a mainstream market and then attract other unserved markets. The diagram in Figure 5.22 contrasts product performance trajectories (the red lines showing how products or services improve over time) with customer demand trajectories (the blue lines showing customers’ willingness to pay for performance). As incumbent companies introduce higher-quality products or services (upper red line) to satisfy the high end of the market (where profitability is highest), they overshoot the needs of low-end customers and many mainstream customers. Entrants on a disruptive trajectory (lower red line) improve the performance of their offerings and move upmarket (where profitability is highest for them, too) and challenge the dominance of the incumbents.



Reprinted by permission of Harvard Business Review (Exhibit) from 'What is disruptive innovation?' by Clayton M. Christensen, Michael E. Raynor and Rory McDonald, December 2015. Copyright © 2015 by Harvard Business Publishing; all rights reserved.

Incumbent: in business, refers to a business that is already in position in a market



GAINING INSIGHT 5.10



Disruptive innovation: Netflix

Netflix launched in 1997 as a mail-order movie rental company. It first focused on a niche group of consumers who were willing to wait for the mail to get the movie they wanted, and then broadened into the streaming service.

The fact that disruption can take time helps to explain why incumbents frequently overlook disrupters. For example, when Netflix launched ... its initial service wasn't appealing to most of Blockbuster's customers, who rented movies (typically new releases) on impulse. Netflix had an exclusively online interface and a large inventory of movies, but delivery through the U.S. mail meant selections took several days to arrive. The service appealed to only a few customer groups – movie buffs who didn't care about new releases, early adopters of DVD players, and online shoppers. If Netflix had not eventually begun to serve a broader segment of the market, Blockbuster's decision to ignore this competitor would not have been a strategic blunder: The two

companies filled very different needs for their (different) customers.

However, as new technologies allowed Netflix to shift to streaming video over the internet, the company did eventually become appealing to Blockbuster's core customers, offering a wider selection of content with an all-you-can-watch, on-demand, low-price, high-quality, highly convenient approach. And it got there via a classically disruptive path. If Netflix ... had begun by launching a service targeted at a larger competitor's core market, Blockbuster's response would very likely have been a vigorous and perhaps successful counterattack. But failing to respond effectively to the trajectory that Netflix was on led Blockbuster to collapse.

Reprinted by permission of *Harvard Business Review* (Exhibit) from 'What is disruptive innovation?' by Clayton M. Christensen, Michael E. Raynor and Rory McDonald, December 2015. Copyright © 2015 by Harvard Business Publishing; all rights reserved.

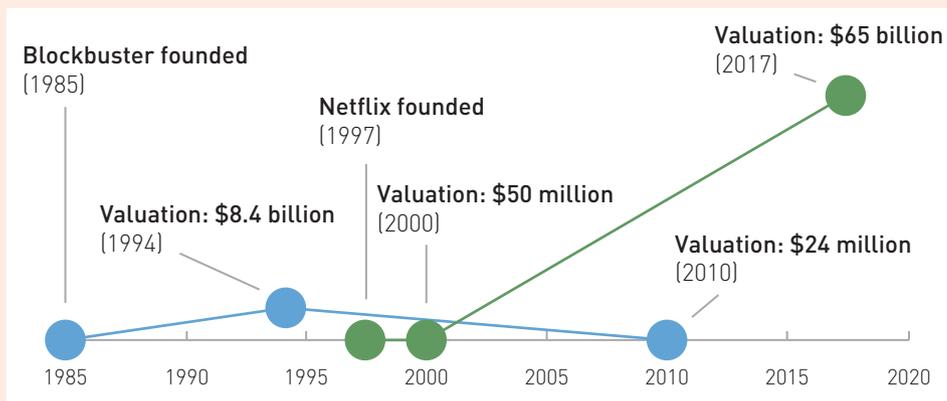


Figure 5.23 The disruptive innovation can be seen over time. As of 2024, Netflix was valued at \$267.63 billion.

Radical innovation

While some theorists suggest that disruptive and radical innovation are interchangeable terms, there is in fact a clear difference between innovation that disrupts an existing market and radical innovation, which creates an entirely new market of its own. These theories are often confused or misused as the other; however, unlike disruptive innovation, radical innovation involves the harnessing of new technology and a new business model simultaneously. It is the rarest and most high-risk of the innovation theories discussed.

Radical innovation focuses on the unprecedented territories, looking for ways to transform existing markets by providing something new to the world, by uprooting industry conventions and significantly changing customer expectations in a positive way. Radical innovation differs from other theories in that radical innovation doesn't seek to take the market share of another business or product but rather to create an entirely new and currently non-existent market segment.

For example, Amazon wasn't the first online store, but it created an online shopping platform that developed direct relationships with suppliers and offered unprecedented choice, scope and value. Through this, Amazon radically reinvented the traditional retail business model and the fundamental dynamics of how consumers shop.

INQUIRY



Inquiry task: Application of innovation theories

Using the inquiry process explained in Chapter 1, you are to conduct an inquiry into one of the following innovations that either have occurred, are in development or have not yet been successful in a variety of industries. You will research the innovation and make a decision about the applicable innovation theory and the market or technological forces that influenced its development.

- 1 Research and select one of the following innovations on which to conduct your evaluation.
 - a Samsung Family Hub Refrigerator
 - b Wing Drone Delivery
 - c Hyperloop One
 - d Moley, the robotic kitchen
 - e Soccer soccer ball
- 2 **Describe** the characteristics and features of the product or business you have chosen to investigate.
- 3 **Explain** what technology or market forces drove the innovation you have investigated.
- 4 **Explain** which innovation theory is relevant to the innovation you have investigated. Use evidence to **explain** how the theory chosen is applicable.



Figure 5.24 Innovation theories are fundamental to the creation of new business ideas.

Innovation frameworks

Different to an innovation theory, an innovation framework is a scalable platform that shows the processes involved in harnessing creative talents during research and development. This strategic approach provides a way to collect, collaborate and act on new ideas from inside an organisation. There are various innovation frameworks available to businesses, including the ‘ten types of innovation’ framework and the ‘innovation performance’ framework. Two more commonly used frameworks are ‘design thinking’ for innovation and the ‘three horizons’ framework.

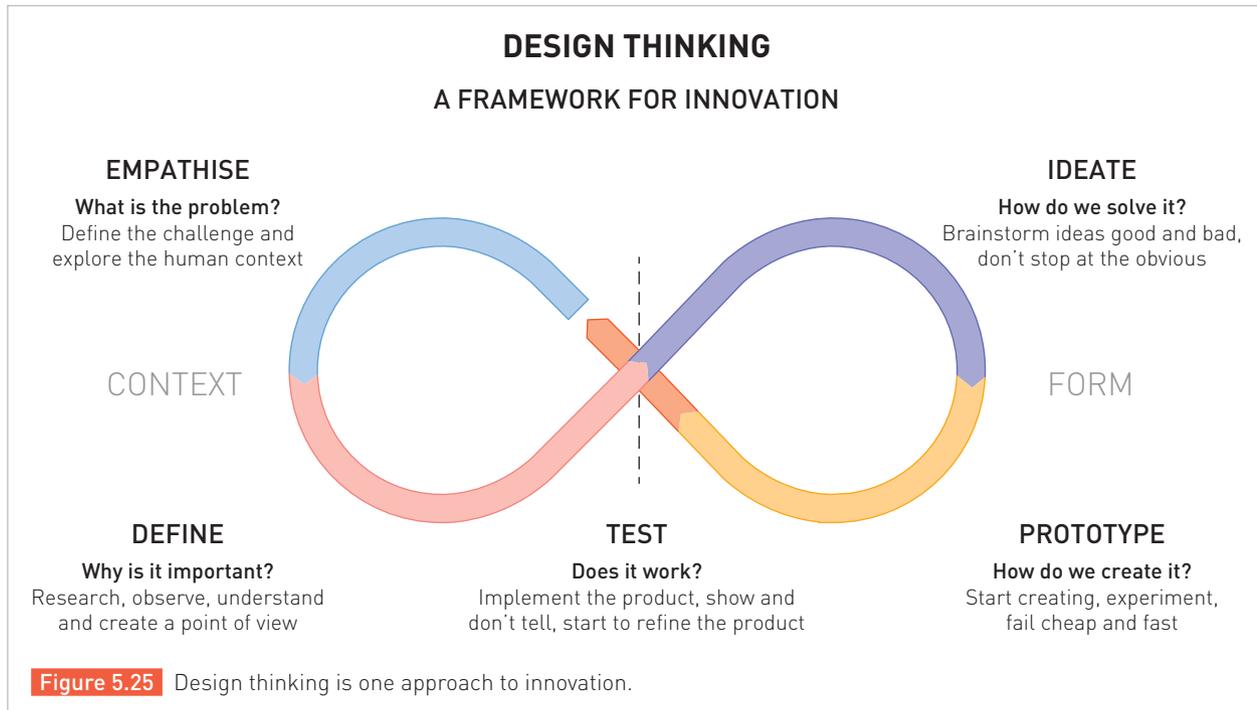
Design thinking

Design thinking refers to a process used for developing creative strategies to resolve issues or problems. It is an approach used in a variety of situations, including professional design practice, business and social contexts. In innovation, design thinking is expressed as a structured five-step framework for understanding and pursuing innovative ideas and solutions (Figure 5.25). It is a human-centred and solution-focused framework and draws on logic, imagination, intuition and reasoning to explore possibilities and create desired outcomes that benefit the end user or customer. The five stages or steps are: empathise, define, ideate, prototype and test. Design thinking is a continual process, and these steps can be done in any order, unlike the four stages of the innovation process – ideate, define, design and develop – which need to be done in sequence. Steps are continually revisited throughout the process.

- *Empathise*: This involves getting to know the target market, listening to their needs and wants, finding out what they value and how they look at the world.
- *Define*: This step will bring clarity and focus to the goal. What exactly are you trying to achieve? What is the problem to be solved? Who are you addressing?
- *Ideate*: This involves brainstorming and thinking wide. What separates design thinking from other forms of thinking is the emphasis placed on not ignoring any ideas, even those that seem obvious or easy. Ideation then requires a short list of the best solutions to inform the development of the prototype.

- *Prototype*: The prototype stage helps to answer many of the questions about the solution or the short list of ideas.
- *Test*: This involves the seeking of feedback from users of the prototype, either the physical prototype, a demo or a test model – anything that the user engages with.

This approach to creative thinking and business ideas is not new, but it is revolutionising the way business ideas are generated, the way people work and how businesses operate. For new business ideas, using the design thinking process will be necessary at different stages, from ideation to start-up, and throughout the life cycle stages.



Billy Loizou

GAINING INSIGHT 5.11



What is design thinking and how can businesses use it?

Design thinking requires a cultural shift in your organisation.

Despite its name, 'design thinking' is not a principle exclusively used by designers. Although rooted in creativity, it's a technique that businesses use to solve particular problems.

John Oswald, the former business design director at Fjord, and now global principal of the advisory team at digital innovation consultancy, Futurice, describes design thinking as a cross-section of design, business and technology, brought together to solve human problems.

The term has become a bit of a business fad, he says, and to use it effectively takes more than just good ideas.

'At Fjord, this was interpreted loosely as the design rule of three,' he explains. 'Design

thinking will not solve the world's problems, but with the combination of thinking, doing and culture, you might just get there.'

The thinking: understand pain points

It's not enough to identify a problem – to solve it, you must understand why it's a problem for your users. 'The most important first step is not to leap to conclusions,' says Simon Hill, chief executive of Wazoku, which creates software to help companies employ design thinking principles at scale.

'It's vital that you dig into the meaning of [the] data.'

This means spending time with consumers, or employees, to understand precisely what their problems are and why they exist.

IBM recently worked with Santander Spain on a mobile technology proposition for its employees. Rather than optimising its existing computer systems for mobile devices, Santander Spain's ambition was 'to change the way that work gets done,' explains Justin Ablett, associate partner for financial services at IBM.

'It got to know its users – in this case, all employees in the organisation. It built personas and empathy maps, and observed the way that its people worked,' he says. 'Once the business understood the current scenario, it then identified pain points, and from that started to imagine things that could help resolve them.'

For example, one niggle was claiming expenses, so IBM and Santander Spain built an app to improve that process.

The doing: a start-up approach to solutions

One of the common pitfalls found by businesses that try to apply design principles is getting stuck in the ideas phase, says Mr Oswald. 'For most [companies], there's no shortage of ideas. The difficult bit is making ideas actually happen,' he says.

Mr Oswald recommends taking a lean, start-up approach to developing solutions: prototype an idea, test it, make it better, test it again, and make it better again.

'Launch quickly and iteratively; that way, you have a good handle on whether it's actually working – then you keep measuring it to make sure that it has got business impact, as well as people impact.'

He references something that he saw at Fjord, which, earlier this year, worked with a

large home improvement retailer on a project to make DIY more accessible. Part of the scope was to launch digital services that 'met people where their needs were' – so in one initiative, it developed an app to help customers with their garden.

'It has flower and weed recognition, and – quite intelligently – cuts through the whole product catalogue to show the user things relevant to their garden,' Mr Oswald explains.

There's room for improvement as well, as Fjord and the client collect insight from customers about what works and what doesn't.

The culture: ripe for innovation

'For design thinking to be successful, there needs to be a cultural transformation,' says Mr Ablett.

IBM has taken a number of steps to cultivate design thinking into its culture, including increasing the number of designers on its workforce from one for every 33 coders, to one for every eight.

He says that companies need to give teams dedicated space to do this kind of creative, and often risky, work.

'You also need to empower the people responsible for those areas, because they have to be able to break the rules a little bit.'

Source: Lucy Douglas, *The Telegraph*, 16 October 2017, <http://www.telegraph.co.uk/connect/better-business/innovation/design-thinking-business>

Questions

- 1 **Describe** the features and characteristics of design thinking.
- 2 **Explain** why businesses are adopting this framework as an approach to innovation in their business.
- 3 **Analyse** and discuss the impact that design thinking might have on the culture of a business.

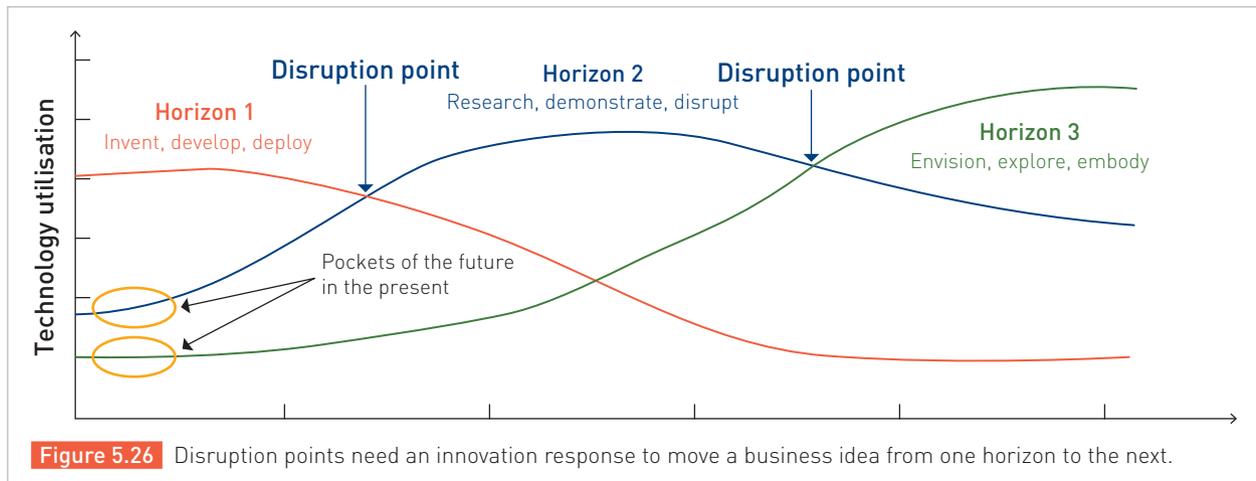
Three horizons

The three horizons innovation framework is used to determine how well the business idea will be able to deliver value and fit into an overall business strategy as time goes on.

The horizons, in an innovation context, are as follows:

- *Horizon 1* – exploiting current ideas and products (core business activity and incremental innovations to improve current offerings)
- *Horizon 2* – extending the business with new ideas that build on the core ideas but provide new value
- *Horizon 3* – exploring new future ideas that could change the business but aren't ready yet.

As a business progresses through the stages of the business life cycle, it will notice that customer tastes, technology, competition and the market all change. This will require the business to continue to innovate and create ideas. When these innovations or new ideas take the place of current ideas, disruption points occur, where one horizon is replaced by another and the business idea or business remains viable (Figure 5.26). If the business fails to move to the next horizon at the point of disruption, it will move into a decline state.



QUESTIONS 5.3



- 1 **Describe** the features and characteristics of the three horizons framework.
- 2 **Explain** why businesses might choose to adopt this framework as an approach to innovation in their business.
- 3 **Analyse** and discuss the similarities and differences between design thinking and the three horizons framework.
- 4 At what stages in the business life cycle would design thinking for innovation and the three horizons framework be relevant as strategies for innovation? **Explain** your decisions in a paragraph response.

Developing and screening ideas

Key learnings

You will learn about the strategies used to generate and screen business ideas through examining the SCAMPER technique.

Developing new business ideas or innovations to existing business ideas is a continuous strategy, no matter what stage of the business life cycle a business is at and no matter what innovation theory or framework is used. The task of generating and screening these new ideas for viability can be a challenge to any entrepreneur, innovator, business owner or employee. As discussed earlier, these ideas do not generally just appear; there is a problem or stimulus that helps in the generation of the solutions, ideas or business opportunities.

These problems or stimuli can be identified through the application of motivation theories or innovation theories, or by applying specific and tried techniques to evoke creative thinking. One of these techniques is called the SCAMPER technique. This useful tool, first introduced by Bob Eberle, is the organisation of a number of brainstorming questions originally created by Alex Osborn.

SCAMPER technique

A SCAMPER is a technique used to brainstorm ways to innovate or develop a product. SCAMPER stands for: Substitute, Combine, Adapt, Modify, Put to another use, Eliminate and Reverse. For each of these elements, there is a set of specific questions to evoke creative brainstorming and analysis of knowledge. Many of the questions it uses were created by Alex Osborn, but Bob Eberle developed the mnemonic.

How to use the technique

To use the SCAMPER technique, you select an existing good or service and then respond to each of the questions regarding each element (Figure 5.27).



Figure 5.27 The SCAMPER technique

QUESTIONS 5.4



- 1 Complete the SCAMPER technique for one or more of the following existing business ideas to generate potential innovation ideas:
 - a bluetooth speaker
 - a pair of rubber thongs
 - a vegetable spiraliser
 - a digital camera
 - a compost bin
 - a caravan.
- 2 Once you have completed the SCAMPER, **analyse** each idea to select a short list of the ideas worth developing further.
- 3 **Create** a paragraph response with a visual representation to **communicate** one of the business ideas from the short list to a focus group of potential customers.

GAINING INSIGHT 5.12



Microplane

Originally developed in the 1990s the Microplane was developed by Grace Manufacturing as a new type of tool for their successful woodworking tools division. The long, narrow, rasp-style tool, featuring hundreds of tiny stainless-steel razors was first created to shape or file wood.

In 1994, Leonard Lee, the owner of a hardware business, brought a new tool home that his business had recently started selling: the Microplane. Little did Leonard know, his wife Lorraine noticed the tool and had an idea. If the Microplane could effectively cut wood, could it also be used to zest oranges? To her delight, it worked exceptionally well. Not only did the Microplane prove to be an excellent orange grater, but it also surpassed any other grater she had previously used. The blade glided smoothly over the orange, and the fine zest fell from its surface with ease. This revelation served as the foundation for the development of Microplane kitchen graters and the beginning of an entire line of revolutionary graters.

Microplane is the pioneering manufacturer to introduce photo-etching technology to graters. This groundbreaking process was specifically devised to produce razor-sharp cutting edges. By replacing conventional grating teeth with these minute blades, Microplane graters offer exceptional precision in cutting ingredients, avoiding the common issues of tearing or shredding associated with traditional stamped graters.

Microplane is renowned for continually innovating and refining its products, collaborating with engineers,



Microplane International GmbH & Co. KG

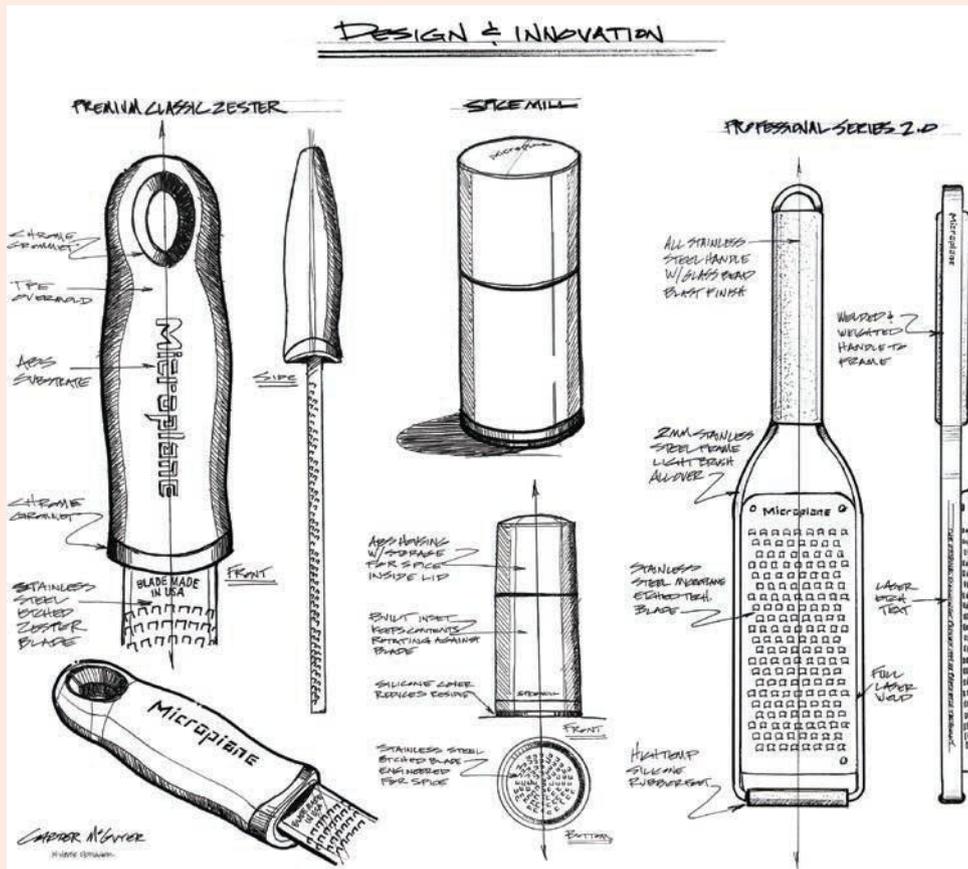
Figure 5.28 Microplane originally started by producing sharp teeth for woodworking tools. In 1994, a woodworking catalogue in Toronto, Canada started marketing the Microplane® woodworking tools as food graters in their catalogue and they became hugely successful.

designers and innovators to ensure they continue to produce cutting-edge goods for both domestic and commercial kitchens.



Microplane International GmbH & Co. KG

Figure 5.29 Richard and Chris Grace at Microplane's facility in Russellville, USA. Chris Grace is the current CEO, but it was his grandfather Louis and father Richard that opened the business. The first product they made was a small component for computer printers. After the printer business started to change to laser printers in the early 1990s, they had to think outside the box and come up with a new product.



Microplane International GmbH & Co. KG



Images: Microplane International GmbH & Co. KG

Figure 5.30 Microplane is an example of how a business can benefit from the use of the SCAMPER technique for business ideas and innovations.

Development of business ideas

Key learnings

You will learn about the sources of support and advice for the development of business ideas through examining:

- research and development
- government support
- mentors
- networks and professional associations
- grants and funding.

Research and development plays an important role in the success of a business. Therefore, in order to effectively develop a business idea into a viable start-up, research and development should be included. This ensures that the business idea has an identified market and will provide a new or improved product to meet the needs of this market. During the investigative process of research and development, business owners or potential start-ups will have access to an endless supply of information. This information is designed to support the development of ideas, and includes books, internet sites, television shows, industry associations, chambers, government departments and business professionals.

Sources of advice and support

Along with the endless supply of information, there are many sources of targeted business advice and support offered at industry, state and federal levels. These are designed to help entrepreneurs and prospective business owners develop their ideas beyond the ideation stage.



Weblinks
Business
Queensland

Advance
Queensland

State government support

The Queensland Government offers a comprehensive suite of resources with everything relevant to developing a business idea and starting a business in Queensland. It provides links to support and clearly explains everything from the ideation phase to start-up, including financing, legal structures and IT support. There are also resources and tools that can be used to grow and develop a business, including marketing toolkits, readiness quizzes and grant application information.

Go to Business Queensland and Advance Queensland to look at the types of support and advice offered to business ideas and start-ups in Queensland.



Weblink
Business
.gov.au

Federal government support

Federal government resources are similar to those offered specifically for businesses in Queensland. The federal government offers a simple access point for information, tools, templates and checklists to help any business in Australia. This resource covers everything from the idea to development, running the business and managing exit strategies.

Visit Business.gov.au and look at the initiatives and support offered by the federal government.

Grants and funding

Local, state and federal governments offer a range of grants and funding opportunities to help support the development of new ideas, innovation and business growth. For example, this financial support might take the form of a grant, which is funding provided for a specific application, and usually related to a particular industry sector or community, to stimulate economic growth. Some grants are specific to certain stages of the business cycle, such as developing a product, completing a research fellowship or installing new systems to promote efficiency. Another avenue to receive financial support is through rebates. These are partial refunds or payback incentives offered in areas where the government is trying to stimulate growth or encourage particular practices. For example, an energy rebate is available to regional businesses that adopt energy-efficiency practices.

Business mentors

Mentoring refers to the relationship between an experienced businessperson (the **mentor**) and a less experienced business owner or employee (the **mentee**). Business mentors provide valuable support at all stages in the business life cycle. In the ideation phase, a mentor can provide important feedback, encouragement and support as the business idea is developed into a viable start-up option. Mentoring can be informal – with friends, family or business contacts providing support and advice when requested – or it can be part of a formal program run through government or industry associations.

Industry associations

Industry associations are organisations that support businesses, employees or members of a particular industry. They may offer some information and services free of charge, but, in most cases, you need to become a member of the association and pay a fee to access the full range of information, resources and services on offer. In business ideation, joining the association relevant to the industry can give credibility to an idea, and it is also an excellent way to begin a database of key stakeholders. For example, the Small Business Association of Australia provides resources, support and advice for those new to business or needing support in their business journey.

Visit the Small Business Association of Australia website to have a look at the support it offers.



Weblink
Small Business
Association of
Australia

Start-up communities

A start-up hub or collective community is formed when a group of individuals or businesses interact with one another, either in physical proximity or online. Start-up communities can be formed on the basis of stages in the business life cycle, industry of product, location, economic activity or technology features. The primary aim of start-up communities is to provide support that boosts creativity and collaboration. These hubs or collectives, as they are often known, generally encompass the network of interactions among people, businesses and their environments. These start-up communities or entrepreneurial spaces are rapidly appearing in new and varied locations and are constantly innovating, expanding and diversifying to meet the needs of new business ideas and their founders.

Mentor: a person who provides advice, support and guidance to another person who has less experience

Industry/professional association: an organisation established and run by industry representatives and/or professionals, providing support and advice to members, and advocating for their industry to other stakeholders



GAINING INSIGHT 5.13



Sunshine Coast firing up regional tech startup culture with opening of Ocean City Labs

A Maroochydore-based tech hub working with River City Labs has officially opened its doors, bringing together entrepreneurs on the Sunshine Coast to establish a network that will support budding regional startups.

Ocean City Labs (OCL) was born out of a partnership between Australian Computer Society (ACS)-owned River City Labs, alumni of River City Labs and geotechnical engineering software company TabLogs.

Founded in 2018, Brisbane-based TabLogs allows drillers and engineers to generate borehole logs, site plans and sample registers onsite within seconds, eliminating the need for data entry back in the office.

A Sunshine Coast resident, and Tablogs co founder, Declan Vanderhor saw the new hub as an opportunity to connect with his local community of technologists and entrepreneurs.

'We already have a few tech businesses working in Ocean City Labs and we've only just opened. It's exciting working in a space where we all get to learn from each other. We can't wait to welcome other emerging businesses to Ocean City Labs,' Vanderhor says.

ACS Director of Innovation Labs, Pauline Fetaui, adds: 'It's fantastic the Sunshine Coast's growing ecosystem of entrepreneurs, investors, and technologists are creating a swirl of innovation and harnessing local talent in the local community.'

Founded in 2012, River City Labs is based in inner-Brisbane's Fortitude Valley, and is part of the ACS group of innovation services that includes labs in Sydney (Harbour City Labs), Melbourne (Bay City Labs), as well as emerging tech trade mission brand Startup Catalyst. Since its inception, more than 950 entrepreneurs have been part of the accelerator.

The opening of OCL comes five years after ACS acquired River City Labs from Shark Tank star Steve Baxter for an undisclosed sum.

River City Labs' programs and services will be offered to all OCL members digitally, giving them access to networks designed to help their companies scale.

The Sunshine Coast is rapidly building a profile as the ideal location for start-ups and emerging technology.



David Wal/Alamy Stock Photo

Figure 5.31 Ocean City Labs is a tech hub adjacent to the ocean. It brings together local entrepreneurs to support their journey from inception to scaling globally.

GAINING INSIGHT 5.14



The Innovation Centre Sunshine Coast Pty Ltd

The Innovation Centre Sunshine Coast is located at the University of the Sunshine Coast campus at Sippy Downs, Queensland. Upon opening in 2002 as a not-for-profit company, the Innovation Centre quickly became a central hub for innovators, entrepreneurial start-ups and high-growth companies.

The IC has a purpose-built 1700-square-metre facility, a dedicated support team, incubator/accelerator programs, collaborative events, 300 Mbit/s internet connection, video studio, prototyping lab, meeting rooms, mentor panel, professional partners and access to awesome facilities and talent at the university.

With an extensive network of local and international connections, the Innovation Centre provides a highly supportive ecosystem that enables businesses to take a viable product or service to the world with confidence. One of the most successful regional innovation centres, the Innovation Centre Sunshine Coast has assisted over 200 resident members since 2002 and created over \$60 million in economic value for the Sunshine Coast.



The Innovation Centre

Figure 5.32 The Innovation Centre Sunshine Coast (IC) is a central hub for innovators, start-ups and high-growth companies.

Weblinks:

- Brian Chesky interview (p.136)
- Persollo (p.141)
- Australian inventions (p.142)
- BBC quiz (p.149)
- Oslo Manual (p.150)
- Forbes (p.150)
- Business Queensland (p.162)
- Advance Queensland (p.162)
- Business.gov.au (p.162)
- Small Business Association of Australia (p.163)

Templates:

- PEST analysis (pp. 140, 141 & 166)

Chapter summary:

- Chapter 5 Ideas and Innovations (p.166)

Chapter 5 review



Summary
Chapter 5
Ideas and
Innovations

This chapter introduced the innovation theories and entrepreneurial motivations that lead to the creation of business ideas. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

5.1 Short responses

- 1 **Explain** what the terms 'ideation' and 'business opportunity' mean.
- 2 **Explain** the difference between an invention and an innovation.
- 3 **Explain** Maslow's hierarchy of needs.
- 4 **Explain** the types of innovation.
- 5 **Describe** the factors of a PEST analysis and how each one influences the creation of a business idea.
- 6 **Describe** a well-known business that has successfully innovated its products and introduced a new business idea in order to attract a new share of the market.
- 7 Using your knowledge of entrepreneurship, **describe** the skills, characteristics and motives a serial entrepreneur is likely to possess.
- 8 **Describe** how competitors, suppliers and interest groups in the operating environment affect business ideas.
- 9 **Explain** the importance of innovation and entrepreneurship in Australia.
- 10 **Explain** the first place a person wanting to start a business in Queensland should go for support and advice, and why.
- 11 **Explain** why using known and accepted theories such as those explored in motivation or innovation is relevant to business development and ideation in today's modern market.

5.2 Extended response

- 1 **Create** a table to **communicate** to potential start-up owners the advantages and disadvantages of each type of support or advice available to them.
- 2 Use a technology application to **create** a flowchart that demonstrates the progress of an idea from inception through to development in the seed stage of the business life cycle.
- 3 **Create** a PEST analysis to **analyse** the macro environmental forces of a new business idea that you have identified as a potential business opportunity.
- 4 **Using** the SCORKL case study, create a business report for the founder David Hallamore that:
 - a **describes** the business situation of SCORKL and the competitive market that it operates in
 - b **describes** the internal and external operating factors impacting SCORKL
 - c **explains** how SCORKL utilised innovation theories to drive the development of their products
 - d **analyses** and **interprets** SCORKL's macro environment using a PEST analysis to identify trends and relationships impacting the business
 - e **evaluates**, using criteria, the viability of SCORKL and SCORKL electric as business ideas using the business criteria of competitiveness of stakeholder satisfaction.



Template
PEST analysis

SCORKL

The SCORKL is a portable electric SCUBA (self-contained underwater breathing apparatus) that offers easy and endless refills. David Hallamore, an avid diver and inventor, founded the idea for SCORKL in Melbourne while reflecting on the limitations of traditional diving equipment. He recognised the need for a more accessible and convenient alternative to SCUBA gear. SCORKL offers a compact, portable and user-friendly underwater breathing device that allows individuals to dive and explore shallow underwater environments easily and confidently.

SCORKL's innovation is in its design and functionality. The device features a lightweight, refillable cylinder filled with compressed air, coupled with a regulator and mouthpiece that enables users to breathe underwater for extended periods. The compact size and ease of use make SCORKL ideal for snorkelers, freedivers and recreational divers.

While SCORKL experienced rapid success with their first product, it also faces challenges and opportunities as it expands its market presence. One challenge is ensuring product safety and compliance with regulatory standards, particularly in regions with strict diving regulations and environmental protections. Additionally, competition in the underwater exploration market continues to evolve, with new entrants and alternative technologies emerging. To maintain its competitive edge, SCORKL must continue to innovate and differentiate its product offerings.

This continued innovation and differentiation has resulted in the SCORKL 2.0 – Electric, which has been launched on Kickstarter. One of the most important updates is the inclusion of an electric compressor. Founder David Hallamore explains 'Traditional SCUBA air compressors are prohibitively heavy and expensive, meaning they can only be stored and operated in dive stores or in a garage ... but the SCORKL Electric Compressor, in stark contrast, is lightweight, inexpensive and portable. Not only can you plug it into the wall, but you can power it from a boat or car battery as well.'

Source: David Hallamore, quoted in 'Aussie bloke invents mini diving tank that allows anyone to "breathe" underwater for 10 minutes: SCORKL inventor David Hallamore opens up on runaway success of device' by Pdraig Collins for *Daily Mail*, 28 August 2023. <https://www.techguide.com.au/news/gadgets-news/scorkl-is-a-small-affordable-australian-made-product-that-lets-you-breathe-underwater>



David Hallamore

Figure 5.33 The SCORKL brings innovative technology to underwater adventures, offering a compact and portable device for breathing underwater.



David Hallamore

Figure 5.34 SCORKL is the ultimate freedom for underwater exploration.



David Hallamore

Figure 5.35 The SCORKL can be easily refilled with a hand pump or at a dive shop.

6

THE VIABILITY OF IDEAS

What you will learn

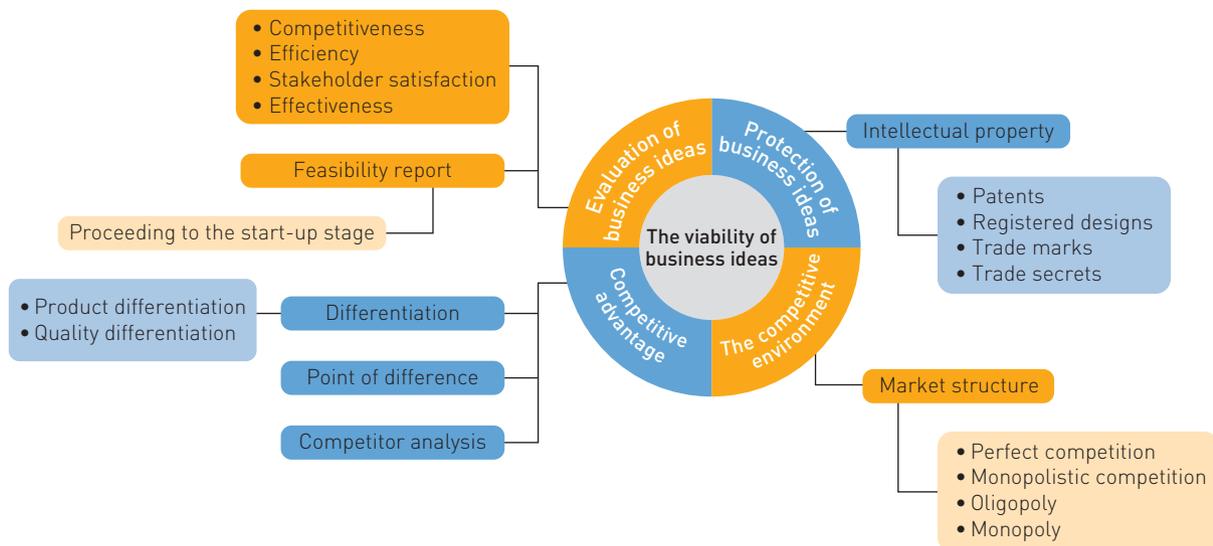
Humans are by nature competitive: we compete for everything – resources, jobs, food, awards and sporting success. In business, competition occurs and drives competition on product, price, quality and service. Due to this competitiveness, businesses must protect their ideas and the unique elements of their competitive advantage.

This chapter will provide you with the opportunity to:

- **describe** the characteristics of internal, external, operating and macro environments in which business ideas and businesses compete
- **explain** intellectual property protection, differentiation, competitive advantage and point of difference
- **analyse** and **interpret** business situations by selecting data and information relating to the macro environment using a PEST analysis
- **interpret** a relationship or trend in the PEST analysis of a business to draw conclusions about the implications for a business idea
- **evaluate** business ideas using criteria to **make decisions** and propose recommendation(s) on the viability of proceeding to the start-up stage of the business life cycle
- **create** responses to communicate the viability of business ideas to stakeholders.

Source: Business 2024 General Senior Syllabus © State of Queensland (QCAA) 2024, licensed under CC BY 4.0

The analytical tool used in this chapter is a PEST analysis.



GAINING INSIGHT 6.1



Standard Procedure

Business situation

Born under the harsh Australian summer sun, Standard Procedure is a range of sun and skin care made to withstand the toughest elements.

Zepha Jackson and her friend Dion Agius, a professional surfer raised on the beach and in the saltwater, have combined their knowledge to produce a high-quality, protective skincare range. In a nutshell, Standard Procedure is a topical skincare range made to withstand the toughest elements. It combines vitamins and super fruits and is also reef-friendly – free of all the nasty chemicals.

Zepha is the daughter of long-time sunscreen manufacturers, so working together with the family business, a topical skincare factory with over 40 years of experience in the sunscreen industry, Standard Procedure products meet the highest standards globally and are made only minutes from the beach on the Sunshine Coast, Australia. The production facility is a 100 per cent solar-powered factory owned and operated by three generations of the Jackson family.

Creating a commercial sunscreen that is based on the formula that Zepha's family has been perfecting for around 35 years would seem like a guarantee in terms of business viability. However, the product her family manufactures is mainly wholesale for the government, schools, hospitals, workplaces, etc., so it's not a product any consumer can get their hands on, but it's an incredible heavy-duty product that works really well.

Standard Procedure is a new, retail adaptation of that. It contains clean ingredients that are reef-friendly and good for your skin, with added super fruits, vitamins and antioxidants.



Figure 6.1 Standard Procedure supplies a range of sunscreens with added super fruits, vitamins and antioxidants.

When launching a new business idea, many start-ups don't consider the difficulties and hidden costs of production that can impact the idea's viability.

Zepha notes that production is notoriously difficult and a part of a business that's usually really frustrating because nothing ever happens smoothly. 'That's because it's so much more complex than people tend to think. Production makes it sound like machines just pumping out a product, which in some cases is true, but for the most part, there are many moving parts and so many hands that are all part of the process of making a product.'

I've come to learn that being a business owner is essentially just being a full-time problem solver. No matter how organised you are, it's just the nature of it all. There will be hiccups, and it's always going to be your responsibility to own.

Zepha Jackson, co-founder, Standard Procedure

Viability of the business idea

The viability of Standard Procedure as a business idea hinged on several factors:

Niche market: Standard Procedure has carved a niche by blending effective sun protection with a strong cultural identity. Their products focus on the Australian lifestyle, particularly surf culture, which resonates well with both locals and international customers looking for authentic Australian products.

Product quality: The brand offers a range of SPF products, including SPF 50+ sunscreen, which is crucial for protection under Australia's harsh sun. Their commitment to using high-quality ingredients and offering products that cater to outdoor enthusiasts provides a competitive edge.



Figure 6.2 Standard Procedure is promoting a sun-safe culture around the world.

Collaborations: Strategic collaborations with well-known entities such as Sephora, Zara, and various local influencers and surfers enhance their brand visibility and credibility. These partnerships help in tapping into broader customer bases and enhancing market reach.

Despite these strengths, starting a new sunscreen brand and a business venture in Australia presents significant challenges:

Highly competitive market: The Australian sunscreen market is crowded with established players such as the Cancer Council, Banana Boat and Nivea, which have strong brand recognition and extensive distribution networks. Standard Procedure is a new entrant to this market, so they needed to invest heavily in building collaborations and marketing to gain visibility and customer trust.

Regulations: Sunscreen products in Australia are classified as therapeutic goods and are regulated by the Therapeutic Goods Administration (TGA). Compliance with stringent TGA regulations can be costly and time-consuming, posing a barrier for new brands entering the market and making the viability of the business idea more difficult to achieve.

Seasonality: Demand for sunscreen products is highly seasonal, peaking in summer and during outdoor events. Brands must manage inventory and marketing strategies to align with these seasonal fluctuations, which can be financially demanding.

Sustainability: Increasing awareness about the environmental impact of sunscreen ingredients,

particularly on marine life, means brands need to innovate with reef-safe formulations.

Standard Procedure's differentiation through their unique selling propositions, strategic collaborations and effective communication of product benefits has been crucial for establishing their viability in the competitive Australian sunscreen market and a global presence in the online market.

It is also important to note that while Standard Procedure celebrates the Australian culture, Dion and Zepha also recognise that these simple pleasures are embedded in a privileged Australian culture that is not always available to some. This is why Standard Procedure have chosen to support the organisation Children's Ground.

Questions

- 1 **Describe** the business opportunity that Standard Procedure identified in the sunscreen market.
- 2 **Explain** the innovations that Standard Procedure brings to the sunscreen industry.
- 3 **Explain** how Standard Procedure might protect its unique selling proposition and product formulations to minimise the risk of competitors copying its approach.
- 4 **Explain** why integrating surf culture into the brand's identity benefits the viability of Standard Procedure.
- 5 **Analyse**, using a PEST analysis, the macro environmental factors that Standard Procedure needs to consider as it continues to grow and expand in the sunscreen market.

Protection of business ideas

Key learnings

You will learn about the concept of intellectual property through examining:

- patents
- trade marks
- registered designs
- trade secrets.

Once a business idea has been formulated and sources of advice and support have been consulted, the beginnings of an action plan will be in place to progress the idea from simply a concept to a development. Before taking an idea to market or publicising it, entrepreneurs and potential business owners must protect their new business ideas. The idea may be a new invention, a radical innovation or an improvement on existing products and services in the market. It is best to keep a new business idea confidential until it is protected. If the idea is being developed or discussed with other stakeholders, it can be beneficial to use confidentiality agreements to prevent the idea being disclosed without permission or made public before the necessary protections are in place.

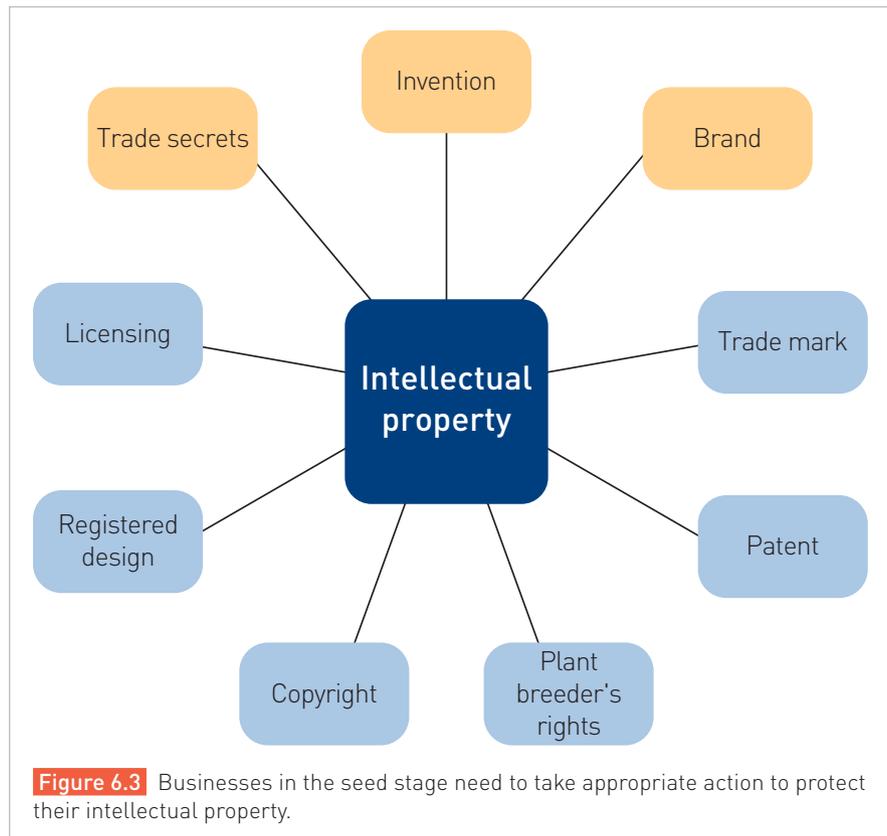
In Australia, as soon as an idea or creative concept is documented on paper or electronically, it is automatically protected by **copyright**. The *Copyright Act 1968 (Cth)* protects the original expression of ideas, but not the ideas themselves. This means an idea is not protected from the independent creation of a similar work based on the same

idea. A copyright notice with the owner's name and the date is not necessary in Australia, but placing it on business resources such as the business website can help prove your ownership of the copyright and act as a deterrent to blatant copying of the idea. Copyright most commonly applies to works of a creative nature, for example music, visual art and written works. To adequately protect the unique elements of a business, whether an idea, a design or anything that can be uniquely associated to a particular brand, product or service, it is necessary to protect **intellectual property**.

Intellectual property

Intellectual property is property of the mind. It is the intangible items or proprietary knowledge that a person or business creates and owns. Intellectual property can be an invention, a trade mark, a design, a brand or the application of an idea. In the world of business, the creator of intellectual property is not necessarily the owner. The ownership of intellectual property is dependent upon contractual arrangements, especially with employees, suppliers, distributors and manufacturers. Generally, an employer owns all the intellectual property that an employee creates during their normal employment activities.

Often, this intellectual property comprises the elements that are unique to the business and give it a point of difference in the market. From the business name to the processes a business uses in production of goods, there will be things that a business can leverage when it owns the unique rights. Protection of intellectual property may be through **patents**, **trade marks**, **registered designs** or **plant breeder's rights**. Those businesses that choose not to seek formal protection of their intellectual property through these channels may adopt the use of **trade secrets**. A trade secret is proprietary knowledge that is kept confidential and can help a business maintain its competitive advantage and the viability of its business idea. For example, KFC's secret blend of herbs and spices is considered a trade secret.



Copyright: the automatic protection of the original expression of ideas, but not the ideas themselves – covers, for example, the work of visual artists, musicians, writers and video and film makers

Intellectual property: the property of the mind, intangible items or proprietary knowledge that a person or business creates and owns

Patent: a patent is a right granted for an invention (standard patent) or innovation (innovation patent) that is new and has not been disclosed in the market before

Trademark: protects brand names, logos, original sounds and scents, and even aspects of packaging

Registered design: protects the visual appearance or design of the product and grants the owners the exclusive rights to commercially use, license or sell the design

Plant breeder's right: the exclusive commercial rights for a registered variety of plant

Trade secret: any valuable business information that is not generally known and that efforts are made to keep confidential as a competitive advantage

GAINING INSIGHT 6.2



Intellectual property rights

Businesses should be aware that generally, an influencer, if the person who creates the content (as an independent contractor), will own the intellectual property rights to the content, unless contractual arrangements expressly assign those ownership rights in writing to the business engaging them. Therefore, it is important for a business to consider its ongoing needs – how it plans to use the content created by the influencer initially and into the future, whether, for example, it plans on posting influencer created content on its own social media platforms, and whether it wishes to have the right to reuse the content after the agreement with the influencer has ended. Further, as commercial relationships develop, there is often a ‘cake’ problem – while the brand and the influencer may own the ingredients, the resulting cake may generate its own value, and so a contractual framework as to who owns the cake (and not just the ingredients) should be considered.

The scope of the ownership rights and licences involved needs to be carefully drafted. There needs to be clarity as to the deliverables, how performance is to be measured, and permitted use of content (particularly if there are any limitations or obligations such as any requirement for the Influencer to disclose the commercial arrangement when they post the content on their own social media accounts).

An aspect that needs to be considered upfront relates to who has approval rights over the creative content. It may be necessary to include moral rights consents in relation to use of the content.

Confidentiality provisions are usually needed and deal with items such as keeping confidential insight analytics, influencer and brand strategies and brand style guidelines and policies.

Source: Dentons

Patents

There are two types of patent protection in Australia: a standard patent and an innovation patent. These patents are for the protection of a new invention or a new innovation that has not previously been disclosed to the market. A patent is essentially the exclusive protection for the owner of the invention or innovation to make or sell the product and to license others to make, use or sell the invention or products made using the invention or innovation. Commercial use or even exhibition of an invention before a patent application has been filed may prevent a patent from being awarded.

Table 6.1 A quick guide to innovation patents versus standard patents

	Innovation patent	Standard patent
Your invention must:	Be new, useful and involve an innovative step.	Be new, useful and involve an inventive step.
The application should include:	A title, description, up to five claims, drawings (if applicable), an abstract and forms.	A title, description, any number of claims, drawings (if applicable), an abstract and forms.
A patent is granted if:	The application satisfies formality requirements (note: a ‘granted’ innovation patent cannot be enforced unless examined).	The application is examined and found to satisfy the relevant requirements of the <i>Patents Act 1990</i> .
Examination:	Optional. Examination can be requested by you or anyone else.	Mandatory. The relevant requirements of the <i>Patents Act 1990</i> must be met before a patent is granted. Can only be requested by the applicant.
Certification:	Is given if the innovation patent complies with the relevant requirements of the <i>Patents Act 1990</i> in examination. Only after certification can the patent be enforced.	N/A
Publication in the Australian Official Journal of Patents:	At grant and again at certification.	18 months from earliest priority date and again at acceptance.
Protection period:	Up to eight years if annual fees are paid.	Up to 20 years if annual fees are paid (or up to 25 years for pharmaceuticals).
How long does the process take?	Approximately one month for grant. Six months for examination if you make a request.	Six months to several years depending on circumstances.

Source: ‘Quick guide to innovation versus standard patents’, IP Australia.
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In Australia, patents are granted by IP Australia in accordance with the *Patents Act 1990 (Cth)*. A standard patent lasts for 20 years for an invention, or 25 years for the protection of a pharmaceutical substance. Innovation patents only last up to eight years and are generally for inventions with a shorter market life. For example, computer-based inventions might be superseded by newer innovations or technologies as time goes on, so an innovation patent is more appropriate.

Registered designs

A registered design is used to protect the appearance of a product but not the way the product works. Registered designs are covered by the *Designs Act 2003 (Cth)* and must be for a new or distinctive design that is recognisable. The Act was amended in 2022 to simplify the process for registering designs and include a grace period. The 12-month grace period means individuals and businesses have 12 months after publicising a design to register to have the intellectual property protected. For example, if a design has been published on social media before a business or individual realises the need to apply for protection, they can still apply for protection within 12 months of that publication. Registered designs give the owner of the design the exclusive rights to commercially use, license or sell it. Registered designs can apply to the shape, configuration, pattern and ornamentation that give a unique visual appearance to a business and its products. For example, the pattern on a team uniform can be a registered design.

The owner of a registered design can be an individual, a company, an association or a partnership. This may be the person who conceived the design, the employer of the designer, either by contract or employment, or a person who has been assigned the design in writing. A registered design lasts for five years and can be renewed for a further five years once only, so the maximum duration of a registered design in Australia is 10 years.

Trade marks

1 What is a trade mark?

- 1.1 A trade mark is a sign that distinguishes one trader's goods/services from those of other traders.
- 1.2 Under Australian trade mark law you are able to register a wide range of different signs as trade marks, including words, letters, signatures, numerals, aspects of packaging, logos, colours, shapes, sounds and even scents!
- 1.3 A trade mark provides different rights than a registered business or company name, or a registered domain name. Each of these other registrations provides you with rights under the various laws of Australia, but infringement is often difficult to prove, much less enforce.

2 Why register?

- 2.1 Although not compulsory, trade mark registration will provide you with valuable monopoly style rights in your brand. Importantly, these monopoly rights could be used to prevent other persons or entities using a name or logo which is substantially identical or deceptively similar to your brand for the same or similar goods and services.
- 2.2 Registered trade marks can be recorded as valuable assets on your balance sheet and are capable of being licensed, sold and even used as security in commercial transactions.
- 2.3 Registered protection for your brand will serve to increase the value of that brand and enable you to effectively license it/them to relevant partners and to take action against unauthorised users who might seek to 'free-ride' on your brand and reputation.
- 2.4 Enforcing 'unregistered' trade mark rights is significantly more difficult (and hence also often more expensive) than enforcing registered trade mark rights.

3 Selecting robust and valuable trade marks

- 3.1 To be capable of registration a trade mark must be distinctive. Broadly speaking this means that your mark must not be descriptive of your goods/services. We would be pleased to advise further on this point if requested once you have decided upon the mark you wish to seek registration for.
- 3.2 Note, the benefit of obtaining rights in a word mark is that it provides protection for those words used in any logo, whereas rights in a logo trade mark are limited to that logo.

Source: Moulis Legal

Figure 6.4 Professionals can assist with intellectual property advice or legal representation.

A trade mark identifies the particular goods or services of one business as distinct from those of another business. Registering a trade mark gives a business exclusive rights to commercially use, license or sell its trade mark. This means that no one else in Australia can commercially use the trade mark within the class of goods and services it is registered under. Trade marks are covered by the *Trade Marks Act 1995 (Cth)* and can include logos, words, letters, numbers, colours, a phrase, sound, scent, shape, picture, aspect of packaging or branding – or any combination of these. This means that other businesses or third parties cannot create or publish any form of branding that incorporates trade marks.



Figure 6.5 In Australia there are 363 registered trade marks for bottles, including the bottled water brands Voss and Nutrient Water and mouthwash brand Listerine.

GAINING INSIGHT 6.3



The Sydney Opera House

The Sydney Opera House is one of the world's most recognisable buildings (Figure 6.6), and the most recent trade mark protections for its shape reflect a landmark protection decision in Australia, especially for buildings. Protecting the shape of an architectural landmark demonstrates its unique cultural and commercial significance.

The Sydney Opera House Trust has over 40 trade marks registered in Australia in relation to the Sydney Opera House, including various logos and stylised forms of the Opera House, the two-dimensional image and the three-dimensional shape, as seen from all angles.

In Australia, shape trade marks are quite common for consumer items such as perfume



Figure 6.6 The Sydney Opera House Trust has over 40 trade marks on the Sydney Opera House.

bottles and drink bottles, but there are relatively few shape trade marks for buildings. This protection of the three-dimensional shape will prevent souvenir shops from exploiting the silhouette of the World Heritage-listed building for commercial purposes. This means that no one except the Opera House will be able to market souvenirs unless they pay a fee to do so.

Source: Adapted from 'Sydney landmark to be patented', *NZ Herald*, <https://www.nzherald.co.nz/world/sydney-landmark-to-be-patented/BXWZY2LVQUSRRKVZ4LNE2DTSPE>

Questions

- 1 Explain** why the Sydney Opera House utilises intellectual property rights to protect the viability of the World Heritage-listed building as a destination.
- 2** Select data and information relating to the macro-environmental factors that led to the Sydney Opera House Trust applying to register the three-dimensional shape using a PEST analysis.
- 3 Interpret** a relationship or trend in the PEST analysis you conducted to draw conclusions about the implications of trade marks on the viability of the Sydney Opera House Trust being responsible for all souvenir and memorabilia business ideas or products.

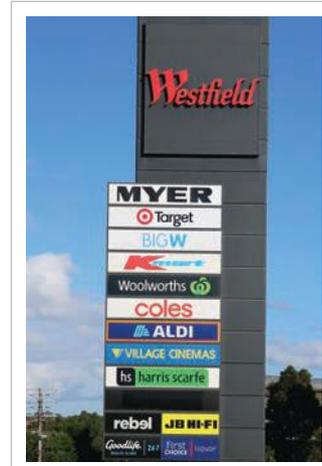


Template
PEST analysis

A PEST analysis template is available for you to download on Nelson MindTap.

Registering a business, company or domain name does not give you exclusive rights in the way registered intellectual property does. If you register a business, company or domain name, you do not automatically have the right to use that name as a trade mark. Protecting trade marks also helps to protect the identity of goods and services, and prevents others from imitating the brand or its products. Registered trade marks are protected in all Australian states and territories for 10 years, and can then be renewed indefinitely with the renewal fees due every 10 years.

Go to IP Australia and look at some more iconic Australian trade marks.



Dorothy Chiron/Shutterstock.com



Weblink
IP Australia

Figure 6.7 Some well-known trade marks in Australia

GAINING INSIGHT 6.4



The first registered trade mark in Australia: PEPS

Antiques & Collectables/Alamy Stock Photo



Figure 6.8 The trade mark for the top of the PEPS tin in 1906 was the first registered trade mark in Australia.

On 2 July 1906, the day on which the then *Commonwealth Trade Marks Act 1905* came into operation, more than 750 applications were lodged.

PEPS, a product for coughs, colds and bronchitis, became the first federally registered trade mark in Australia (Figure 6.8). It was

registered by Charles Edward Fulford of the Peps Pastille Co. from Leeds in England.

As advertised in a 1907 newspaper PEPS were 'a wonderful breathing medicine in soluble tablet form. PEPS cure coughs and colds by making the cough easy, natural and painless and by destroying the germs. You simply take a little PEP from its silver paper wrapping and let it dissolve on the tongue, or crush it between the teeth. This releases the pine essences imprisoned in the tablet, and immediately the nasal cavities, the throat, the lungs and bronchial tubes are filled with the healing breath of the rich pine woods.'

The PEPS trade mark, that was used to distinguish their brand, was a rounded rectangle designed for the top of a tin. The shape contained the word 'PEPS' along with a descriptive blurb that read 'for coughs, colds & bronchitis'. The tin also included instructions that read 'one pastille as required. See book for more full directions. Keep lid closed'. An illustration of a pine forest was also included. This pine forest was included in the logo to reflect one of the key ingredients in the cough drops – the pine extract.

Source: IP Australia, www.ipaustralia.gov.au © Commonwealth of Australia, CC BY 4.0 International licence

Trade secrets

A trade secret is different from a trade mark and cannot be registered. A trade secret is proprietary knowledge and it is up to the business to protect its knowledge and its trade secrets. Common law provides protection for infringement of trade secrets, and breach of confidentiality agreements; however, proving a breach of confidentiality can be complex and costly. Trade secrets do not stop another business from inventing the same product or process and they do not give exclusive rights over knowledge. Businesses also must be aware of the risks when employees with trade secrets or knowledge leave the business.

GAINING INSIGHT 6.5



How much should you spend on trade marks and patents?

It's important to check to see if your company name already exists

Next week I launch a new company and think I have an idea with the prospect of commercial success. I've expended a non-trivial sum on a dotcom address that's intended to become the brand of the business. How should I protect these assets?

In the early stages of launching a business, most entrepreneurs don't have the capital to invest tens of thousands of dollars in IP protection. And it's hard to know when a patent or trade mark is actually necessary.

In my first business, Posse, I thought our idea was revolutionary. My shareholders urged me to engage a patent attorney to see if we could protect the concept. We spent more than \$8000 and countless hours working with the lawyer to draft a provisional patent application and search patent databases. Back then I didn't understand the need for this, but our investors considered it important, so I pushed ahead.

Eleven months later, the business idea changed, and we pivoted to quite a different model. The patent attorney called to remind me our provisional patent was about to expire. We'd need to pay \$70 000 to \$80 000 to register a full patent in key countries.

When I explained that the patent wasn't relevant any more he suggested we meet for coffee. We discussed the new business direction and he suggested we start again with the new concept.

I felt stuck: I'd already sunk costs into a patent. I knew that shareholders valued patents, so I agreed to another \$8000 and another provisional patent we'd never use.

Register trade mark

This time I'm launching on a tighter budget. I want to protect my IP as much as I can without overinvesting too early.

First I looked into trade marks. I found searchable databases for every major jurisdiction online and looked up my name. There are a couple of companies with the same name as mine but in very different industries. I called Ben Lehman, director of Applied Marks, and asked for some advice.

'The trade mark office will look at the trade mark and what it's being used for,' he said. 'It's fine to use the same name as an existing company so long as you're doing something different and people won't be confused. For example, there are several companies called Apple. One does computers but another might do oil exploration.'



Figure 6.9 Registering for protections such as trade marks and patents is an important step before launching a new business idea.

I asked when I should register my trade mark. At the start (when I'm poor), or wait until the business has money to invest. Lehman's advice was to register the minimum I need to protect the name before the business launches and add more classes and jurisdictions later. 'I see entrepreneurs every day who tell me they need to register a trade mark in five different classes and multiple countries. Then they see how much it costs, so they decide against doing anything.'

'It's important to register as much protection as you can afford before launching your business,' he said. 'If your application fails, then you've dodged a bullet because you could have spent thousands promoting a brand only to find you're infringing on someone else's right.'

Google Patents

Now to my idea. I think I've created a new business model and a patent could stop people copying me. I asked Kevin Ashby, a patent attorney at Legal Vision what makes an idea patentable.

He said there are three criteria. The invention must be patentable subject matter, it must be absolutely new and involve an inventive step that isn't obvious to people working in that field.

'The trickiest to establish is patentable subject matter. The Australian patent office use a very old test which rejects a lot of new technology applications. For example, if an inventor proposes using smartphone technology as a means toward efficiency then the patent office might argue that the outcome isn't new. Lots of people working with pen and paper could get the same outcome.'

Ashby's advice to start-up entrepreneurs is to do your homework before speaking with a patent attorney. Make sure your invention fits the criteria and then use Google Patents to search for conflicting patents. You needn't pay a lawyer to do this for you.

If you're sure you want to proceed then it'll cost between \$3000 to \$15000 to draft and register a provisional patent. This will hold your idea for 12 months, during which you can edit the content as your invention evolves and apply for a full patent in most major jurisdictions.

I decided to start by registering my trade mark in one class only: cost, \$720. I'm confident my idea is new and contains patentable subject matter but, when I read the full definition of 'inventive step', I'm certain it's too obvious to be patentable. I won't waste time and money on unnecessary IP protection again. With some online research and basic trade mark registration, I'm confident that my new business is appropriately covered for now.

Rebekah Campbell is a tech entrepreneur and co-founder of Hey You, Australia's largest cafe app.

Source: Rebekah Campbell, *Australian Financial Review*, www.afr.com/brand/boss/how-much-should-i-spend-on-trade-marks-and-patents-20170918-gyjig3

Questions

- 1 **Explain** the three criteria that make an idea patentable according to the article.
- 2 **Explain** why businesses need to register their intellectual property in each country or market they want to operate in.
- 3 **Create** an extended response in the form of a one-page business report extract to **communicate** the difference between trade marks, patents and registered designs to a potential business owner.
- 4 **Evaluate** the options for intellectual property protections to recommend the most appropriate protections that a potential business owner should pursue for each of the following items:
 - a The lyrics to a jingle advertising the business
 - b The blueprints for a new coffee shop layout
 - c An idea for a new movie
 - d An instruction manual for using a new technology item
 - e The artistic design for a protective case of a phone
 - f The name and slogan of the new business
 - g The recipe for Grandma's signature brownies to be sold in a new coffee shop.

Competitiveness of business ideas

Key learnings

You will learn about the competitive environment for a business idea through examining:

- perfect competition
- monopolistic competition
- monopoly
- oligopoly.

All businesses want to be better than their competition. Whether it is for reputation, customer satisfaction, product quality or sales projections, businesses are constantly in competition with other businesses and so must constantly strive for an advantage to maintain their viability.

This **competitiveness** contributes to the success of business ideas and businesses, but it must be sustainable for long-term success. The competition also drives innovation and the creation of new business ideas. Being the market leader is not a protected or guaranteed position, so businesses must continually evaluate their goals and strategies to ensure they maintain the viability of their ideas in the market. Competition can come from the broad market – where businesses sell goods and products to the masses – or a niche market, where businesses target a specialised need and market segment.

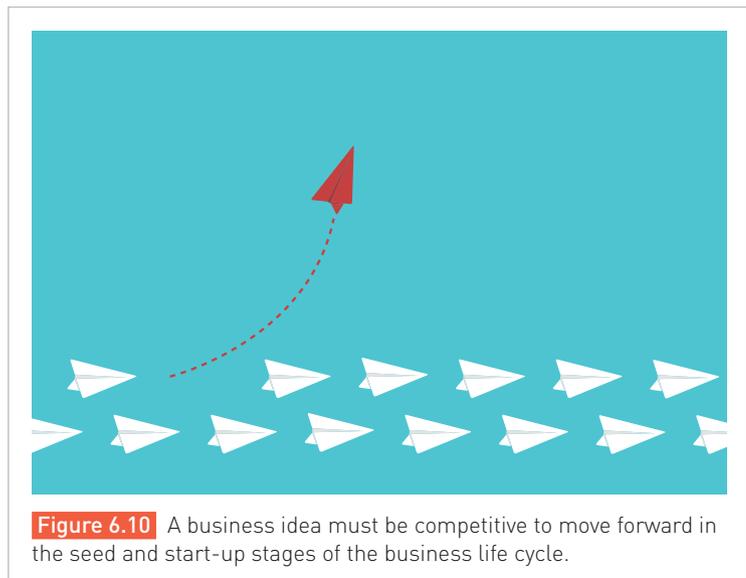


Figure 6.10 A business idea must be competitive to move forward in the seed and start-up stages of the business life cycle.

MaDedee/Shutterstock.com

Competitiveness: the ability of the business to offer products or services that meet or exceed market standards in relation to other businesses

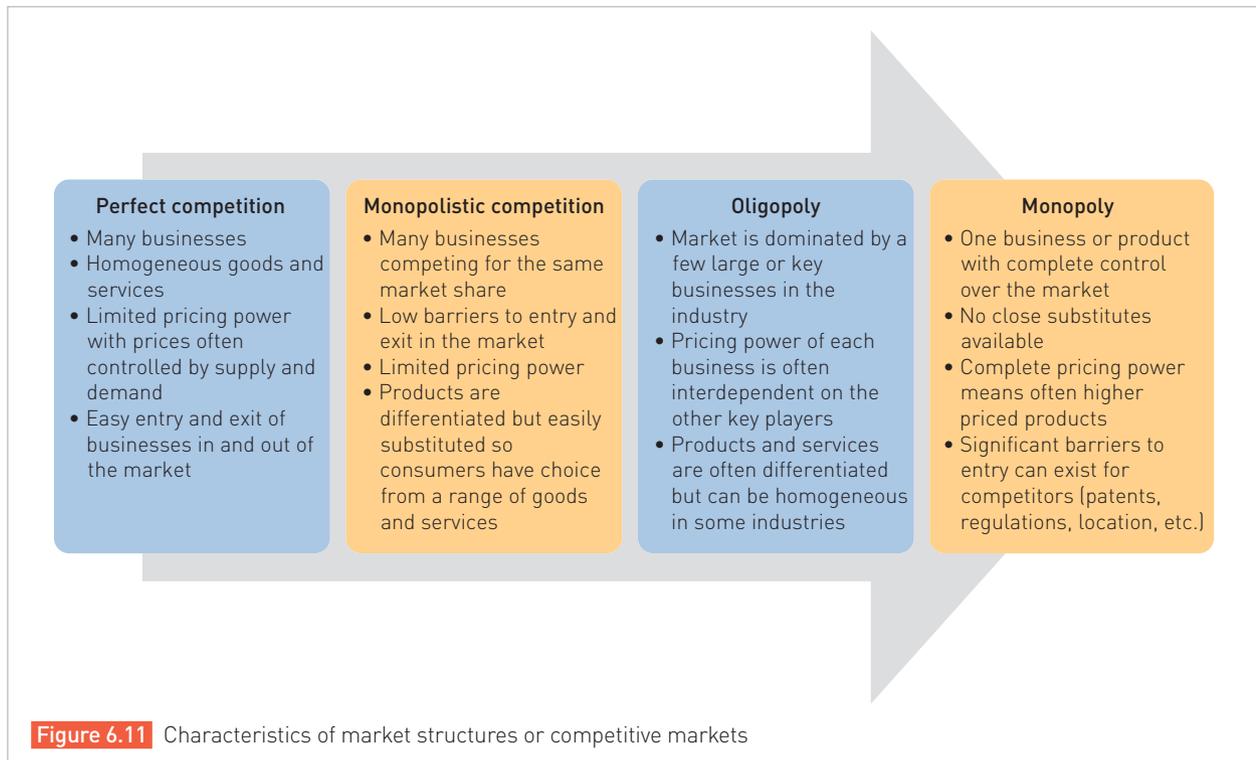
Ultimately, businesses must aim to achieve **strategic competitiveness**. This can be achieved when a business successfully implements strategies that separate it from the competition in the market. This strategic competitiveness is part of the business's strategic planning and, when effective, cannot be duplicated, or is too costly for another business to imitate.

Competitive environments

When a number of individuals, businesses or organisations compete to sell goods and services to the same market, a competitive environment is established. This competitive environment, also known as the market structure, drives businesses to provide the best products and services at the best price to satisfy the wants and needs of a large number of consumers.

The market structure categorises businesses into their competitive environments based on the number of businesses in the market, and the market share, influence over setting prices and other characteristics that affect the level of competition. These categories are then classified by the level of concentration and the level of competition. The four basic competitive environments or market structures are perfect competition, monopolistic competition, oligopoly and monopoly (Figure 6.11).

In a business start-up, identifying the competitive environment that the business idea and new business will likely enter is an important factor in determining the viability of an idea.



Perfect competition

Perfect competition happens when numerous small businesses compete against each other with no control over prices. They sell goods and services that are the same and substitutable at no cost. In perfect competition, it does not matter to the buyer who they buy from; rather, what they buy matters, and the goods are produced using the most effective means. While there are no barriers to entry in this market, it is often considered unrealistic as there will always be differences between sellers, products, service, etc. For example, small dairy farmers have no control over the price of milk and must work with or compete against each other to supply milk to the market.

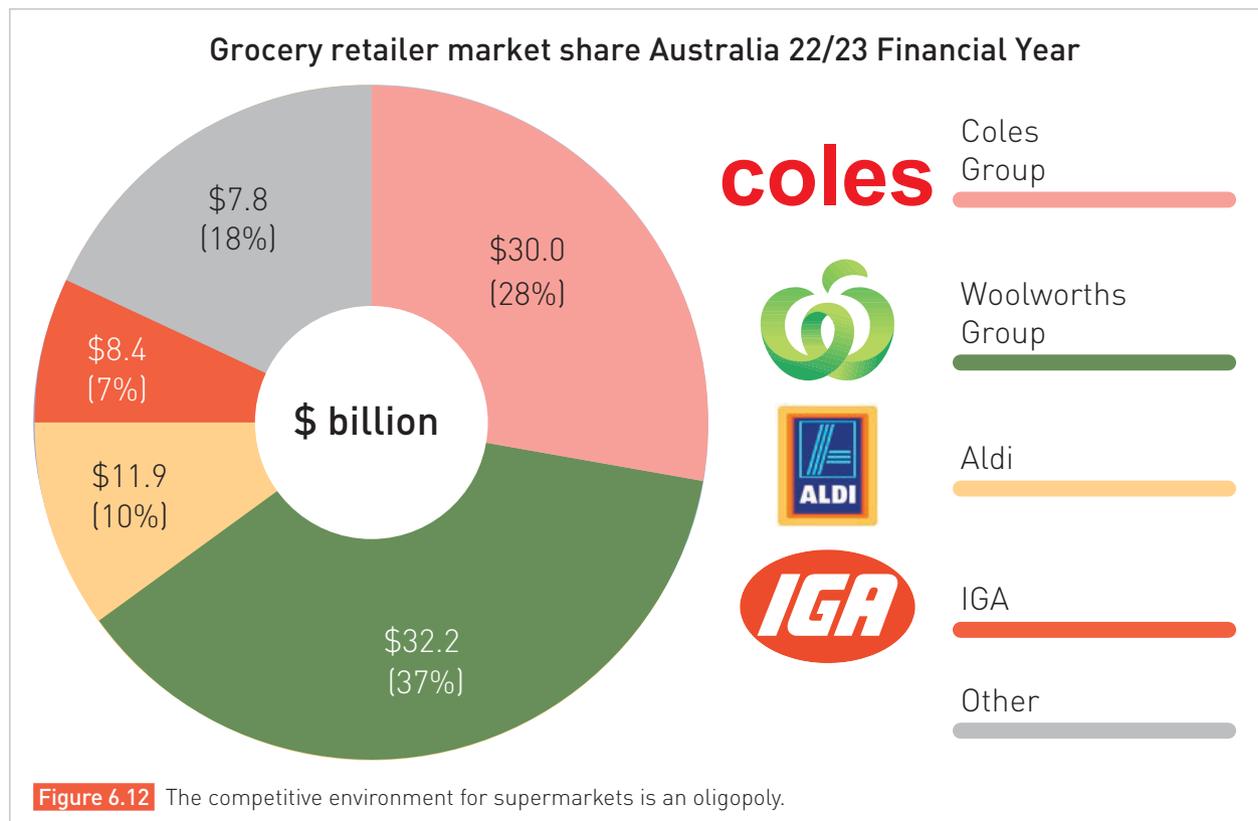
Strategic competitiveness: an outcome achieved when a business implements an effective value-creating strategy that cannot be duplicated, or is too costly for the competition to imitate

Monopolistic competition

In monopolistic competition, an industry contains many competing businesses, selling similar goods and services, but each is seen as a unique business due to slight variations. These variations mean each business might be considered a monopoly with a unique product, but the industry or market is competitive, giving them a degree of power that allows them to set higher prices within a certain range. For example, coffee shops all serve coffee but must be seen as unique through the offer of different coffee blends, different locations and different experiences.

Oligopoly

In an oligopoly, only a few businesses dominate the industry but without perfect competition prices. These businesses can either collaborate to use their collective market power to drive up prices and earn more profit or compete against each other for a bigger market share. For example, supermarkets operate in an oligopoly with Coles and Woolworths dominating the majority share of the market (Figure 6.12).



Monopoly

A monopoly is the opposite of perfect competition. It involves a single business that has no competitors in its industry or where there are no alternatives in the location. This allows a business to increase prices and earn more profit. For example, airline food service carts are the only option for travellers who wish to purchase items when travelling and they therefore have complete control over the prices and items on offer. School tuckshops are also common monopoly markets with a captive customer base and complete control over the market.

QUESTIONS 6.1



- Identify what competitive market each of the following businesses operate in.
 - Netflix
 - Apple
 - QBD Bookstores
 - Australia Post
 - SunRice
 - Virgin Australia
- Complete the table to identify the advantages and disadvantages of entering each type of competitive market.

Competitive market	Advantages	Disadvantages
Monopoly	Lack of competitors	
Oligopoly		Large established businesses to compete with for market share
Monopolistic competition		Irrelevant or unnecessary features may be added just to provide differentiation in the market
Perfect competition	Ease of market entry for start-up business	

- Conduct an environmental scan on one of the supermarkets identified in Figure 6.11. **Explain** how the macro environmental factors might affect their share of the retail grocery market using a PEST analysis.

Competitive advantage

Key learnings

You will learn about the concept of differentiation through examining:

- differentiation advantage
- point of difference
- competitor analysis.

By understanding market structure, a potential business owner with a new business idea can identify that the more sellers of a similar product or service there are, the more competitive is the environment in which they want to compete. In a competitive environment it is important for a start-up business to strategically differentiate its business idea, whether for products or services, to its advantage. To differentiate the business idea means to focus on and communicate the idea's differences and features to attract and retain consumers.

GAINING INSIGHT 6.6



Competitive advantage ... Is yours a hit or a myth?

Follow the weblink to an article by Peter Sheppard at the Vistage website. Read the article and answer the questions.

Questions

- Explain** the concept of differentiation.
- Describe** the internal, external operating and macro factors that contribute to the competitive advantage of the businesses mentioned in the article.

Competitive advantage is traditionally broken into **cost advantage** and **differentiation advantage**. A cost advantage is the ability of a business to deliver the same benefits as a competitor for a lower price, while differentiation advantage is the ability to deliver benefits that exceed those of competitors.

A business can make use of technological tools and emerging technologies to gain a competitive advantage, especially start-up businesses and small to medium enterprises, as the increase in **cloud computing** programs and solutions has given them access to tools traditionally reserved for large-scale businesses. Examples of using technology to gain a competitive advantage include:

- offering e-commerce and online retail to allow consumers to shop at any time from their homes
- the use of social media channels to attract and retain customers' attention to their business ideas and business
- the use of websites, blogs, instant chat and social media channels to offer online services, technical support and forums for customer interaction
- increasing flexibility and productivity for small business owners who can work anywhere at any time
- using efficiency tools and cloud computing to streamline operations and focus on core business goals.

GAINING INSIGHT 6.7



Amazon's competitive advantage

Follow the weblink to read an article by Renaud Foucart at The Conversation website and answer the questions.

Questions

- 1 **Describe** the business idea of Amazon at the seed stage in the business life cycle.
- 2 **Describe** the current business idea of Amazon and its location in the business life cycle.

- 3 **Explain** why innovation and adaptability are so important in the competitive environment.
- 4 **Create** a PEST analysis to **analyse** Amazon's competitive advantage over competitors.

A PEST analysis template is available for you to download on Nelson MindTap.



Weblink
The
Conversation

Template
PEST analysis

Differentiation advantage

Differentiation advantage builds competitive advantage by making consumers more loyal to a business and its products. When considering a differentiation strategy, a start-up business must consider questions such as these:

- What is this business idea going to offer that no other business idea currently does?
- What problem will it solve for the customer?
- Will this business idea exceed the quality of current products in the market?

Differentiation of business ideas can occur in a number of ways, for example:

- *product differentiation* – the characteristics and features that define the business idea and make it unique to the market, also sometimes referred to as the unique selling proposition or point (USP)
- *quality differentiation* – the unique appeal of a business idea that is perceived as being of higher quality or technically superior, or has a special appeal that consumers value
- *service differentiation* – the superior service offered by one business over another, which may include strategies to support the business idea such as delivery, installation, training, support, maintenance and repair services.



Figure 6.13 A competitive advantage is necessary for business success at all stages of the business life cycle.

wavebreakmedia/Shutterstock.com

Cost advantage: the ability of a business idea to deliver the cheapest product on the market that meets the standard expectations

Differentiation advantage: the ability of a business idea to deliver benefits that exceed those of competitors

Cloud computing: pay-per-use or subscription services for storing and accessing data and programs over the internet instead of on a computer hard drive



Having a clear differentiation strategy or USP helps a business to stand out from its competitors. At the ideation stage, it is important for a potential start-up to focus on the differentiation strategy it plans to implement as its competitive advantage for viability and success of its business idea.

GAINING INSIGHT 6.8



Differentiation advantage: the LUSH story



Jeff Greenberg/Universal Images Group/Getty Images

Figure 6.14 The LUSH 'deli' style approach to cosmetics differentiates the business.

The UK-based natural personal care retailer LUSH has transformed itself from a single shop company in 1995 to a multi-million dollar company with 850 shops in 51 countries in a little over 17 years. LUSH has had so much success because of its practices that set it apart from competitors like the Body Shop and Origins. LUSH's competitive advantage stems from its fierce commitment to remain independent, its environmentally conscious attitude, its unique production of fresh handmade products and limited but creative use of its marketing budget.

LUSH undertakes a unique way of retailing to entice its consumers; LUSH shops are inspired by delicatessens, attracting consumers with their highly scented, visually appealing and unpackaged products. While the Body Shop and Origins keep the products wrapped up in packaging, which go against their green mission, LUSH keeps the majority of its products naked.

A key way LUSH has been able to maintain its stance as a successful independent personal care retailer is by offering a unique style of retail which is distinct from other chains. The company's 800 plus stores (including around 80 in its home market of the UK) are laid out in the

style of delicatessens, with product lists chalked onto boards above wooden display areas. The company's soaps are displayed on tabletops in cheese style round blocks, with slices of soap wrapped in greaseproof paper, in a further mimic of deli style.

Like its soaps, LUSH's other products are displayed minimally packaged, with such products as bath bombs and shower 'jellies' coming in recycled cardboard packages. This minimal packaging not only shows the company's green credentials but also provides the stores' distinct smell. This wafts outside the stores into the street, providing LUSH with a distinct way of marketing, and a method which is recognisable as the LUSH brand.

Source: K. Wilkinson, *Storify*, <https://storify.com/kwilkinson/lush-competitive-advantage>

LUSH has connected with its customer base and clearly communicated that socially responsible behaviour is its USP in an overly populated and highly competitive market. By clearly outlining this responsible behaviour regarding ethical sourcing, environmentally conservative processes and organic products, LUSH can secure a loyal customer base and charge a premium price for its products.

Questions

You will need to research information about LUSH and two of its competitors.

- 1 **Describe** the key business idea and products for each of the three businesses.
- 2 Identify and **explain** the type(s) of differentiation strategies each business is using.
- 3 **Analyse** one differentiation strategy for each of the three businesses.
- 4 **Evaluate** according to the criteria of effectiveness and stakeholder satisfaction how well each differentiation strategy has been used.
- 5 Use technology to **create** an infographic outlining differentiation strategies using LUSH as an exemplar.

Point of difference

To create and maximise its competitive advantage, a business must know what makes it different and unique from other businesses in the market. Communicating the USP or competitive advantage with consumers to promote its business ideas as superior in the market is the **point of difference** and is what sets one business apart from its competitors. The point of difference could be a differentiated feature, benefit or value that distinguishes one business from another in the same industry, or it might be its employer of choice strategies, workplace culture or reputation. All businesses must identify and utilise their point of difference at the time of ideation for start-up success, and right through the stages of the business life cycle to ensure their sustainability as businesses.



Ed Samuel/Shutterstock.com

Figure 6.15 A point of difference makes a business stand out from its competitors.

GAINING INSIGHT 6.9



A point of difference: giving back through sales

Thankyou was born in 2008 in response to the World Water Crisis. At that time, over 900 million people didn't have access to safe drinking water on a daily basis, yet the Australian bottled water industry was worth an estimated \$600 million a year. Pretty wild given Aussies can access safe water straight from the tap!

In August 2020, Thankyou announced that they had stopped producing bottled water because of the negative environmental impact of plastic bottles. Currently, Thankyou products now include personal care, cleaning and baby products.

Thankyou's co-founder Daniel Flynn pulled together a group of friends in Melbourne and turned an idea to launch a line of bottled water that would fund water projects overseas into a reality. As of January 2024, Thankyou has been able to raise over \$18.1M AUD through the sales of their product lines, which have continued to evolve. The Thankyou Charitable Trust then gives grants to their partners, which they call 'investments' because they see these as an investment in the end of extreme poverty.



Figure 6.16 While the Thankyou brand continues to differentiate their product offering, they maintain a point of difference through their grants and investments to end extreme poverty.

Source: Thankyou website, 'Our story', <https://thankyou.co/about>

Point of difference: the ability of the business to offer products or services that meet or exceed market standards in relation to other businesses



QUESTIONS 6.2



- Conduct the necessary research to identify the point of difference for the listed product sold by each business below.
 - tomato sauce – MasterFoods and Heinz
 - peanut butter – Sanitarium and Bega
 - corn chips – CC's and Doritos
 - smartphones – Samsung and Apple
 - streaming services – Netflix and Disney+
 - gaming consoles – PlayStation and Xbox
 - sports apparel – Nike and Adidas.
- Using one example from Question 1, **create** a paragraph response to **communicate** to a new business owner the concept of point of difference and why this is so important to the viability of a business idea.
- Complete the following table by listing the tangible and non-tangible features of competitive advantage.

Competitive advantage features	
Tangible	Non-tangible
Intellectual property rights (patents, licences, etc.)	Strong brand reputation Staff collaboration

INQUIRY



Inquiry task: Competitive markets

You are to conduct an inquiry into local or national competition that exists in the Australian market to answer the questions below.

- Research and select an example of a local or national competitor in the market for each of the following Australian-owned businesses.
 - Zimmerman
 - Sabrand's
 - Bega
 - Visy Industries
 - Linfox Pty Ltd
- Conduct research to identify what percentage of products in the Australian market are locally made and how many are affected by foreign competition.
- Explain**, using examples, ways in which another local or national businesses could gain a competitive advantage through:
 - labour cost
 - location
 - economies of scale.
- Explain** what a free trade agreement is. How might a local or national competitor be taking advantage of free trade? **Analyse** the impact these agreements have on the competitive environment.
- Explain** how advances in technology have affected competition and the Australian market. What further impacts might emerging technologies have in the future?



AlexLMX/Shutterstock.com

Figure 6.17 Competition can come from anywhere in the world, but it is important to be aware of local and national competition that exists in the Australian market.

Competitor analysis

Finding business opportunities and understanding what consumers want can be crucial to business success. The challenge of creating business products and services that react to market needs quicker than those of competitors is also an important factor for any business idea or business in the seed stage. In order to do this and to stay one step ahead in the market, a potential start-up business must understand the strengths and weaknesses of potential competitors and how they will react to customer needs and changes in the industry.

One way that a business can understand its competitors and gain a competitive advantage is by performing a competitor analysis. This is where a business looks at other businesses that are similar in the market to identify and analyse the strengths, weaknesses, opportunities and threats of any competitor by asking a number of questions. For example:

- What do they do well?
- What don't they offer that my business could?
- Where are they located in comparison to my business?
- What value-add services do they offer?
- Why do customers choose to shop at this business?

ANALYTICAL TOOL 6.1



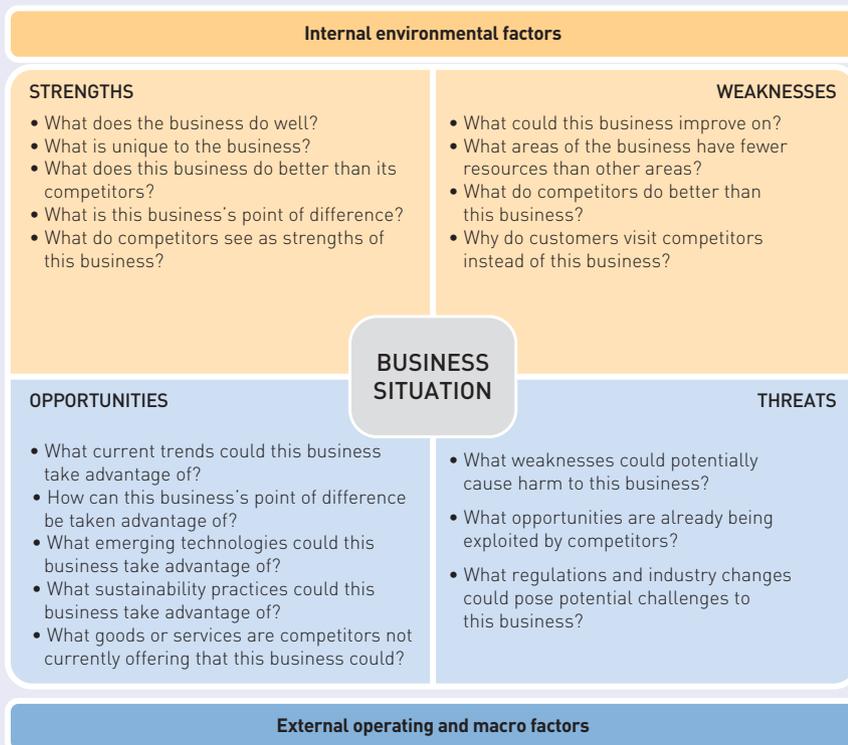
Using a SWOT for competitor analysis

As explained in Chapter 3, a SWOT analysis is a tool to analyse the strengths, weaknesses, opportunities and threats that a business faces. In this context, it helps a business to focus on its strengths, identify weaknesses and minimise threats from competitors. It is a strategy used to take the greatest possible advantage of opportunities available and maximise competitive advantage and market share. While a SWOT is not the focus tool for Unit 1, it can be a helpful tool for competitor analysis.

How to use the tool

To use a SWOT as a competitor analysis, it is completed in quadrants; each quadrant identifies the key characteristics and factors of the business situation. The questions asked in each quadrant can change depending on the angle of analysis, and can be broad or specific. When analysing competitive markets, the questions in each quadrant for the business situation under analysis will revolve around competitors and competitive advantage.

For more focus question ideas, refer to the SWOT analysis template on Nelson MindTap.



Identify that strengths and weakness are internal environmental factors and that opportunities and threats are external operating and macro factors

Activity

- 1 **Create** a SWOT analysis tool to **analyse** the competition for one or more of the following business situations:
 - a potential competitor to TikTok and the business idea of online streaming video content using data algorithms
 - a potential competitor to BP and the business idea of transit stops with petrol, food and amenities
 - a potential competitor to The Iconic and the business idea of online retailing a curated collection of other brands and businesses in one place
 - a potential competitor to Kmart and the business idea of selling affordable everyday needs in one store.
- 2 Discuss the findings of your competitor analysis to consider the possible implications of the business idea. Consider the implications in areas such as finances, safety, location, sustainability and competition.
- 3 Decide whether any of the implications discussed in Question 2 mean the business idea would be unsuitable to pursue.

Evaluating the viability of business ideas

Key learnings

You will learn about the viability of proceeding to the start-up stage through examining:

- feasibility
- competitiveness
- efficiency
- stakeholder satisfaction
- effectiveness.

Before turning a business idea into a start-up business, it is essential for existing and potential business owners to determine the viability of each idea. This means that each element of the business idea is examined to help answer the question of whether the idea should be developed and if it is **feasible** to do so. A viable business idea will generate adequate cash flow and profits, withstand the risks it will encounter, remain sustainable and meet the goals and objectives set by the owners. Business viability can be evaluated for a start-up business, an existing business, the expansion of current business or a new idea for an existing business.

Feasibility

One way to help inform the decision-making regarding the viability of the idea is to conduct a feasibility study. A **feasibility study** is the research to analyse the idea to determine if it is viable or not. Essentially, the feasibility study looks at whether an idea is worth pursuing or not. In business ideation, the feasibility study addresses things like the location of the new business and how the business will operate. The **feasibility report** is the presentation of this study and decides whether the business idea is capable of being achieved, if the idea is marketable and if the idea is sustainable as a profitable business. This study requires investigation and evaluation to make decisions about whether a business idea is in fact a viable business opportunity or not. After the completion of the feasibility study, a feasibility report is prepared to present the viable solutions identified. Then a **business plan** is created to provide the actions needed to take the idea to a business.

When conducting a feasibility study, analytical tools are used to determine various factors that contribute to the viability of a business idea. The key analytical tools that can be used when collecting information and analysing a potential business idea include those that have been introduced in earlier chapters and some that

Feasible: capable of being achieved, accomplished or put into effect; reasonable enough to be believed or accepted; probable, likely

Feasibility study: an analysis of how successfully a project or idea can be completed to determine its viability and potential action plans for moving forward

Feasibility report: a document that assesses potential solutions to a business problem or opportunity and determines which of these are viable for further analysis

Business plan: a document that compiles the goals and objectives of a business and how it sets out to achieve them, including how the business will manage its operations and strategies

will be looked at in greater detail in later chapters. The key analytical tools used to determine the viability of a business idea include:

- SWOT analysis
- PEST, PESTLE or STEEPLE analysis
- **cost-benefit analysis.**

The findings of the feasibility study for the viability of a business idea are presented in the form of a formal business report called a feasibility report. This report will include things such as the findings from analytical tools, the details of the market, operational plans, financial assessments and the skills of founders and potential staff. Conducting a feasibility study and compiling a feasibility report for all business ideas will help to determine early on whether an idea is likely to work or not. Of course, there are no guarantees in business, but finding out early can save time and money. To pass a feasibility study and be determined as viable, the business idea being evaluated must generate adequate cash flow and profit to balance the costs and risks of the business opportunity, and meet the goals and objectives of the founders.

INQUIRY



Read about cloud computing and answer the following questions.

- 1 Discuss the benefits and risks of using cloud computing to gain a competitive advantage.
- 2 Identify two emerging programs that make use of cloud computing and aim to give start-up businesses a competitive advantage.



Weblink
Cloud
computing

To be determined as viable, a business idea should be evaluated against criteria. At the seed stage, the criteria of competitiveness and efficiency are often considered the most significant when making a decision on viability; however, it is important to consider all four criteria before progressing a business idea from seed to start-up.

As explained in Chapter 1, evaluation criteria can be used to make judgements on all areas of a business to determine to what extent a strategy, function or idea is likely to perform in a particular criteria or market.



Rawpixel.com/Shutterstock.com

Figure 6.18 The feasibility of business ideas can be evaluated with a feasibility report assessing the viability of ideas before moving to the start-up stage of the business life cycle.

Competitiveness

When evaluating the competitiveness of a new business idea or a business in the seed stage of the business life cycle, the competitiveness of the business idea can be evaluated to determine if the product the business is planning to offer is able to meet or exceed the market standards already on offer by other businesses. Knowing whether the new business idea is a niche offering or requires further development of a competitive advantage, for example, in quality or service offerings, will help to ensure that the business is able to establish a point of difference or sustain itself in the market.

Cost-benefit analysis: an approach to determining the financial viability of a project or strategy by comparing the predicted benefits (returns or income) with the anticipated costs associated with the project or strategy



Efficiency

When evaluating the viability of the new business idea, it is important that the production, resource utilisation and financial sustainability of all operations are considered. Before moving to the start-up stage, a business idea should have a carefully considered plan regarding the ability of the business to allocate resources to meet the challenges of a start-up in an efficient manner. This includes considering the cost of wastage, the additional time that production often takes for seed and start-up businesses and the limited economies of scale that can be capitalised on from low or unpredictable start-up sales.

Effectiveness

The ability of a seed business to successfully move into a start-up and meet the goals and objectives of the business plan is reliant on the extent to which the business is able to translate strategies and ideas into tangible outcomes. It is important that the business maintains alignment between goals and actions as it moves through the challenges of the start-up stage, and that the business owner is able to identify and address challenges as they arise.

Stakeholder satisfaction

The extent to which consumers are satisfied is often at the forefront of consideration for businesses at all stages of the business life cycle; however, in the seed to start-up stage, the capacity of the business to manage the expectations of new customers, employees, investors and the community is crucial to its viability and success of the business idea. New businesses often have to work hard to foster trust in a new market, so need to be aware of the needs and expectations of their stakeholders, including the ethical and social responsibilities of businesses. Evaluating the capacity of a new business idea to meet the identified needs of the stakeholders or adjusting a new idea accordingly will help to develop a more viable start-up that is able to foster growth and sustainability as a business.

From seed to start-up

Following the use of analytical tools and evaluation criteria, a decision needs to be made on whether the business idea is viable to take from the seed stage to the start-up stage of the business life cycle.

Along with the evaluation of the business idea, when making a decision on the viability of progressing a business idea to the start-up stage, the following questions are relevant to consider:

- Are there any legal implications of the business idea?
- Will the business be able to effectively produce the required units to break even?
- Will there be any wastage or excess expense in the production of products? Can this be reduced in any way?
- Will the business be able to make the required number of sales to break even?
- How will the business attract the necessary customers?
- Is there any competition that may impact on the ability of the business to enter the market and commence sales as a start-up?
- What environmental factors might impact on the ability of the business to commence operations as a start-up?
- Are the goals and objectives of the business practical to achieve?



Weblink
4 ways to
decide
whether you
should pursue
your start-up
idea

GAINING INSIGHT 6.10



How to know if a business idea is great: Youfoodz

Before launching a business, it's essential to carefully evaluate whether the idea has the potential for success. A great business idea typically addresses a problem, meets market demand or improves upon existing products or services.

Successful businesses, such as Brisbane-based Youfoodz, which tapped into the growing trend toward healthy, pre-prepared meals, succeed because they took time to identify and fill a market gap. Youfoodz validated its business model early on, laying the foundation for a successful start-up and future growth.

Launched in 2012, Youfoodz focused on delivering fresh, pre-prepared meals that catered to Australia's increasing demand for healthy, convenient eating options. By addressing this need, Youfoodz grew into a successful national brand, delivering millions of meals annually.

Testing the market before fully committing is also essential. Gathering customer feedback, conducting surveys or launching a small-scale version of the business can help entrepreneurs refine their ideas based on real-world responses. Scalability is equally essential for long-term success.

To determine if the business idea was great, Youfoodz had to consider the following five key questions.

- 1 Does the idea solve a real problem or meet a market need?

The foundation of Youfoodz's success lies in solving a specific, real-world problem: people want to eat healthy meals but often don't have the time or energy to cook. Before Youfoodz, many pre-prepared meal options were either unhealthy or frozen, leaving a gap for fresh, nutritious meals that could be conveniently delivered. By offering ready-to-eat meals that were fresh, healthy and delivered to customers' doors, Youfoodz filled an existing gap in the market. This focus on convenience and health allowed the business to tap into the busy lifestyles of professionals, fitness enthusiasts and families, ensuring that the company met a growing demand for healthier meal options.

- 2 What makes the idea distinct from existing competitors?

Youfoodz succeeded in its ability to differentiate from competitors. Many meal delivery services offer frozen or heavily processed meals. Youfoodz, on the other hand, positioned itself



as a provider of fresh, high-quality meals made from locally sourced ingredients. The meals are designed by chefs and cater to health-conscious consumers looking for nutritious options without sacrificing taste or convenience. The company's focus on fresh ingredients and health stood out in a market saturated with unhealthy, pre-packaged alternatives, giving Youfoodz a competitive advantage.

- 3 Is there a clear target audience and sufficient demand?

From the beginning, Youfoodz identified a clear target audience of busy individuals and families, health-conscious consumers, and people looking for convenient ways to maintain a nutritious diet. The rise in interest in healthy eating, combined with the increasingly busy lifestyles of modern consumers, created a growing demand for fresh, pre-prepared meals that aligned with fitness and wellness goals. By focusing on this audience and offering tailored meal plans, such as high-protein and low-carb options, Youfoodz was able to connect with a large segment of the market, ensuring consistent demand for its products.

- 4 Can the idea be tested on a smaller scale to gather feedback and improve?

Before expanding nationwide, Youfoodz started by delivering locally, allowing the company to test its product offerings and gather feedback from early customers. This approach enabled Youfoodz to refine its meal options, improve delivery logistics and perfect its packaging to ensure the freshness of its meals. By

operating on a smaller scale initially, the company had the flexibility to adjust and make improvements based on customer input, ensuring a better product–market fit before scaling up operations. This approach allowed Youfoodz to improve its business model and minimise risk as it grew.

5 Does the concept have growth potential?

Scalability was a critical factor in Youfoodz’s long-term success. The business was designed to grow beyond its initial local operations. As demand for healthy, convenient meals increased,

Youfoodz expanded, eventually delivering to customers nationwide. The company invested in its infrastructure, ensuring that meals could be delivered quickly while maintaining freshness and quality. As it grew, Youfoodz was able to expand its product range, introducing snacks, cold-pressed juices and meal plans tailored to specific dietary needs. This scalability allowed Youfoodz to continuously meet its customers’ changing wants and needs. Eventually, Youfoodz leveraged strategic partnerships with Australian supermarkets to make the products more accessible to a broader audience.

QUESTIONS 6.3



- 1 **Explain** the relevance of analytical tools, in determining the viability of business ideas.
- 2 **Evaluate** each of the following business ideas using the criteria of competitiveness and efficiency to decide whether you would progress these ideas to the start-up stage.
 - a An express drive-through boat cleaning facility to operate at a local boat ramp, taking 12 minutes and charging \$25 per wash. The variable costs are \$17 per clean. There is currently one other handwashing service operating at the boat ramp and it takes an hour for a detail, cut and polish.
 - b An artificial intelligence subscription service that proofreads work for high-school students charging \$15 per month. The variable costs are \$3 per assignment. Competition comes from tutors and professional editing services. The turnaround time for each assignment is three days.
 - c A lunch delivery service dropping off lunch boxes to local schools for \$10 per filled lunch box. The variable costs are \$4.50 per lunch. Lunch orders need to be made a week in advance and are delivered at 9:00 am each day. Each school that the service is in negotiations with has a fully operational tuckshop.

GAINING INSIGHT 6.11



Navigating intellectual property in the digital age: What is yours and what belongs to the business?

When it comes to intellectual property (IP), understanding what belongs to you and what belongs to your employer is crucial. In today's fast-paced and digital world, finding protectable assets becomes more challenging as information is readily available online.



Andrey_Popov/Shutterstock.com

Ownership of knowledge and skills

Your knowledge and skills are personal assets that cannot be taken away from you. They result from your own experiences, professional development and expertise, and can stay with you throughout your career. However, specific information related to your role, your employer or the work you complete for them, known as intellectual property, is owned by your employer and cannot be taken with you when you leave.

Determining ownership

The legal case between two tech companies that help people outsource and find jobs, Freelancer and Airtasker, exemplifies the complexities of determining ownership in the digital age. Freelancer took Airtasker to court over the use of 'Like a Boss' as a slogan in their ad campaign, claiming Airtasker unlawfully stole its intellectual property when former Freelancer product and marketing employees moved to Airtasker. The ad campaign bears a striking resemblance to a concept that Freelancer had been working on internally. However, arguing over ownership can be challenging in a digital age where ideas and information spread quickly across platforms and networks. Therefore, companies now focus on creating environments that foster collaboration and productivity rather than solely protecting ideas.

Basic principles for employers and employees

1. Awareness

Employers and employees should have a clear understanding of the company's IP policies and the importance of protecting confidential information.

2. Contracts and agreements

Employers should establish clear agreements with employees regarding IP ownership, outlining the rights and responsibilities of both parties.

3. Confidentiality and non-disclosure

Employees should maintain confidentiality and refrain from sharing proprietary information outside the organisation.

4. Employee education

Employers should provide training and education on IP rights and best practices to ensure employees understand their role in safeguarding company IP.

5. Collaboration and innovation

Employers should foster a culture that encourages innovation while respecting the IP rights of others and promoting ethical practices in the business environment.

Changes to the meaning of IP

The concept of intellectual property is evolving. In the past, content rights were often sold or licensed based on geographic regions, but these boundaries are becoming less relevant in the digital age.

There is also a significant shift in the traditional definition of an employee or the employment arrangements that businesses enter into. For example, both Google and Apple recognise that the success of their phone products are largely due to the contributions of third-party app developers, who were not directly employed by either company.

It is increasingly difficult to protect intellectual property when so much content is easily accessible online so businesses need to ensure they have clear processes in place for IP protection.

Questions

- 1 **Explain** the three criteria that make an idea patentable.
- 2 **Discuss** whether the staff that moved from Freelancer to Airtasker have acted according to IP guidelines.
- 3 **Create** a one-page flyer to inform new staff of their rights and obligations regarding IP.

Weblinks:

- IP Australia (p.175)
- Competitive advantage (p.180)
- The Conversation (p.181)
- Cloud computing (p.187)
- 4 ways to decide whether you should pursue your start-up idea (p.188)
- Choose Wise: Introduction to Goods and Services (p.193)
- Seabin™ (p.198)

- The Ocean Cleanup project (p.198)
- WasteShark (p.198)

Templates:

- PEST analysis (pp. 174, 181 & 199)
- SWOT analysis (p.185)

Chapter summary:

- Chapter 6 The viability of ideas (p.193)



To access resources above, visit cengage.com.au/nelsonmindtap



Chapter 6 review

This chapter investigated the viability of business ideas by examining feasibility, competition and the legal protection of ideas. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.



Summary
Chapter 6
The viability
of ideas

6.1 Short responses

- 1 **Explain** the difference between product differentiation and price differentiation.
- 2 **Explain** the relevance of a cost-benefit analysis in determining the viability of a business idea.
- 3 **Describe** the advantages and disadvantages of each of the competitive environments that a business might operate in.
- 4 **Explain** the challenges of the seed stage in the business life cycle when evaluating a new idea for viability.
- 5 Watch 'Choose wise: Introduction to goods and services' and **explain** why the use of trade marks in the right categories is important for the protection of a business idea.
- 6 **Explain** why being Australian-owned and -operated is marketed as a point of difference or a competitive advantage.
- 7 **Explain** why intellectual property protection can be a competitive advantage in business.



Weblink
Choose Wise:
Introduction
to Goods
and Services

6.2 Extended response

- 1 **Create** an extended response in the form of a business report (extract) to a new business owner looking to understand more about the metaverse. Ensure you answer each of the following in your response:
 - a **Describe** the business idea of the Metaverse and the products and services that can be bought and sold.
 - b **Describe** the competitive environment that the metaverse operates in.
 - c **Explain** why an existing business might look for ways to take advantage of the metaverse.
 - d **Evaluate** the viability of metaverse experiences for the following industries:
 - retail
 - hospitality
 - grocery and convenience
 - hardware
 - tourism and leisure.

Metaverse

While there isn't a single definition, experts describe the Metaverse as a 3D version of the internet, focused on how people will experience the online world in the future. It is a shared, virtual space that is always running, where people can interact with each other and digital environments in real time.

In simple terms, the Metaverse is a network of connected online worlds where physical, virtual and augmented realities meet. It's a space where you and millions of others can live digital lives represented by avatars who interact, learn, work and have fun.

The Metaverse is expected to change how we see reality but to complement the real world rather than replace it.

The Metaverse is an emerging tool for businesses and brands with limitless potential for creativity for start-ups, inventors and founders wanting to build in the Metaverse. By merging physical and digital worlds, the Metaverse creates new forms of socialisation, commerce and entertainment.



Anadolu/Getty Images

Figure 6.19 Youfoodz solved a problem for health-conscious people who wanted fresh and nutritious meals.

Through blockchain technology, the Metaverse supports decentralised ownership of digital assets. This innovation opens economic opportunities, such as virtual real estate, digital goods and new modes of entrepreneurship.

The Metaverse is expected to revolutionise how we live, work and play even though it is still in its early stages. It could be used for anything from education to entertainment to business.

Metaverse real estate

Like physical real estate, virtual real estate in the Metaverse offers lucrative opportunities. Businesses can buy, develop and sell digital land in platforms such as Decentraland and Somnium Space, using these spaces for immersive experiences, advertising or virtual marketplaces.

Virtual fashion and non-fungible tokens (NFTs)

The fashion industry is being transformed by the Metaverse through digital fashion and NFTs. Entrepreneurs collaborate with brands and artists to create and sell virtual clothing, accessories and cosmetic products, allowing users to personalise their avatars in unique ways.

Metaverse gaming

The gaming industry is a key player in the Metaverse, utilising blockchain, cloud computing and VR. Companies can develop immersive games for metaverse environments using advanced tools such as Unity, Unreal Engine and AI to create engaging gaming experiences.

Virtual events and conferences

As remote work and virtual collaboration become more common, the Metaverse provides a new way to host events and conferences. Businesses can offer virtual spaces with customisable avatars and realistic interactions, helping organisations connect and engage with people globally without geographical limits.

Start-ups in the Metaverse space are likely to succeed due to growing market demand and significant investments from major tech companies. With the augmented VR market expected to reach over \$100 billion USD by 2026, the Metaverse has vast potential, particularly as digital engagement has surged post-pandemic.

The rise of NFTs and decentralised technologies reflects a broader cultural shift toward valuing digital ownership, making the Metaverse viable for businesses that leverage immersive technologies.

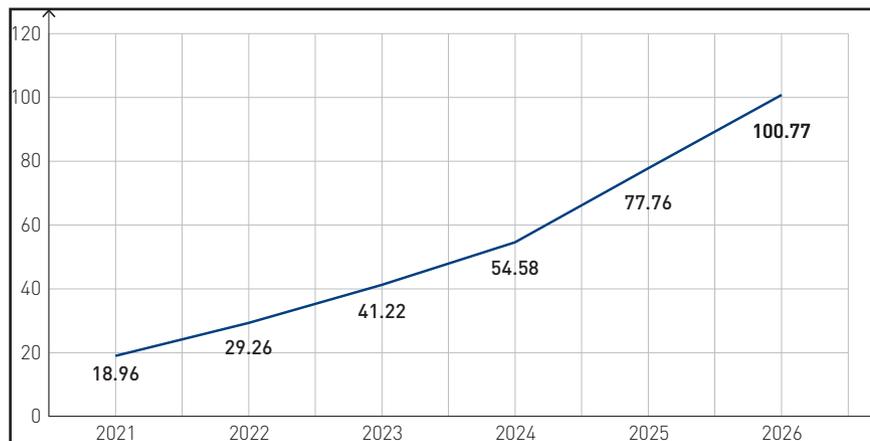


Figure 6.20 The augmented virtual reality market is expected to be worth more than \$100 billion USD in 2026.



Case study 2: Creation of business ideas

Seabin™

The business idea

Two Australian surfers, boat builders and entrepreneurs, Andrew Turton and Pete Ceglinski, have lived their whole lives by the sea. Having worked for many years in the yacht racing industry, they saw firsthand how widespread the issue of marine litter was wherever they travelled. Not only did Andrew and Pete see lots of mismanaged waste that would end up in the ocean, but they would also see litter floating in marinas. Andrew became frustrated with the amount of rubbish and saw the need to find a way to address this problem. He thought, 'If there are rubbish bins on land, there could certainly be rubbish bins in the water'. Here, he identified a business opportunity and an answer to the litter problems in marinas. Andrew teamed up with Pete, and together they began to work on some prototypes to develop a 'floating bin'.



Figure C2.1 Seeing a problem can motivate entrepreneurs to find a solution and create a business opportunity.

About Seabin™

The Seabin is an innovative, world-first invention that has attracted global attention for its potential to help clean the world's oceans and revolutionise the health of marine ecosystems around the world. The V5 was designed to be installed in the water of marinas, yacht clubs, ports or other bodies of water with a calm environment and services available and the average catch (globally) over a typical 24-hour cycle is approximately 4 kilograms of floating debris per day, depending on weather and debris volumes. This equates to over half a tonne of debris per year for each Seabin. The V5 could also collect a percentage of oil with simple oil absorption technology custom adapted for the Seabin's catch bag.

The Seabin V6 is capable of displacing 55,000 litres per hour and is easily equipped with oil-absorbent pads capturing petroleum-based surface oils and detergents, predominant in most marinas. It has an increased catch capacity and can catch an estimated 3.9 kilograms of floating debris per day or 1.4 tonnes per year, including microplastics down to 2 millimetres small.

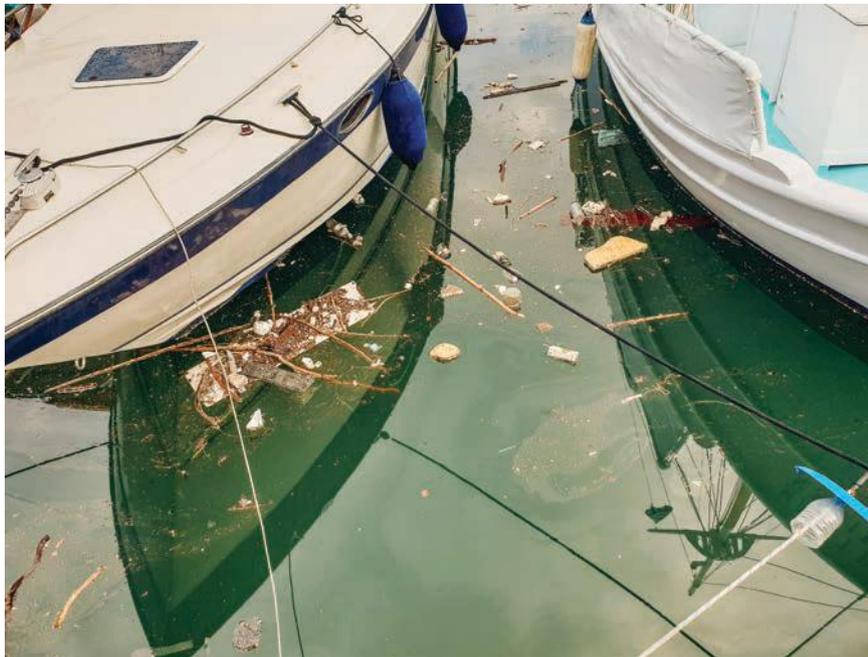


Figure C2.2 The Seabin is an innovative and world-first 'floating rubbish bin'.

Sources of support and advice

Before a new idea becomes a viable business opportunity, there is much research and development that occurs. Many entrepreneurs who start with limited business experience, like Seabin founders, Andrew Turton and Pete Ceglinski, rely on support and advice from friends and family in the initial stages of the development of the project. The initial development of the Seabin came by trial and error and through the creative thinking of Andrew and Pete. As their idea continued to grow, they sought advice from local lawyers and instigated a successful crowdfunding campaign. This gave the Seabin™ enough funds to bring the project to market.

Once the company was established, strategic partnerships with an industrial partner for manufacturing, and joint ventures with Pilot Partners to test and trial the Seabins before commercial sales, have been important sources of support and advice and have contributed to the success of the project.



Julia Bondar/Moment/Getty Images

Figure C2.3 The V6 Seabin is now available as a for-lease product through sponsorship arrangements to help clean the pollution in marinas and waterways.

Entrepreneurial characteristics

It can be seen from the timeline of achievements and the determination to bring the Seabin to market that the team have set big goals for themselves. Andrew, Pete and the team at Seabin™. They have pushed themselves to the limits to try and achieve these goals and clean up the marinas, waterways and oceans of the world. While the team simply consider themselves 'a bunch of hard-working people that really want to make a difference' their attitude and enthusiasm are what really moves them forward. They have learnt many times through their own mistakes and haven't been afraid to take risks.

Andrew and Pete, as founders, have demonstrated many of the entrepreneurial characteristics discussed in Chapter 4. In their pursuit of inventing and building something completely innovative from nothing, they have shown passion, perseverance and creativity. They have then shown determination and boldness to continue through the challenges of the seed stage to finally have a product ready for sale and installation in 2017. However, in June 2020, after a rapid yet unsustainable scaling phase that saw Seabin enter the market in 53 countries in only two years, Seabin decided to cease selling Seabins, revise their business model and reenter the market with a new business model based on leased services and corporate partnerships. This new model meant that Seabin was again faced with the challenges of the start-up stage of the business life cycle as they reentered the market with a new target market and business model.

Challenges in the seed and start-up stages of the business life cycle

There are a number of significant challenges in the seed and start-up stages of business, including the design of a viable business plan and the funding needed to cover operation and infrastructure costs. The Seabin™ was lucky, and is extremely grateful for the support it received during its initial crowdfunding campaign. From there, through hard work, the Seabin™ has been able to gather stay-alive funds through Pilot Partners, a GoFundMe campaign and more recently an award from the Booking Booster program. This is recognition for their hard work and how aware society is of the need for ocean cleaning technologies.

Another challenge faced during the seed stage is the amount of time and energy the founders must invest in their growing business. Pete has worked tirelessly since the foundation of the company, using his free time to generate marketing material, investing a lot of time in business travel and putting his heart and soul into the development of the Seabin™.

Application of innovation theories

As explained in Chapter 4, incremental innovation is a series of small improvements or upgrades made to an existing product, service, process or method, focused on improving efficiency, productivity and competitive differentiation.

The Seabin™ continues to undergo incremental innovation through prototypes and previous versions. The core functionality of the Seabin remains virtually unchanged, but there have been improvements in the peripherals, including:

- The bracket that fixes the Seabin to the dock has had a number of modifications made to reach the final standard.
- The mesh in the catch bag has been changed from hessian fibre to a recycled plastic mesh due to the over-efficient absorption properties of the hessian. Also, replacing the catch bag every month is not a sustainable practice, nor is treating the hessian with chemicals a suitable option.
- The Seabin is also now powered by a small submersible water pump that uses either 110 V or 220 V power. Extensive testing with a 12 V pump found it unsuitable in performance and the solar capabilities much more difficult than using the 110/220 V pump. The water pump may also be run by cleaner power options such as solar, wind, wave or turbine depending on the location, current technology and services available.
- The addition of oil-absorbent technology is also a main feature of the V6 Seabin.

Competitiveness

At this stage, the Seabin™ has very few competitors, and the issue of marine litter in the world's oceans is something that needs addressing – the sooner, the better. Therefore, the Seabin™ does not see other initiatives trying to get rid of plastics in the oceans as competitors. Rather, it sees them as key players with a common goal, and any project that aims at removing mismanaged waste from the sea has their full support. The Seabin™ even hopes one day to be able to lend a hand with its experience, or even financially. The closest initiatives are the Ocean Cleanup project for open waters and MrTrash Wheel for high volumes.



Figure C2.4 Incremental innovation has led to the V5 and V6 Seabin models.

Stakeholder satisfaction

There are a variety of methods to measure stakeholder satisfaction, including interviews, focus groups and feedback surveys. The Seabin is designed for ports, marinas, yacht clubs and other enclosed bodies of water with enough services to provide shore power to the Seabin and employees to empty it when full. Therefore, the key stakeholders are those who own, work in and use these waterways. The Seabin™ aims to satisfy its target audience, marina owners, by enabling them to provide a cleaning service to society and act as stewards of the marine environment.

Future direction

The issue of marine litter is one that will have to be dealt with for generations to come and therefore the knowledge, tools and capacities need to be provided to the decision-makers of the future. The Seabin™ is using a three-pronged approach to attack the problem of pollution, with the Seabin hardware enabling cleanup, science through monitoring & data, providing education & prevention, and ongoing research and development towards cleaner oceans. Education is the first step to lasting and effective solutions. With marine litter, children can play a direct and significant role in reducing the sheer amount entering the oceans. Every child who learns to dispose of rubbish properly can be one less 'source' person littering. Children also have the potential to spread the word to friends and family, virally amplifying the effect.



Weblinks
The Seabin™

The Ocean
Cleanup
project

WasteShark

The Seabin™ also aims to become a key player in the circular economy of plastics. By creating collaborations with similar businesses, the plastics captured by Seabins can be used in upcycling projects, rather than going to landfill or being incinerated. Eventually, Seabin would love to use the captured plastic to create even more of its own product.

Check out the Seabin™ and similar companies like the Ocean Cleanup project and the WasteShark.

EACH **SEABIN** HAS THE CAPABILITY TO CATCH



90,000 PLASTIC BAGS PER YEAR



35,700 DISPOSABLE CUPS PER YEAR



16,500 PLASTIC BOTTLES PER YEAR



166,500 PLASTIC UTENSILS PER YEAR

Seabin™

Figure C2.5 'The Seabin may not be the solution to ocean pollution, but it is a start.'

Questions

- 1 **Describe** the business facts and characteristics of the Seabin™.
- 2 **Describe** the business facts and characteristics of the internal, external, operating and macro environmental factors of the Seabin™.
- 3 **Describe** the sources of support and advice that the team at the Seabin™ accessed during its development.
- 4 **Explain** which innovation theories apply to the development of the V5 and V6 Seabin.
- 5 **Explain** the point of difference or competitive advantage of the Seabin V5 and V6 when compared to either the Ocean Cleanup project or the WasteShark.
- 6 Select data and information to complete a PEST analysis to **analyse** the political, economic, socio-cultural and technological forces relevant to the Seabin™.
- 7 **Interpret** a relationship or trend in the PEST analysis and discuss the implications of the Seabin™ based on the findings of your analysis above.
- 8 Use the criteria of competitiveness and stakeholder satisfaction to **evaluate** the long-term viability of the Seabin™.



Template
PEST analysis

A PEST analysis template is available for you to download on Nelson MindTap.



Rich Carey/Shutterstock.com

Figure C2.6 Turtles can mistake plastic bags for jellyfish and try to eat them, which can be fatal. Seabins help to reduce the likelihood of this occurring.

ESTABLISHMENT OF A BUSINESS

START-UP



LEGAL AND REGULATORY REQUIREMENTS



FINANCIAL OBJECTIVES

All businesses strive for ...



SOURCES OF FINANCE

All businesses need to plan for ...



MANAGEMENT

All businesses must consider ...



HR OBJECTIVES

All businesses should strive to ...



EMPLOYMENT CYCLE



7

START-UP REGULATION AND FINANCING

What you will learn

This chapter will explore the ‘need to know’ for start-up businesses that have legal obligations to meet and financing strategies to plan. Being thoroughly prepared will ensure a start-up can begin selling its goods or services with confidence, knowing it is operating ethically and with a solid foundation. Understanding legal obligations and the finances of a business forms part of the strategic planning process for a start-up business.

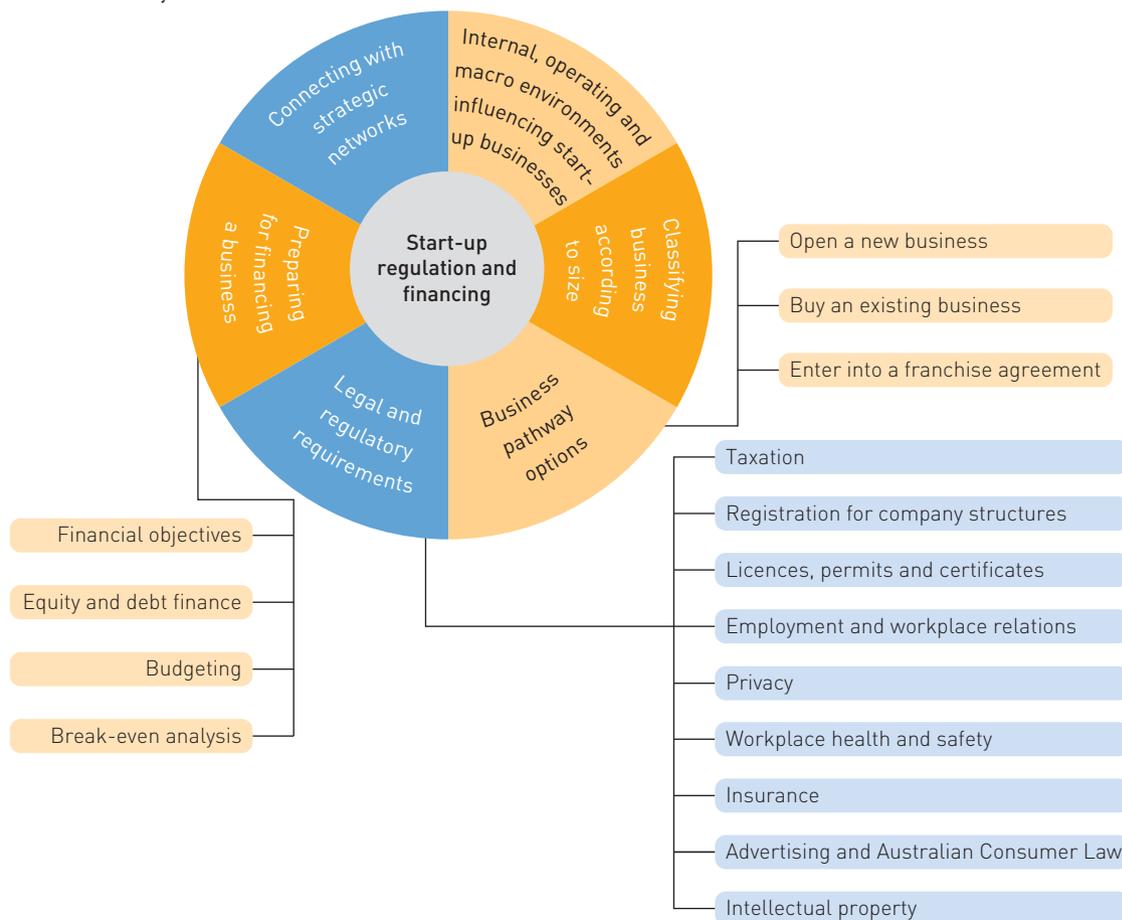
This chapter will provide you with the opportunity to:

- **describe** business situations and environments relating to the start-up stage of the business life cycle
- **explain** the legal requirements and financial strategies relating to business start-up
- **analyse** and **interpret** business situations, environments and the financial strategies relating to the establishment of a business using the STEEPLE analysis and break-even analysis
- **evaluate** start-up business and financial strategies to **make decisions** and **propose** recommendations
- **create** responses that **communicate** meaning to the intended audience.

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The analytical tools used in this chapter are:

- STEEPLE analysis
- break-even analysis.



GAINING INSIGHT 7.1



The Outsource Boutique

FOCUS: Turning an idea into a business

The concept of a virtual assistant has arisen over the past few years, as small businesses look for ways to get their administrative and repetitive tasks outsourced.

Christina Hull, Chief Executive Officer of The Outsource Boutique was on parental leave back in 2010 when she was asked if she would undertake some administration work and event planning for an industry association. She took on the opportunity to earn some extra money for her family while being able to work from home, and since then has grown her 'side-hustle' into a growing full-time business with two contractors working for her and a growing database of clients. She has, without any intention, found a niche in helping industry associations, but also has small business and individual clients.

The concept of virtual assistants has been around for some time, but really came to its own as a result of the COVID-19 pandemic, when working from home became normal, and entrepreneurs and small business owners were looking for administrative support, and virtual assistants provide a flexible and dynamic supplier arrangement. Within The Outsource Boutique's business model, an assistant can be contracted to complete five hours a month or 15 hours a week for an organisation when needed, without the hassle of that organisation hiring an employee and the legislative compliance that comes with having staff.

As Christina puts it, by engaging The Outsource Boutique:

'small businesses can work on their business and focus on achieving their business objectives, and my team are there to complete the repetitive and essential tasks needed to ensure business stability.'



Figure 7.1 The Outsource Boutique logo

Christina's clients are all Queensland-based, and she brings that down to two reasons. First, many of her clients do appreciate face-to-face interaction and

she is happy to meet with them. She also does event planning and management, so her ability to be present at conferences and events is also advantageous. Secondly, she recognises the different risks with onshoring virtual assistants, as opposed to offshoring them. Offshoring virtual assistants can be cost efficient for a business – they may only charge \$7–20 per hour for services, however, it is often through an agency where different staff complete the work and time zones and language may be a challenge. Christina's hourly rate is much higher, but she can also ensure privacy regulations and data protection requirements in Australia are covered as part of her service.

In terms of how Christina manages her business, she must consider the financial needs of The Outsource Boutique in setting her hourly rate and quoting for larger projects. As a sole trader, Christina considers the Award wages for administration and event planning but then increases her fees to cover her PAYG tax obligations, superannuation and business overheads with the highest outlays including rent for office space, software subscriptions and paying her contractors. She currently has two business bank accounts, one for her daily transactions, and the other is for savings where she will allocate her GST, pay her BAS and PAYG instalments and put funds aside for superannuation and slow work periods, which occur around December.

She started tracking profit back in 2019 once she secured her first big client, who engaged her on a retainer (an agreed set amount to be paid each month for services performed).

It was at this point she wanted to move away from earning some extra cash, to running the business, and it was at this time she registered her business name and put more structure around how the business runs.

Christina's advice for anyone wanting to start their own business is to do it as a hobby, and still ensure



Figure 7.2 CEO of The Outsource Boutique, Christina Hull

that stable income is coming in until the point that it can be sustainable on its own. She relies on her accountant to guide her on financing and regulation decisions, and she anticipates her next big move will be to register as a private company.

Questions

- 1 **Describe** The Outsource Boutique's business model.

- 2 **Describe** the external environmental factors that influence the virtual assistant concept.
- 3 Compare and contrast onshore and offshore virtual assistant services.
- 4 **Identify** the legal and regulatory requirements impacting The Outsource Boutique as a sole trader.
- 5 List all the financial considerations Christina takes into account in running The Outsource Boutique.

Business start-up

Key learnings

You will learn about businesses by examining:

- the start-up stage
- internal and operating environmental factors that affect financing.

Once business ideas have been tested and affirmed, a business proceeds to the start-up stage. The start-up stage of the business life cycle is when the business begins trading, after meeting all legal requirements and sourcing its finance. It is important during this stage that the business owner is meticulous in

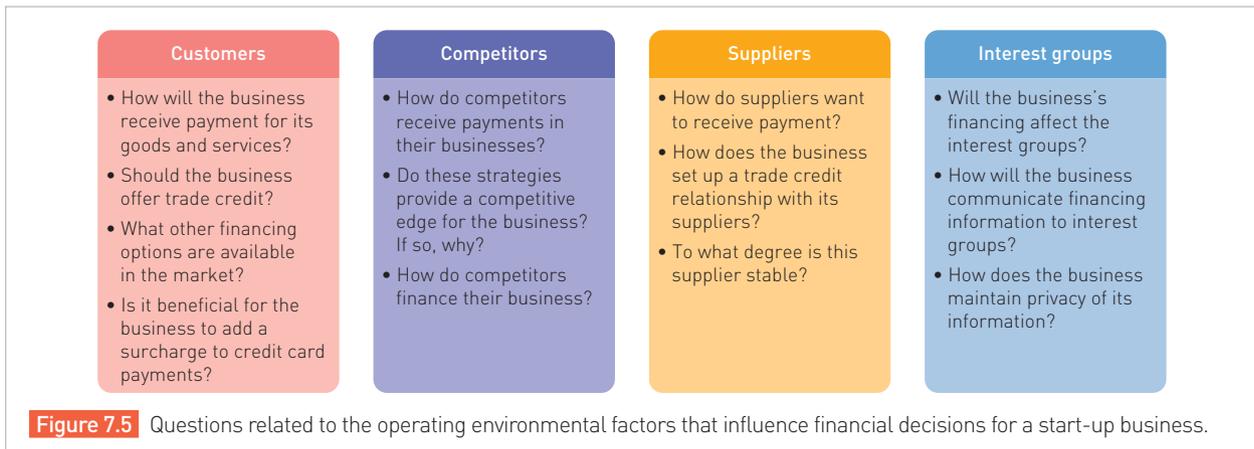
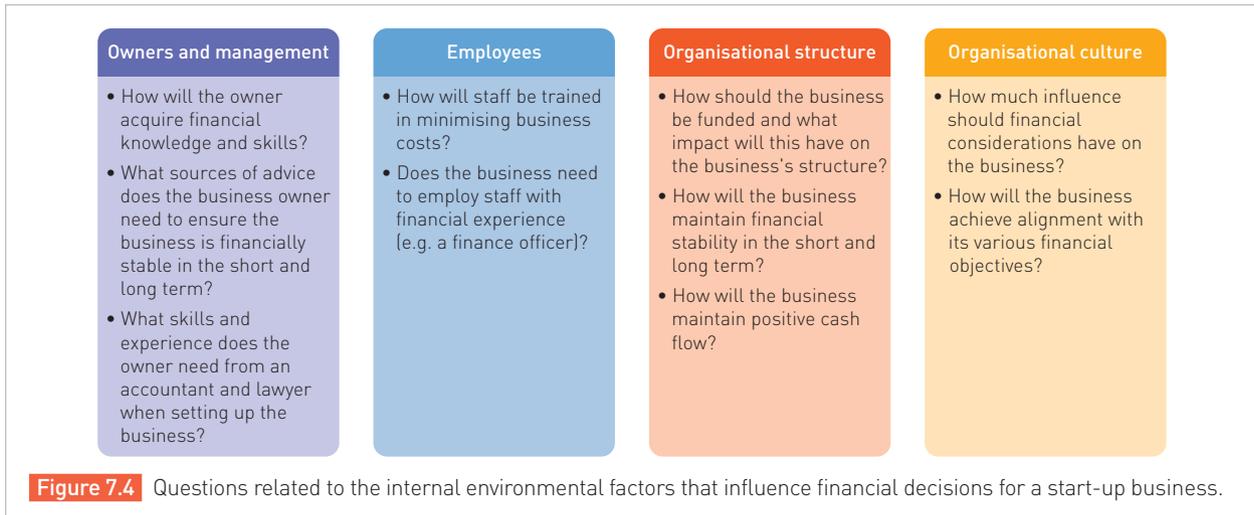
ensuring they have set the business up correctly so that they are adequately protected by law and have structured their internal and operating environments effectively when focused on financing. The strategic planning required at the start-up stage is also heavily influenced by macro environmental factors – notably the legal environment, as this factor dictates the steps required for a start-up to become a formally recognised business trading in Australia. For financing, political and economic factors can also influence the options and decision-making needed by a start-up business owner. These factors can be analysed using a STEEPLE analysis.

It is during the start-up stage that internal environmental factors are also introduced to the business. They begin to take shape and can influence how effectively the business progresses through the start-up stage. Figures 7.4 and 7.5 list the internal and operating environmental factors that impact on businesses, along with inquiry questions that relate to start-up considerations. These factors can either provide opportunities for the business or threaten its success at the start-up stage.



Figure 7.3 A start-up business owner must strategically plan so their business is ready to begin trade.

iStock.com/Cecilie_Arcurs



QUESTIONS 7.1



- 1 Summarise the strategic planning required by a business owner at the start-up stage.
- 2 Discuss the challenges that a start-up business owner may face if they have minimal business experience.
- 3 Referring to Figures 7.4 and 7.5, propose four more questions that might help a start-up business owner understand their internal and operating environments.

ANALYTICAL TOOL 7.1



The tool: STEEPLE analysis (macro environmental factors)

Explained in Chapter 5, the way in which the macro environment is analysed can be completed through a PEST analysis, which identifies the political, economic, socio-cultural and technological factors. Building upon this is a STEEPLE analysis, which adds the environmental, legal and ethical factors to the macro environment. The environmental factors focus on how business practices might affect the natural environment, both positively and negatively, along with how the business can implement sustainability. The legal factor focuses on the legislation that businesses need to follow, including the processes for dispute resolution through the court system and independent government bodies. The ethical factors include how transparent a business is in regards to its practices, including maintaining data, social commitment, recruitment and selection practices, treatment of staff and utilising supply chains that don't exploit workers.

At the start-up stage, it is important for a business to consider the environmental, legal and ethical factors as each must be considered for effective strategic planning. Significant impacts include ensuring the business meets all registration requirements and implements sustainable and moral practices.

How to use the tool

Figure 7.6 provides the questions a business owner would ask when conducting a STEEPLE for a start-up business.

<p>Socio-cultural factors</p>	<ul style="list-style-type: none"> • What are the cultural trends and societal attitudes that should be considered by the business at start-up? • What is the population's growth rate and age profile for the market of the business? How is this likely to change? • How will the business respond to growing demand? • What employment patterns, job market trends and attitudes toward start-up businesses exist in the market? • Will religious beliefs and lifestyle choices affect the market which the start-up has entered? • What strategic networks can provide support and guidance in the market?
<p>Technological factors</p>	<ul style="list-style-type: none"> • Are there any emerging technologies that the new business idea will make use of or could radically affect the industry? • How can the business use advanced yet affordable online platforms? • What is the potential for automation within the business? • What software provides effective and efficient record keeping? • How can the business manage the security of data and information? • Where are the opportunities for innovation in the business?
<p>Economic factors</p>	<ul style="list-style-type: none"> • How stable is the current economy and what impact might this have on the start-up business (e.g. supply and demand, interest rates)? • Could current inflation figures impact the pricing of goods and services in the business? • What are the current consumer buying trends in the industry? • Are the target market's levels of disposable income rising or falling, and how might this affect the business? • What is the unemployment rate? Will it be easy to recruit workers in the business? • How is globalisation affecting the industry and what impact might this have on the business (e.g. tariffs)?
<p>Environmental factors</p>	<ul style="list-style-type: none"> • What sustainable business practices can the start-up business adopt? • What impact will the start-up businesses infrastructure have on the environment? • In what ways can the start-up business minimise waste and utilise lean production? • How is the business efficiently using resources to conserve? • What impact could natural disasters, weather patterns and seasons have on the business? • Is the business using chemicals that need to be carefully monitored in the environment?
<p>Political factors</p>	<ul style="list-style-type: none"> • Who does the federal government support in regard to workplace relations (businesses or working Australians) and what impact could this have? • How are the federal, state or local governments investing in start-up business growth (e.g. grants, tenders to project)? • Is there a trend towards regulation or deregulation in the industry and what impact might this have? • What pending legislation or taxation changes will affect the business at start-up, either positively or negatively?
<p>Legal factors</p>	<ul style="list-style-type: none"> • What registration and licensing requirements exist for the business at federal, state and local levels? • What impact could zoning or building regulations have on the business? • What workplace health and safety legislation, regulations and codes of practice govern business practices? • What impact does consumer law have on the start-up business decisions and policies? • How does workplace relations legislation impact on the start-up business and decision making to employ staff? • How should the business approach potential workplace disputes? • What advice does the start-up business require from solicitors, financial advisors and accountants?
<p>Ethical factors</p>	<ul style="list-style-type: none"> • How do we uphold ethical practices in the business (e.g. fair pay, non-slavery supply chains)? • How can the business meet consumer expectations in relation to social responsibility practices? • How does the government regulate and monitor ethical practices in the industry? • What systems and processes need to put in place to protect the business's data, and that of our customers and suppliers?

© Sally Adams/Cengage

Figure 7.6 A STEEPLE analysis identifies the macro environmental factors that influence a start-up business.

Activity

- Analyse** the macro environmental factors of the following businesses in a start-up context using a STEEPLE analysis.
 - a small gym offering 24-hour access
 - a pharmacy opening in a regional area
 - a new software development company developing a games app for children
- Interpret** the relationships and trends in the STEEPLE for one of the businesses listed in Question 2 to draw conclusions about the implications of starting a business. **Create** a paragraph to **communicate** your response.



A STEEPLE analysis template is available for you to download on Nelson MindTap.

GAINING INSIGHT 7.2**Understanding the role of government and financial institutions**

The impact that government has on the way business operates is significant, particularly for a business in the start-up stage that requires finance to begin trading. It is through government monitoring of businesses and households that Australia can thrive economically. A glimpse into how Australia's economy operates can be gained through analysing the circular flow of money in Australia (Figure 7.7).

While the circular flow model shows how money moves within Australia, it also provides an insight as to why the government regulates business activities: to

ensure there is fair competition; that businesses operate safely; that resources are used efficiently; and that taxes are collected and redistributed with consideration.

Questions

- Explain** the relationship between the following pairs:
 - household and business
 - business and government
 - business and financial intermediaries.
- Discuss as a class how the circular flow of money relates to economic and political macro environmental factors.

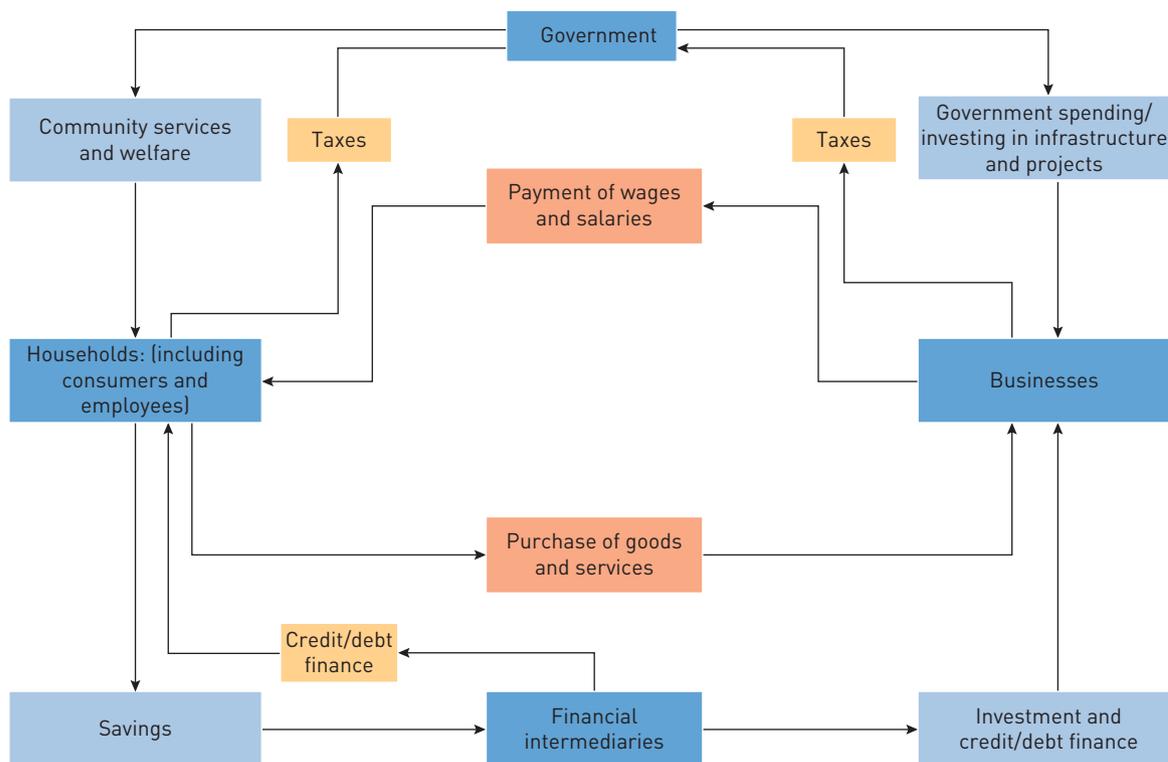


Figure 7.7 Circular flow of money in Australia

Business size

Key learnings

You will learn about business size by examining:

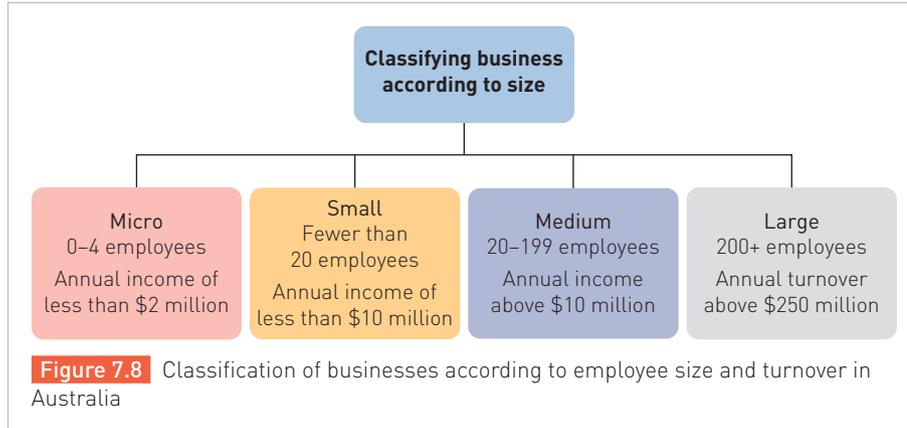
- business turnover
- small-to-medium enterprises.

As was introduced in Chapter 3 businesses are classified according to their size, which is determined by the number of people they employ. Another way to

classify businesses is by their **turnover**, which is also known as revenue or income. The Australian classifications for **small** (including **micro**), **medium** and **large businesses** can be seen in Figure 7.8.

The Australian Bureau of Statistics (ABS), Australia's national statistics agency, has reported that there are more than 2.5 million actively trading businesses in Australia and this number continues to grow. From 2022–2023 there was an entry rate for start-up businesses of 15.8 per cent and an exit rate for all businesses of 15 per cent. Refer to Figure 7.9 in Gaining insight 7.3.

The ABS provides trusted official statistics on a wide range of economic, social, population and environmental matters in Australia. It provides interactive graphs and tables, which can be downloaded and analysed.



Data source: © Australian Taxation Office for the Commonwealth of Australia. CC BY 4.0 AU licence



Weblink
ABS

Small-to-medium enterprises

Even though each business size is clearly defined, small and medium businesses are collectively referred to as **small-to-medium** (or small and medium) **enterprises**, or SMEs. The reason for the SME classification is linked to how economic data is reported, and many government policies use the SME classification to implement policies that support businesses the fewer than 200 employees.

Follow the weblink to learn about the SME Association of Australia, an organisation focused on supporting Australian business owners of small-to-medium enterprises.



Weblink
SME
Association
of Australia

QUESTIONS 7.2



- 1 **Identify** businesses in your local community that fit within the three business size classifications. **Describe** their business situations.
a Small b Medium c Large
- 2 **Explain** the relationship between the size of a business and its turnover, as classified in Australia.

Turnover: an accounting term that represents the income or revenue earned by a business in a set period

Micro-business: a classification for a business which has an owner but no employees

Small business: a classification for a business which has 0–19 employees and/or an annual turnover of less than \$10 million

Medium business: a classification for a business which has 20–199 employees and/or an annual turnover above \$10 million

Large business: a classification for a business which has more than 200 employees and/or an annual turnover above \$250 million

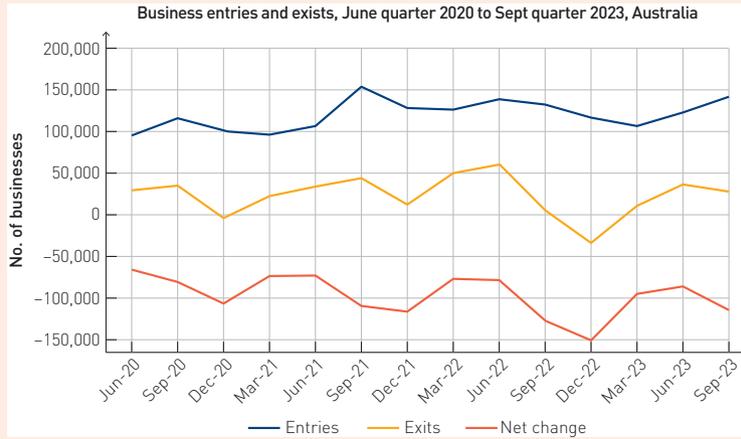
Small-to-medium enterprises: a term used to collectively classify small and medium businesses based on their 1–199 employees

GAINING INSIGHT 7.3



ABS statistics on Australia’s business landscape in 2022–2023

Entries and exits



Data source: <https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/jul2019-jun2023>

Figure 7.9 ABS graph demonstrating business entry and exits in Australia from June 2020 to September 2023.

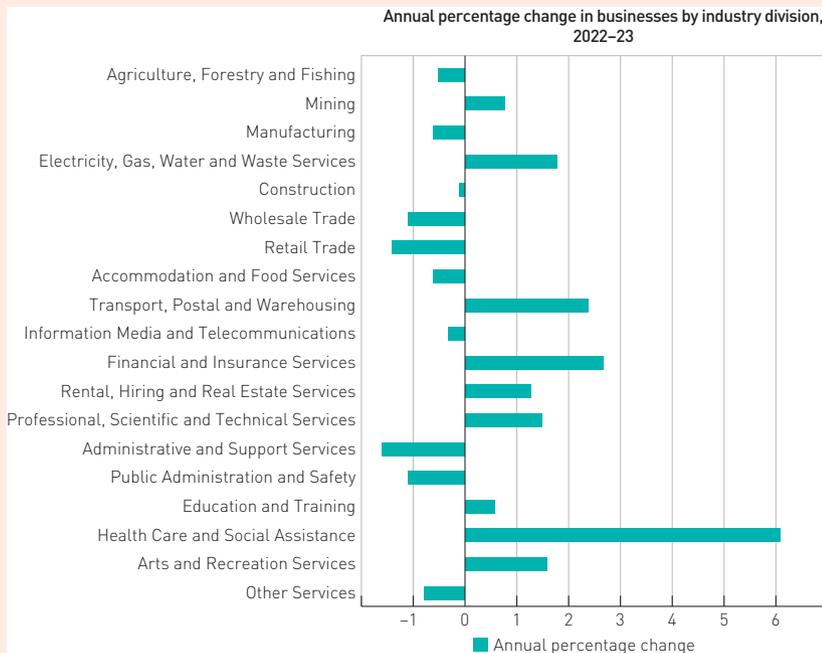
Industry

In 2022–23 the three industries with the largest percentage increase in businesses were:

- Health Care and Social Assistance (increase of 6.1% to 185 260 businesses)
- Financial and Insurance Services (increase of 2.7% to 123 266 businesses)
- Transport, Postal and Warehousing (increase of 2.4% to 218 662 businesses).

The industries with the largest percentage decrease in businesses in 2022–23 were:

- Administrative and Support Services (decrease of 1.6% to 120 630 businesses)
- Retail Trade (decrease of 1.4% to 155 755 businesses).



Data source: <https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/jul2019-jun2023>

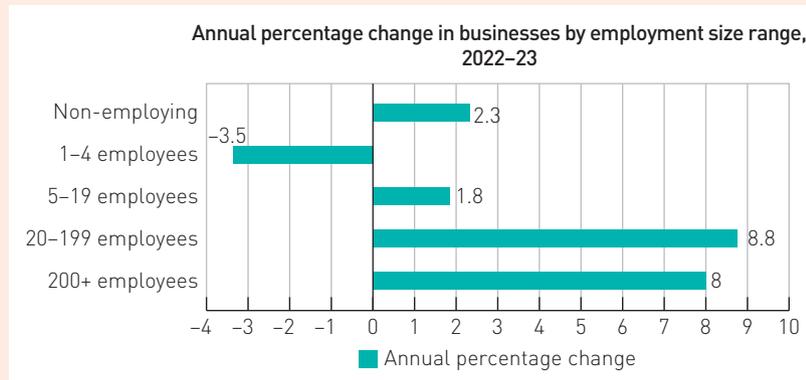
Figure 7.10 ABS graph demonstrating the annual percentage change of businesses within particular industries from 2022 to 2023.

Employment size

In 2022–23 the number of non-employing businesses increased by 2.3 per cent (35 542), with a net movement of 35 509 surviving businesses from employing to non-employing.

There was also a:

- 8.8 per cent (5 204) increase in businesses with 20–199 employees to 64 559 total
- 8.0 per cent (362) increase in businesses with 200+ employees to 4 895 total
- 3.5 per cent (25 292) decrease in businesses with 1–4 employees to 703 467 total.



Data source: <https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/jul2019-jun2023>

Figure 7.11 ABS graph demonstrating the annual percentage change of employment size from 2022 to 2023.

Turnover size

In 2022–23:

- 91.9 per cent of businesses had turnover of less than \$2 million
- 24.7 per cent of businesses had turnover of less than \$50 000
- businesses with turnover of \$2 million or more increased by 9.7 per cent (18 480 businesses)
- there was a large net movement of surviving businesses into the upper turnover size ranges, with surviving businesses having a turnover at or above \$200 000, increasing by 53 271
- the \$10 million or more turnover range showed the largest percentage change, increasing by 11.9 per cent, driven largely by the movement of 7 017 businesses out of the \$5 million to less than \$10 million turnover range.

Questions

- 1 Using the criteria of competitiveness, **evaluate** which of the following industries someone who is interested in owning their own business would be more confident to enter. Provide evidence to support your response from the figures provided, in addition to your knowledge of business ownership and factors influencing start-up businesses.
 - The Health Care and Social Assistance industry or the Retail trade industry
 - The Education and Training industry or the Professional, Scientific and Technical Services industry
- 2 **Interpret** the trends regarding employment size in 2023 to draw conclusions relevant to businesses in the start-up stage of the business life cycle.

Business pathway options

Key learnings

You will learn about business pathway options by examining:

- opening a new business
- buying an existing business
- entering into a franchise agreement.

When an individual makes the decision to become a business owner, they must research and decide what pathway option will be most suited to their motives and skills and the goods and services they plan to sell. Some business owners may want to open a business to sell a good or service they have developed. Others may no longer want to work for someone else, and instead want to be their own boss. There are three main start-up pathway options (Figure 7.12):

- Open a new business.
- Buy an existing business.
- Enter into a **franchise** agreement.



Open a new business

For a business owner who is also an entrepreneur, opening a new business is the ideal pathway for moving from the seed stage to the start-up stage of the business life cycle. In fact, it is the most organic pathway for an entrepreneur as they have already invested heavily in their product or service design and now need to generate income and more investment so that the business can grow. This pathway allows the business owner to maintain full control over how the business will be established. This applies across all areas of the business, including the business name, its location and layout, product design, branding and signage, budgetary and employment considerations, pricing and promotional strategies to be implemented and many other business activities. Opening a new business is also a suitable pathway if a business is entering a new **niche market**. The key features of opening a new business are:

- All business decisions are made by the business owner or owners. This includes the establishment of the business's internal environment.
- The business may be selling a new good or service, or may want to establish itself in a potential market.
- The business owner or owners would have prepared a feasibility report and business plan to be analysed by banks and potential investors so that finance can be sought for business growth.
- The level of risk is high as the business has minimal historical data to rely upon.

Franchise: a business relationship in which the franchisor (the owner of the business providing the product or service) assigns to independent people (the franchisee) the right to market and distribute the franchisor's goods or service, and to use the business name for a fixed period (Franchising Council of Australia, <https://www.franchise.org.au/what-is-franchising-.html>)

Niche market: a smaller section of a larger market segment, focusing on a select group of customers; also known as a concentrated or micro market

GAINING INSIGHT 7.4



What is a business plan and why is it important at start-up?

A business plan is a document that is created once an entrepreneur has assessed the feasibility of a business idea, resulting in a successful outcome and plan to proceed. A business plan will compile the goals and objectives of a business and how it sets out to achieve them, at the point that it is ready to begin trade. Business plans should document how the business will manage its operations and how its strategies coincide with macro environmental factors. Further, business plans are also used in the application process for **debt finance**; in fact, many financial institutions will not even consider offering debt finance until a business plan has been presented, and investors will also use the business plan to inform their decision-making about whether to provide **equity finance** to the business. However, a business plan should not be considered a static document. It should be reviewed every few years and be updated to reflect changes in the internal, operating and macro factors impacting on the business, across the entire business life cycle.



Adapted from Shutterstock.com/T.L. Furrer

Figure 7.13 A business plan collates all of the decision making a business owner needs to have determined prior to commencing trade to ensure it is feasible and strategic.

Question

- Using the inquiry approach to research business plans, **describe** the features and characteristics of business plans suitable for a start-up business. **Create** a paragraph response.

Buy an existing business

For people who want to become business owners, but who are not entrepreneurial, buying an existing business is a suitable pathway. In this pathway option, a business already exists and may have been trading for some time, but the ownership of the business changes. The key features of buying an existing business are:

- Elements of the business, such as the business name, its location, layout, equipment, staff, supplier relationships, the stock on hand and customer base, are already established.
- The value of the business's reputation, known as **goodwill**, forms part of the purchase price for the business.
- The new business owner or owners can choose to continue to run the business as is, or transform the business by **rebranding**, offering new products and services or changing the layout. This should be dependent on the business's reputation and that of the previous owner.

Debt finance: funds that a business seeks from external sources, such as financial institutions. The business uses the money to purchase assets, but must pay back the debt finance over time, incurring interest charges. The most common form of debt finance is a loan.

Equity finance: the internal funds invested into a business and used to purchase assets; often referred to as capital

Goodwill: a monetary value that reflects the reputation of a business

Rebranding: to change the corporate image of a business, including logo, signage and marketing materials

- The new business owner or owners will need to focus on building customer relationships to maintain the current customer base and attract new customers to the business.
- There is a moderate level of risk for the business owners, who rely on the business's ability to maintain former success or instigate positive change. For this reason, business owners need to research why the business is being sold, analyse its previous financial reports and seek advice from their solicitor and accountant to ensure the business is viable and its selling price is fair. If the owner wants to grow the business, they need to be able to assess the potential of the business and forecasted growth by enacting new strategies and developing an updated business plan.

QUESTIONS 7.3



- 1 Compare and contrast opening a new business and buying an existing business.
- 2 In your opinion, which pathway option entails greater risk to a start-up business owner? Justify your response by referring to the characteristics of each business pathway.
- 3 Suggest a range of strategies that a start-up business owner could use to communicate to its customer base that there has been a change in business ownership.
- 4 Select information from your local community to list a range of businesses currently operating and classify them according to whether:
 - a they are new to the market
 - b there has been a change of ownership or management.
- 5 Discuss the list in your class to verify if your classifications are accurate.

Enter into a franchise agreement

In Australia's competitive marketplace, many large businesses want to maximise their competitiveness by setting up in a range of locations. These businesses, set up as private or public companies, include banks, restaurants, supermarkets, service providers and specialty retailers. The business may open stores where it assigns a manager and maintains control over all business activities, but franchises have proven to be a popular alternative to this business model. A franchise allows someone who aspires to be a business owner to own a business, under the guidance and licensing of the large business's head office. Entering a franchise is a conservative pathway option for a business owner since the business's name, reputation, policies and procedures are already established. It also allows large companies to enter regional markets by engaging a local owner to more easily gain community support.

The Franchise Council of Australia defines franchising as:

... a business relationship in which the franchisor (the owner of the business providing the product or service) assigns to independent people (the franchisee) the right to market and distribute the franchisor's goods or service, and to use the business name for a fixed period.

Source: Franchising Council of Australia, <https://www.franchise.org.au/what-is-franchising-.html>

Generally, the **franchisor** will provide all marketing and operational support and the **franchisee** will manage the financing and human resources in the business. For a franchise agreement to be valid, a franchisee must apply for the franchise, undertake interviews, prove financial stability and pay a fee to the franchisor for licensing rights. The franchisor will provide all policies, procedures, branding and training to the franchisee and may collect a percentage of the franchise's profits once the business begins trading (known as a **royalty**), or be paid an annual fee. Regardless of whether the franchisor or franchisee is responsible for certain business tasks, Australia's legal system can hold both parties accountable for non-compliance with the law; most significantly, this can relate to the treatment of employees as set out in the *Fair Work Act 2009*.

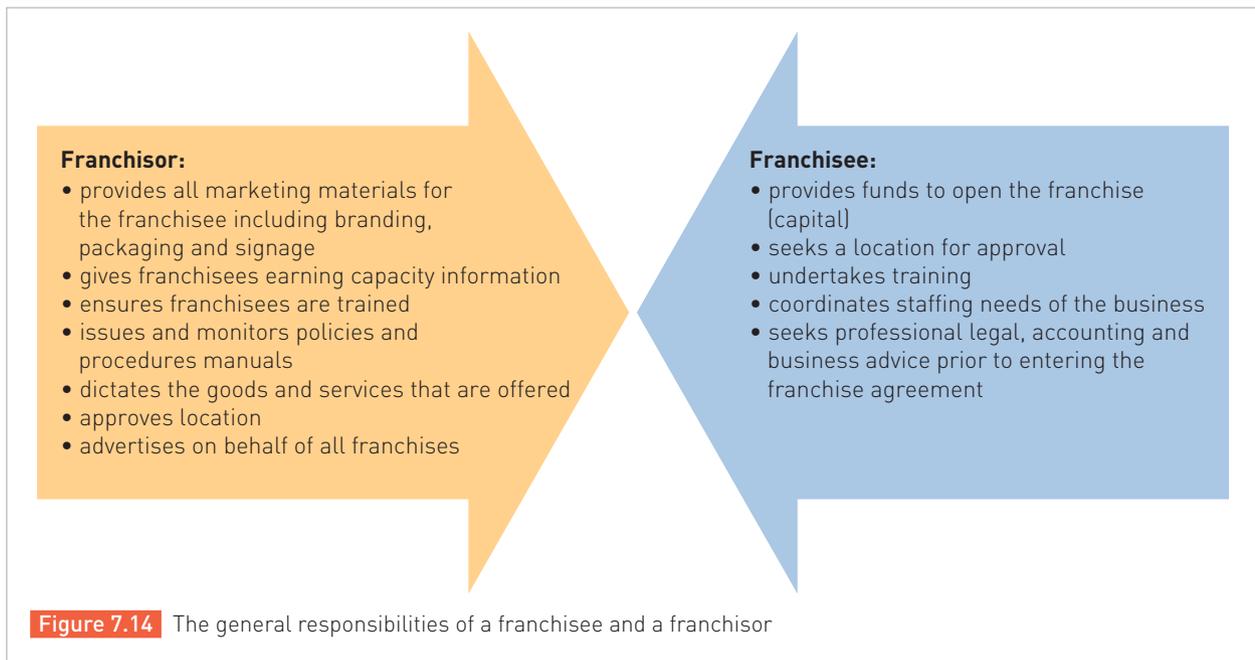
Franchisor: the company that sets up the franchise arrangement and grants the licensing rights

Franchisee: the person who is granted the licence to run a franchise

Royalty: a percentage of sales that must be paid to an investor or contributor to a business or project



Figure 7.14 identifies the general responsibilities of franchisees and franchisors in a franchise agreement.



The Franchising Code of Conduct

In Australia, the entering of a franchise agreement is bound by the *Franchising Code of Conduct* monitored by the Australian Competition and Consumer Commission (ACCC). This requires the franchisor to provide to the franchisee:

- copy of the Franchising Code
- disclosure document which lists current and former franchisees
- copy of the franchise agreement in its final form
- short information sheet outlining the risks and rewards of franchising.

Source: www.business.gov.au © Commonwealth of Australia 2017, distributed under CC BY 3.0 AU licence.
<https://www.business.gov.au/info/plan-and-start/start-your-business/franchise/entering-into-a-franchise-agreement>

It is imperative a franchisee undertakes research before entering a franchise agreement. They can use the ACCC to provide guidance and support. Likewise, franchisors benefit from being able to access this information to ensure their franchise agreement is a fair contract that provides benefits to both parties and abides by franchising legislation.

Case Study 3 at the end of this topic investigates franchises in greater detail.

GAINING INSIGHT 7.5



Franchising in Australia

The franchising industry plays a significant role in the Australian economy, and in 2023 brought it over \$169 billion in revenue, providing jobs for more than half a million people across nearly 100,000 franchise locations. Franchising in Australia is diverse, with different types of franchises offering various ways to run a business:

- **Product franchises** focus on selling goods supplied by the franchisor, such as car dealerships or petrol stations.
- **Business format franchises**, the most common type, provide a complete system for running the business, including everything from marketing to training. Examples include fast-food chains such as McDonald’s or beauty services such as Just Cuts.
- **Management franchises** are more about overseeing operations rather than being involved in the day-to-day work, and are common in industries such as logistics and real estate.

The Business Franchise Australia and New Zealand Group publishes a regular blog on franchising. Follow the weblink to read the article Top 10 Franchises in Australia and respond to the questions below.



Weblink
Top 10 Franchises in Australia

Questions

For one of the franchises in the article:

- 1 **analyse** the macro environmental factors that would influence this franchise using a STEEPLE analysis
- 2 **interpret** two relationships or trends in your analysis to draw a conclusion on the regulatory and financial challenges facing a business in the start-up stage.



Template
STEEPLE analysis

A STEEPLE analysis template is available for you to download on Nelson MindTap.



A.J.R._photo/Shutterstock.com



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Hangouts Vector Pro/Shutterstock.com



Dr. Victor Wong/Shutterstock.com

Figure 7.15 Franchises that operate in Australia include Pool Worx, Gutter-Vac, Pack & Send and Muffin Break

QUESTIONS 7.4



- 1 **Create** a table to **analyse** the advantages and disadvantages of each pathway option.

Pathway	Advantages	Disadvantages
Opening a new business		
Buying an existing business		
Franchising		

- 2 **Explain** the franchising process.
- 3 Formulate a list of 10 franchises from three or more industries currently operating in:
- Australia
 - your local community.
- 4 **Create** a paragraph response to discuss why an entrepreneur would be best suited to opening a new business, rather than buying an existing business or franchising.
- 5 **a Analyse** the similarities and differences between purchasing an existing business and franchising using a Venn diagram.
- b** Using the Venn diagram, **interpret** the trends and relationships to draw conclusions about the implications of starting a business.
- 6 Select information from the ACCC website to **analyse** the benefits and risks of entering a franchise agreement:
- from the perspective of the franchisor
 - from the perspective of the franchisee.
- 7 **Create** a paragraph response that **evaluates** purchasing an existing business and franchising to make a decision for a small business owner who is interested in either of these two options. They have management experience and operational knowledge, and have monitored budgets in the past but are not as confident when it comes to marketing. Respond using the efficiency and competitiveness criteria.

Legal and regulatory requirements

Key learnings

You will learn about legal and regulatory requirements for a start-up business by examining:

- business registration
- legislation
- insurance.

All businesses, regardless of size, must comply with government **regulation**, which includes a range of federal, state and local laws. These are designed to ensure a fair and productive marketplace for businesses, and to protect consumers and employees. A business should engage with a **solicitor** or business lawyer to ensure the business complies with its legal obligations. Figure 7.16 outlines the major legal and regulatory requirements with which all businesses in Australia must comply.

Regulation: a rule or set of standards outlined by a government where compliance by stakeholders is required

Solicitor: a person, qualified in the legal profession, who draws up contracts, provides advice and represents clients regarding legal matters



Taxation

The Australian **Taxation** Office (ATO) is the government agency responsible for collecting tax, which is the revenue earned by government for the provision of public services in the community. Taxes are used for a wide range of purposes including defence, infrastructure, health care, education and welfare, and are distributed to federal, state and local governments so that appropriate public services can be provided. For a business owner, understanding how tax is calculated, collected and paid to the government is a major responsibility. Businesses that do not abide by taxation requirements can be taken to court and fined significantly. Businesses should work with an accountant to manage their finances and subsequent taxation obligations.

Registering for an Australian Business Number

For a business to meet its taxation obligations, it must have an Australian Business Number (ABN). This is an 11-digit identification number provided by the Australian Business Register, an Australian government

Taxation: the process in which government earns its income to provide public services. It is generally in the form of a levy that is added to the selling price of goods or services, or is calculated proportionally to a person's income and then paid to the government



department. While an ABN is primarily used for taxation purposes, it also identifies to consumers the legitimacy of a business operating in Australia and confirms the business's identity to other businesses when ordering and invoicing. An individual who runs a small business with the intention to make a profit must apply for an ABN; the same responsibility applies to medium and large businesses. It costs nothing to apply for an ABN and if a business was to cease its operation, then its ABN can be cancelled. Further, an ABN allows a business to:

- avoid Pay As You Go (PAYG) tax on payments received
- claim Goods and Services Tax (GST) credits
- claim energy grants credits
- obtain an Australian domain name.

The Australian Business Register provides a free resource for people to search for the ABN and trading name of businesses operating in Australia.

Income Tax Assessment Act 1997

If the business owner chooses to pay themselves a wage or salary, or the business has staff, then income tax must be collected. The rate of income tax is means-tested and increases incrementally based on an employee's yearly income. The process of payroll is intensive for a business owner and seeking guidance from an accountant is imperative to ensure employees are paid correctly. The *Income Tax Assessment Act 1997* outlines how income tax is calculated; the Fair Work Ombudsman also provides advice to employers on how to pay staff correctly according to the *Fair Work Act 2009*.

Follow the weblink to view advice from the ATO to start-up business owners regarding the checks and legal requirements they need to follow upon appointing staff to the business.

Follow the weblink to the website of the Fair Work Ombudsman, which provides advice to small businesses about paying staff correctly.



Weblinks
Australian
Business
Register

Australian
Taxation
Office

Fair Work
Ombudsman

Goods and Services Tax

As the name suggests, Goods and Services Tax (GST) is the levy that is applied to goods and services and is another revenue source for the government. GST is applied to most consumer products and the current rate is 10 per cent. In Australia, businesses are required to list their selling price including GST, but must then provide an invoice that differentiates any GST applied to the sale of goods and services. For example, if a business wants to sell a product for \$30, it will need to add \$3 to the sales price to reflect the GST component. A business owner must be aware of the tax that is applicable to the goods and services they offer. Some basic food items do not attract GST, and in other cases, such as the purchase of property, GST does not apply, but a different type of tax, called stamp duty, does apply. Business owners need to keep accurate accounting records of when GST is collected from customers and paid to suppliers as they are eligible to pay any **tax liabilities** to the government, or receive **tax credits**. The ATO will inform the business of the outcomes based on the successful completion of a quarterly Business Activity Statement (BAS).

Business name registration

Businesses are also required to register their business name, or trading name. Business names are monitored by the Australian Securities and Investments Commission (ASIC) to ensure fair competition in Australia. ASIC is a government body that provides regulatory licensing and advice to businesses, financial professionals and consumers. There is only one exception to the requirement that a business must register its business name. This is the case when the business name is the first name and surname of the business owner. For example, if James Smith was an interior designer and called his business 'James Smith', he would not need to register his business name. However, if he was to call his business 'James Smith Interior Designs', 'Smith Designs' or 'JS Homes', then

Tax liability: tax, collected by a business, which needs to be paid to the government

Tax credits: the tax a business pays for the purchase of goods and services; offset against a business's tax liability to reduce the amount of tax that has to be paid

his business name must be registered. ASIC will notify an individual if their preferred business name is already registered. If this is the case, the business will need to trade under a different name. The ASIC website provides a search function for this purpose.

Follow the weblink to ASIC's website.

Registration for companies

If a business chooses to have a company legal structure, either private or public, then, along with applying for an ABN and registering a business name, they must also register their company name. This name cannot be identical to that of another company that already exists. ASIC has specific rules that apply to company names to ensure they are not offensive, do not suggest illegal activities and are not misleading to consumers about the services the business provides. Businesses must also be careful that a company name does not breach the trade mark of another business entity that already exists.

When registering a company, a business owner must establish a set of rules, and provide a **constitution** for the business, and key roles must be identified. These include having a director, a secretary and at least one member. Businesses that successfully register as a company will be issued with an Australian Company Number (ACN) and must display the company name and ACN on any published documentation. A company must notify ASIC at any time that ownership or structural changes are implemented.

QUESTIONS 7.5



- 1 **Explain** the role federal, state and local governments have in relation to start-up businesses.
- 2 **Explain** the purpose of a business requiring an ABN.
- 3 **Describe** the features of GST and income tax as they apply to businesses.
- 4 **Explain** the registration process for a private or public company.
- 5 Research a BAS available online to **describe** its parts.
- 6 **Explain** the process of registering a business name, considering the impact on stakeholders.

Licences, permits and certificates

Business owners must ensure they obtain all relevant licences, permits and certificates to run their business legally. These are issued by all levels of government to ensure that a quality standard is maintained within industries, and non-compliance could result in fines or the business being closed for an indefinite period. **Licences** are generally required by a business to allow them to conduct any sort of trade – for example, building licences for construction firms, working with children checks for child care centres and lottery licences for newsagencies. **Permits** are often provided when the scope of what the business does extends beyond licensing requirements. For example, a gym would need a permit to offer 24-hour access and a bar may need to apply for a permit to extend its trading hours. **Certificates** are issued by local councils and contribute to quality assurance practices. For example, any business that serves food must obtain a food safety certificate, which needs to be visible to customers.

While obtaining licences, permits and certificates can be costly to a business (they are generally renewed yearly), a start-up business benefits from having these requirements in place as they provide assurance that the business is meeting expected standards. Researching licences, permits and certificates can also allow business owners to seek opportunities to grow their business, by considering a range of options. For example, a restaurant may be eligible to apply for a footpath dining permit, which would allow it to offer outdoor seating in front of the business premises.

The Australian Business Licence and Information Service provides businesses with advice regarding licences, permits and certificates they may need.

Constitution: a document that outlines the rules that govern a company, its directors and shareholders

Licence: a legal acknowledgement that a person or business is granted permission to operate

Permit: a legal acknowledgement that a person or business is allowed to operate an aspect of the business not covered by standard licensing

Certificate: an approval from a local council that identifies a business is meeting its legal obligation related to a specific operating task



Weblink
Australian
Securities
and
Investments
Commission



Weblink
Australian
Business
Licence and
Information
Service



INQUIRY



Investigating licences, permits and certificates

Using the inquiry process, **describe** the licensing, permit and certificate requirements for a business in your local community. Your teacher may select a business for you, or you can choose yourself. **Create** a short presentation to communicate your findings to the class.

Employment and workplace relations

A business owner must ensure they treat their staff fairly, pay them appropriately and contribute superannuation on their behalf. In Australia, the federal and state legislation that governs these business practices includes the *Fair Work Act 2009*, the *Superannuation Guarantee (Administration) Act 1992* and various federal and state anti-discrimination laws.

Fair Work Act 2009

The *Fair Work Act 2009* provides employers and employees with provisions to ensure a harmonious working environment. The *Fair Work Act* provides information regarding minimum standards, workplace conditions, enterprise bargaining expectations, unfair and unlawful dismissal definitions and processes, and grievance processes.

A significant section of the *Fair Work Act* is the explanation of the National Employment Standards. There are 12 standards that all businesses, regardless of size, location or industry, must provide as a minimum to full-time and part-time employees. These are shown in Figure 7.17.



Source: www.fairwork.gov.au © Commonwealth of Australia 2023, distributed under CC BY 3.0 AU licence

For casual employees, the following standards apply:

- offers and requests to convert from casual to permanent employment
- paid family and domestic violence leave
- unpaid carer's leave
- unpaid compassionate leave
- unpaid community service leave
- the Fair Work Information Statement (FWIS) and the Casual Employment Information Statement (CEIS)
- long service leave (for long-term casual employees in some states and territories).

Further, some casual employees who have regular employment with a business for longer than 12 months may be entitled to additional standards, including:

- requesting flexible working arrangements
- access to parental leave.

Sitting under the *Fair Work Act* and the National Employment Standards are 123 **modern awards** that specify minimum working conditions for industries and occupations, which are further refined in Australia's states and territories. For some industries, occupations or workplaces, agreements are also negotiated between a business, or group of businesses, and its employees. This process is called **enterprise bargaining**. Such agreements generally provide entitlements that exceed what is outlined in an award. Employers that negotiate individually with employees regarding terms and conditions of employment may then enter into **employment contracts**, which, again, generally provide entitlements that exceed or are balanced with a modern award or the National Employment Standards (Figure 7.18).

If either the employer or the employee has queries or concerns regarding the employment arrangements of the business, they can seek advice from the Fair Work **Ombudsman**, a government-funded independent statutory office, whose role is to provide a free service to employers and employees as tasked through the *Fair Work Act*. The role of the Fair Work Ombudsman is to promote harmonious, productive and cooperative workplace relations and ensure compliance with Australian workplace laws. This includes investigating complaints about illegal workplace practices.

Follow the weblink to view the services provided by the Fair Work Ombudsman.

Superannuation Guarantee (Administration) Act 1992

The ATO defines superannuation as

'A system where money is placed in a fund to provide for a person's retirement'.

Source: Industry Super Funds, <https://www.industrysuper.com/understand-super/super-basics>

It is the responsibility of an employer to ensure that superannuation is paid. The rate for superannuation is 11.5 per cent as of 1 July 2024 and will increase to 12% on 1 July 2025, and this is calculated based on an employee's ordinary hours of work. As part of the superannuation guarantee, a business owner must contribute these funds to employees' superannuation funds quarterly. Using a computerised accounting or payroll system can assist a business owner in calculating the superannuation for their employees.

Follow the weblink to see a superannuation guarantee (SG) contributions calculator that the ATO provides to assist employers in calculating the right amount of super to pay for their employees.

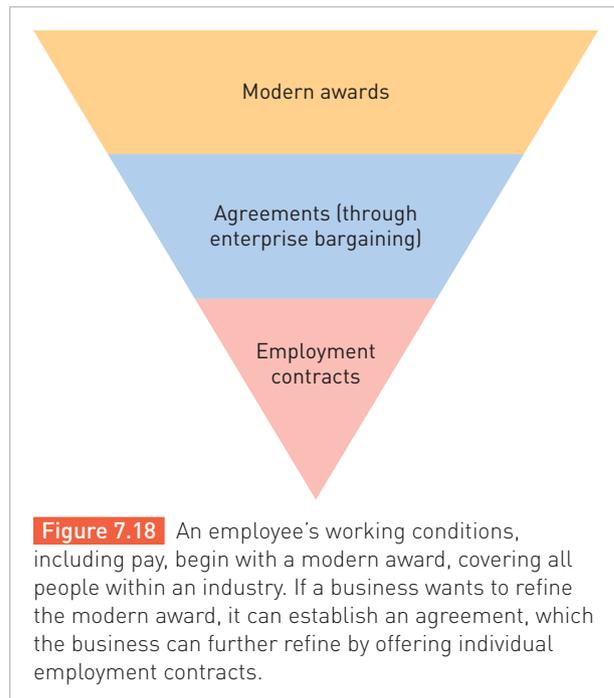


Figure 7.18 An employee's working conditions, including pay, begin with a modern award, covering all people within an industry. If a business wants to refine the modern award, it can establish an agreement, which the business can further refine by offering individual employment contracts.



Modern awards: a type of law issued by the government that outlines the minimum working conditions for employees within an industry

Enterprise bargaining: when employers and employees negotiate pay and working conditions, which are recorded in an agreement. Both employers and employees can appoint representatives (employer associations and trade unions) to assist in the negotiation process.

Employment contract: an agreement of working conditions between employer and employee that may exceed minimum standards set out in modern awards or the national employment standards

Ombudsman: an officially appointed organisation that investigates complaints made against a business, dependent on industry

Anti-Discrimination laws (federal and state)

Businesses must ensure that they embrace diversity in their workforce and can be fined if it is proven they have discriminated against an employee or a potential candidate for a job. Start-up businesses can embrace diversity and avoid discrimination claims by employing people of different age, disability status, race, sex, intersex status, gender identity and sexual orientation.

A business owner needs to be open to employing a range of staff and can be provided incentives for employing staff who have a disability or have been unemployed for an extended period. The laws that impact on anti-discrimination in Australia and Queensland include the:

- *Age Discrimination Act 2004 (Cth)*
- *Disability Discrimination Act 1992 (Cth)*
- *Racial Discrimination Act 1975 (Cth)*
- *Sex Discrimination Act 1984 (Cth)*
- *Anti-Discrimination Act 1991 (Qld)*.

These are overseen by the Australian Human Rights Commission and the Queensland Human Rights Commission. Follow the weblinks to find advice and resources related to anti-discrimination and equal opportunity at work.



Weblinks
Australian
Human Rights
Commission

Queensland
Human Rights
Commission



Figure 7.19 Start-up businesses must ensure they do not discriminate in the workplace.

Aleutie/Shutterstock.com

Privacy

Protecting personal, confidential and sensitive information has always been important in Australia, but this importance has increased since the digital age, where a spotlight is often placed on data and if and how it can be shared. In Australia the *Privacy Act 1988* (the Act) sets down the legal framework with which businesses with an annual turnover of more than \$3 million must comply. While many start-up businesses may not achieve this rate of turnover, it would be in the best interest of the business to set up policies and procedures that align with the Act to ensure business integrity is upheld when it comes to handling personal, sensitive or confidential information.

The Act includes 13 Australian Privacy Principles (APPs), which must be adhered to, and extra regulations set down for consumer credit reporting, tax file numbers and research in health and medicine. The APPs cover the requirements for businesses to have a privacy policy; in how to collect and deal with unsolicited information (e.g. those marketing emails you might receive where you have an option to ‘unsubscribe’); for reporting if there is a privacy breach (Figure 7.20); and the rules regarding security and storage of information.

The requirements of the Act and the APPs is overseen by the Office of the Australian Information Commissioner (OIAC). The OIAC website provides a wide range of information for individuals and businesses on their rights and responsibilities. Some of Australia’s large organisations have been investigated by the OIAC for data breaches (statistics provided in Figure 7.20 caption), including Optus, Medibank, Canva, Latitude and the Australian National University.



Figure 7.20 Data breaches are becoming more common in Australia. The OIAC received 483 notified breaches from July to December 2023, up 19% from 407 breaches in the first half of 2023.

TipparPatt/Shutterstock.com



Weblink
Office of the
Australian
Information
Commissioner

QUESTIONS 7.6



- 1 **Explain** why a business needs to consider licences, permits and certificates in its strategic planning.
- 2 **Explain** the purpose of the following pieces of legislation.
 - a *Fair Work Act 2009*
 - b *Superannuation Guarantee (Administration) Act 1992*
 - c anti-discrimination laws (federal and state)
- 3 Referring to Figure 7.19, identify the forms of discrimination evident in the image.
- 4 **Explain** how a business owner can ensure they do not discriminate against their staff or potential candidates.
- 5 **Explain** when the *Privacy Act* provision applies to business in Australia.
- 6 Select a company that has had a data breach in Australia. **Create** a paragraph to **describe** the facts of the data breach. Discuss your findings with the class.

Work health and safety

An essential responsibility of businesses is to ensure they provide a safe working environment for any person who contacts the business, including employees, customers and suppliers. In Australia, states and territories are responsible for administering work health and safety legislation. In Queensland, the *Work Health and Safety Act 2011* (the Act), the *Work Health and Safety Regulation 2011* and **codes of practice** outline the legal obligations of businesses to provide a safe workplace (Figure 7.21). Within these laws are a key set of responsibilities for a business. These include the responsibility to:

- ensure safe systems of work
- ensure safe use and handling of goods and substances
- provide information, instruction, training and supervision to workers to ensure they are safe
- assess risks and implement appropriate measures for controlling them
- report notifiable incidents to Workplace Health and Safety Queensland
- investigate incidents and act to avoid having something similar happen again
- provide workers' compensation insurance.

Work health and safety is regulated through the Act, regulations and codes of practice.

The Act provides the framework for consistent work health and safety in Queensland across all industries. These industries include, but are not limited to, construction, banking, retail, hospitality, education and manufacturing. Regulations provide administrative and procedural detail relating to the Act and how the Act can be implemented by businesses within certain industries. For example, in the construction industry, all employees must complete a 'general construction induction training' program, as outlined in the regulation. Finally, codes of practice are the practical guide to achieving workplace health and safety, fine-tuned to industry. Continuing with the construction example, there are codes of practice for demolition, excavation, safe design of structures, managing fall risks, electrical risk, noise, asbestos and working in confined spaces.

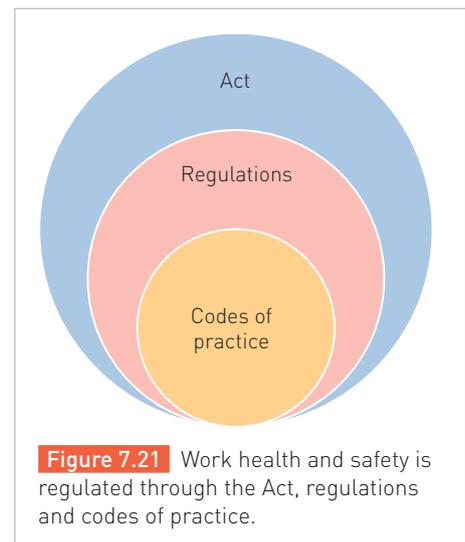


Figure 7.21 Work health and safety is regulated through the Act, regulations and codes of practice.

Work Health and Safety Act 2011: legislation that provides a framework to ensure safe work practices are carried out in all workplaces

Work Health and Safety Regulation 2011: in a workplace health and safety context, this provides administrative and procedural detail relating to the Act

Codes of practice (work health and safety): the practical guide to achieving workplace health and safety, fine-tuned to industries

Four statutory bodies exist to ensure the law is enforced and to provide support for businesses in Queensland (Figure 7.22). These are:

- Workplace Health and Safety Queensland
- the Electrical Safety Office
- WorkCover Queensland
- the Workers' Compensation Regulatory Services.

Workplace Health and Safety Queensland inspects businesses for compliance and strives to sustain and improve safe and healthy work environments in Queensland. The Electrical Safety Office focuses on raising awareness about electrical safety and inspecting businesses for compliance. WorkCover Queensland provides workers' compensation insurance to all Queensland businesses, and the Workers' Compensation Regulatory Services oversees the workers' compensation scheme, provides grants and mediates disputes.

Follow the weblink to the website of Workplace Health and Safety Queensland, which provides advice, checklists and contacts to small business owners to assist them in setting up a safe workplace.



Weblink
Workplace
Health
and Safety
Queensland

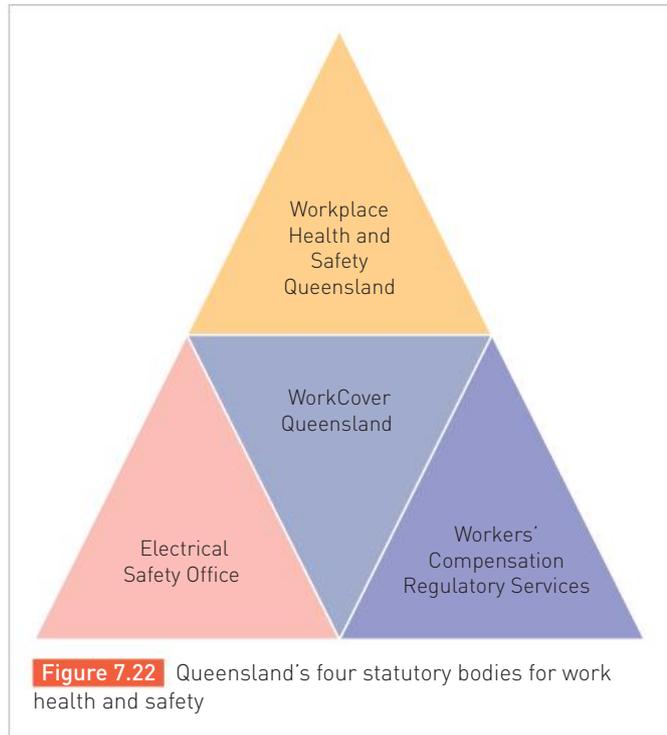


Figure 7.22 Queensland's four statutory bodies for work health and safety

GAINING INSIGHT 7.6



A new approach to work health and safety

A contemporary term used by businesses who create programs, policies and procedures related to work health and safety is called health, safety and environment (HSE; Figure 7.23). Businesses have adopted the HSE

terminology as a way of demonstrating commitment not only to legislative requirements but to the welfare of staff and care for the environment in which the business interacts. HSE takes a holistic approach to safety at work.



Figure 7.23 HSE is a holistic business approach to caring for and supporting workers, ensuring safety and making positive decisions for the environment in which the business operates.

buffaloboy/Shutterstock.com

Mandatory standards

Businesses also need to comply with standards of quality and reporting if intending to sell certain products. **Mandatory standards** are put in place by Product Safety Australia, a branch of the ACCC, to ensure that consumers are informed about the safety of goods, regardless of their brand name or where the item is produced. It is illegal for businesses not to follow mandatory standard practices in Australia. Some of these include:

- safety of baby products, toys, fire extinguishers and electrical goods
- labelling of ingredients in food, cosmetics and cleaning products
- health warnings on tobacco and alcohol products.

QUESTIONS 7.7

Product Safety Australia, a branch of the ACCC, lists current mandatory standards that affect goods sold in Australia. Following the weblink, **select** information from the Product Safety Australia website to **explain** mandatory standards, providing a range of examples. **Create** paragraphs to communicate your response.



Weblink
Product
Safety
Australia

Codes of practice

Industries can also be also governed by **codes of practice**. Codes of practice are a set of standards put in place to regulate activities within an industry. Some of these relate to work health and safety; others focus on protecting businesses and consumers from unethical or dangerous practices. Some activities monitored by codes of practice are the:

- use of certain fertilisers for farming of fruit and vegetables
- care of animals that are used in scientific and medical testing
- appropriateness of advertising for radio, television and cinema (Figure 7.24)
- selling and distribution of tickets for sporting events and live performances.



Figure 7.24 Ad Standards is the administrator of the advertising complaints system and secretariat for the Community Panel that makes determinations about ad complaints from the community in all forms of media, such as radio, television and the internet.

Ad Standards

Mandatory standards: the legal requirement for businesses to inform consumers about the safety of particular goods, often completed through labelling of the product

Codes of practice (industries): a set of standards put in place to prevent unethical or dangerous practices occurring in an industry



Insurance

Just as businesses are required to have workers' compensation insurance, a business can also be legally obliged to take out other insurance policies to protect the owners, staff and customers against risk.

These include:

- *professional indemnity insurance*, which protects professions against **litigation** for malpractice (such as breaching a contract, causing injury or incorrect advice). This insurance is most frequently acquired for medical practitioners, financial advisors and accountants.
- *public liability insurance*, which protects a business if injury or damage is incurred by any third party while on business premises or using business equipment. **Third party** refers to people who do not work for the business, such as customers, clients and suppliers.

- *product liability insurance*, to protect businesses if their products become dangerous, such as causing injury or property damage
- other business insurance, generally packaged together by an insurance company that provides cover against risk such as fire, theft, property damage and cyber or data breaches.

Follow the weblink to the website of the ACCC, which provides advice regarding product liability.

Business owners can seek advice from their solicitor, **insurance brokers** and insurance companies to help them set up their business with relevant insurance. If a business chooses to not be protected, they risk not being able to secure licences to operate or finance from **financial institutions** and investors.

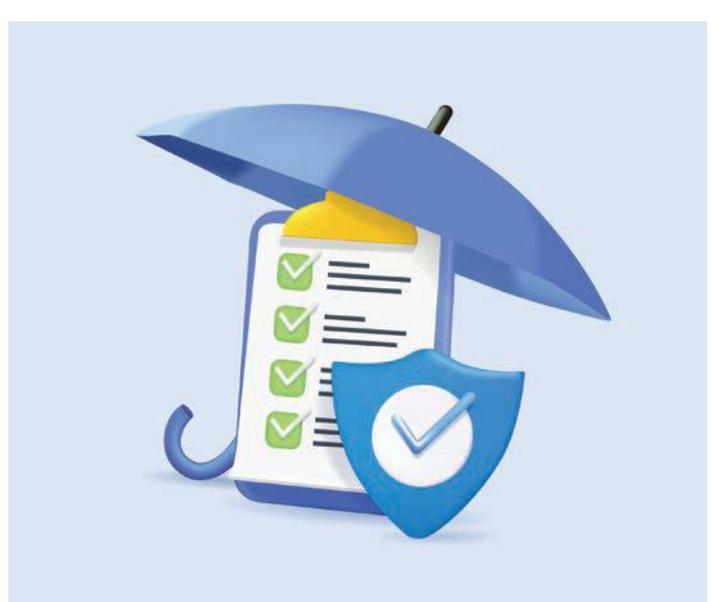


Figure 7.25 Individual businesses must ensure that they have the right types of insurance to protect them from unexpected events that could financially cripple the business.

Red Vector/Shutterstock.com



Weblink
ACCC –
product
liability

Advertising and the Australian Consumer Law

All businesses must comply with the Australian Consumer Law to ensure they are operating ethically and providing correct information to their consumers. This includes the process for exchanges and refunds, and the rules surrounding advertising. More information relating to the Australian Consumer Law can be found in Chapter 9.

Intellectual property

As covered in Chapter 6, a start-up business must ensure it protects its intellectual property. This includes applying for patents for new or innovative products, trade marking the business name and its branding, and securing a domain name on the internet to ensure it is well prepared for its first year of trade.

Litigation: when legal proceedings occur between two opposing parties to enforce or defend a potential breach of the law

Third party: one or more people who are affected by an event, but who may not be directly involved or responsible

Insurance broker: a person who provides professional insurance advice and negotiates policies on behalf of their clients

Financial institution: an organisation that provides banking services

QUESTIONS 7.8



- 1 **Explain** the interrelationship between the *Work Health and Safety Act*, regulations and codes of practice.
- 2 **Explain** the role of Queensland's four statutory bodies relating to work health and safety.
- 3 Select data and information relating to work health and safety in a specific industry to identify the legal requirements placed on that industry by the regulations and codes of practice.
- 4 Summarise the following types of insurance:
 - a professional indemnity
 - b public liability
 - c product liability.
- 5 a Select data and information from two insurance companies to **analyse** the similarities and differences between their respective small business insurance products.
 - b **Interpret** patterns and relationships to draw conclusions about the impact insurance has on a start-up business.

Financing a business

Key learnings

You will learn about financing a business by examining financial objectives.

Financial objectives

A start-up business will achieve its goals if it has strategically planned its finances. Managing finances requires a business to forecast, record, report and analyse its financial information. To evaluate how the business is positioned financially, a business owner should implement strategies that align with five overarching financial objectives. These objectives are profitability, liquidity, solvency, growth and efficiency (Figure 7.26).

Profitability

The main objective of a business is to make a profit; this is the reason a business owner will invest in an idea. Achieving a profit requires a business to generate revenue or income that is greater than its expenses. Profit is generally reported on a yearly basis, but each product or service sold by a business requires a **profit margin** to be achieved. The profitability objective also encompasses **profit maximisation**, relating to how effectively and efficiently profit has been earned, and if there are opportunities for profitability to improve.

Businesses that sell cheap products in high volumes, such as grocery stores and fast-food outlets, will have a low profit margin but generate a high volume of sales. The opposite occurs in businesses that sell expensive



Figure 7.26 The main financial objectives for business

Profit margin: the portion of a selling price that contributes to profit; generally represented as a percentage

Profit maximisation: the process by which a business strives to achieve an increased or greater potential profit



products, such as high-end furniture retailers and fine dining restaurants. These businesses have lower sales but rely on high profit margins to achieve a profit for each **reporting period**.



Figure 7.27 Basic fruit and vegetables are often sold with a low profit margin while luxury cars are often sold with a high profit margin.

Liquidity

The objective of **liquidity** refers to the short-term **cash flow** of a business. Cash flow is the flow of cash (electronic transfers and physical currency) into and out of a business. For example, a business in the start-up stage will often have to spend a considerable amount of money to get started before it begins selling and earns revenue or income. Businesses that offer trade credit, or set up accounts with other businesses, often need to manage their cash flow to ensure there is enough money in the business's bank account to pay bills on time. A business can implement a range of **controls** that promote positive and sustainable cash flow in the business.

Solvency

Solvency is similar to liquidity, but is focused on the long-term financial obligations of the business. While a business in start-up can achieve success quickly and escalate to the growth stage of the business life cycle, businesses that grow too big, too soon, often find they are purchasing frequently, in larger amounts (for example, **assets** including furniture and fittings, stock or signage). They may then find either that their revenue flows into the business at a much slower pace, or their debt finance increases while the value of the asset decreases. These actions place a business in an unstable financial position as its debt value could outweigh the value of assets. Hence, solvency is an objective that investors take seriously, as it can indicate the level of financial risk in the business. It is through the solvency objective that the balance of debt and equity finance is evaluated against the assets purchased by the business.

Some businesses become **insolvent** – they can no longer afford to pay off debt finance. This can result from a business failing to carefully monitor its expenses, how much money it owes to suppliers or banks and the value of its equity. In this case, ASIC will appoint an accounting firm to manage the insolvency process.

Reporting period: an accounting term that represents the span of time over which financial reports are related

Liquidity: relates to a business's ability to convert assets quickly to cash, which may then be used to cover expenses

Cash flow: the monitoring of money that flows into and out of a business. A business must strive for positive cash flow, which means more money flows into the business than is paid out.

Controls: the policies and procedures a business puts in place to ensure that the security of the business's finances is maintained

Solvency: relates to a business's ability to meet its debt obligations in the long term, while maintaining high value of its assets

Assets: items of value that a business owns

Insolvent: describes a business that is unable to pay back its debt finance

The accounting firm will calculate the business's assets and attempt to sell them to pay off its **liabilities** and, if funds remain, issue returns to shareholders, partners or the business owner. Other terms used to describe insolvency include liquidation and bankruptcy.

Growth

Complementing the objective of profitability is the financial objective of growth. As businesses achieve success, it is foreseeable that they will grow. This can occur through extending a product line, expanding a store, opening in new locations and increasing market share. Financially, growth must be managed to ensure the business is generating enough revenue to cover its growth expenses. Using a comparative **profit and loss statement (income statement)** and **statement of financial position (balance sheet)** can indicate whether the growth objective is being achieved successfully or if the business needs to be more conservative in executing its growth strategy.



Figure 7.28 Start-up businesses must set financial objectives to ensure long-term success.

Khakimullin Aleksandr/Shutterstock.com

Efficiency

A business that strives to maintain an appropriate value of assets, while also earning a significant profit, is achieving the financial objective of efficiency. Businesses need to assess their spending regularly, and be cautious of overspending, as this can limit profitability. An example of efficiency in practice can be seen when a business considers salaries and wages for its staff. Particularly in the retail industry, businesses are efficient when they only increase staff 'on the floor' during peak trading times (e.g. late-night trade and weekends). For fast-food outlets, which require a significant number of staff to ensure orders are processed within a short time frame, it would be efficient to choose to employ juniors (people under the age of 21) as their pay rate per hour can be significantly lower than for someone over the age of 21. Other examples of efficiency in practice include manufacturers buying in bulk to reduce costs, a distributor selecting a location with a low rent if it does not require street presence, and a law firm that aims to reduce courier and postage costs by sending documents electronically.

QUESTIONS 7.9



- 1 **Explain** the five financial objectives of business.
- 2 Compare profitability with profit maximisation.
- 3 Discuss how growth and efficiency can be two complementary objectives.
- 4 Identify which objective(s) focus on each of the following:
 - a business assets
 - b income/revenue
 - c liabilities
 - d investment
 - e expenses.
- 5 Select data and information relating to a small business's overall goals and compare them to the five financial objectives.

Liabilities: money a business owes to another party, generally in exchange for the purchase of assets

Profit and loss statement (income statement): a financial report that summarises a business's revenue and expenses to calculate profit

Statement of financial position (balance sheet): a financial report that summarises a business's asset and how they are financed to inform the business's financial position

INQUIRY



Investigating the financial objectives

Using the inquiry process, create a one-page report that responds to the following question: 'How do the five financial objectives conflict with one another and what impact does this have on business decisions?'

Macro environmental factors influencing financing of a start-up business

Key learnings

You will learn about start-up financing by examining the influence of the macro environment.

The strategic planning that businesses require to achieve their financing objectives and establish their operating environment is influenced by the macro environment. This can be analysed using STEEPLE factors. Internally, the owner of a start-up business should consider these factors to inform their decision-making and ensure they place themselves in a financially viable position to achieve their business goals.

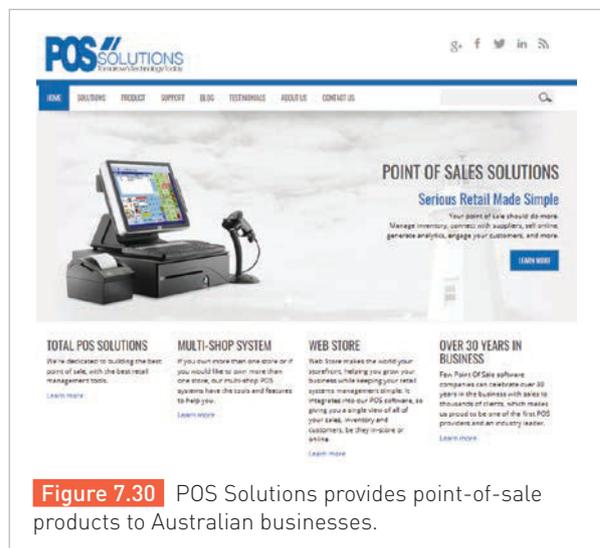
Socio-cultural factors

Socio-cultural factors influencing financing tend to focus on the business concept and perceived potential from investors and lenders. When opting to support a business, investors will want the business concept to be popular in the market, with consumer buying behaviour trending upwards. The business concept will need to meet consumer lifestyle preferences and have a positive impact on the economy to give investors and lenders confidence. This factor links closely with ethical factors in regards to financing.

Technological factors

Technological factors and financing for a business are closely aligned. Technology makes applying for finance more accessible and improves communication between start-up businesses and their banks and investors. Technology has also provided start-up businesses with computerised point-of-sale and accounting software packages that streamline financial record-keeping (Figures 7.29 and 7.30). Start-up businesses should consider implementing these computerised software packages as part of their strategic planning to increase effectiveness and efficiency within the business.

MYOB, <https://www.myob.com/au>



INQUIRY



Investigating technology

Using the inquiry process, investigate a computerised accounting or point-of-sale software package to **describe** its features and **explain** its benefits if purchased by a start-up business.

Economic factors

The state of Australia's economy can impact on the options available to start-up businesses when seeking finance. When an economy is in a growth state, start-up businesses may find finance easier to access through a **financial intermediary**, such as a bank, relaxing its application requirements. However, in times of economic instability, when **cash interest rates** and **inflation** are adjusted, financial intermediaries can tighten their application requirements, making it more difficult to secure finance. A start-up business owner should familiarise themselves with economic changes and how they affect business funding. Sometimes, an economic downturn can result in a government boosting grants and incentives to businesses to revive an economy, and a start-up business owner should seek to maximise these opportunities.

Environmental factors

For financing a business, environmental factors are generally linked to efficiency. This includes minimising the waste of resources, a consideration that can generally be managed effectively by being careful about spending. A start-up business would need to define its contingency plans for securing finance if the business relies on land resources, as in the case of grazing or farming, so that financial intermediaries and investors are confident in funding the business.

Political factors

The political environment can have an impact on financing through a business's compliance with legislation or through the provision of grants to start-up businesses to encourage stability and growth. As discussed earlier in this chapter, a start-up business needs to comply with taxation and superannuation legislation and must factor these costs into its budget. Changes to taxation and superannuation are often debated in parliament and can be used by political parties to gain support from voters. Further, if a start-up business does not allocate these funds effectively, it risks paying government penalties for not meeting its taxation and superannuation obligations.

On the positive side, governments may also provide business payments and grants to start-up businesses. These grants could cover product development, or employment and training incentives. These opportunities are also influenced by economic factors, but often a government will introduce policies that support start-up and small business. Governments also provide start-up business owners with free access to business information, including how to fund the business and ensure it has accurate budgets and efficient cash flow.

Follow the weblink to access Business Queensland, a website set up to provide business owners with support and advice in Queensland.

Advance Queensland is a government initiative supporting start-up businesses in Queensland by providing advice, support and grant opportunities.

Legal factors

As discussed in 'Political factors' start-up businesses need to ensure they comply with relevant legislation, and meet their financial obligations, when setting up their business. A start-up business will need to factor the cost of applying for licences, permits and certificates into its budget, along with rent and hire expenses for premises and equipment. A start-up business may also need to purchase work health and safety equipment as a condition of

Financial intermediary: an organisation such as a bank, credit union or finance company that offers debt finance products to the market

Cash interest rates: a charge, set by the Reserve Bank of Australia, that regulates a percentage fee associated with

lending funds, or the expected return on funds that are invested

Inflation: the general increase in prices for goods and services as the value of money decreases over time



Weblink
Business
Queensland

Advance
Queensland



approval before licences, permits and certificates are issued. The cost of engaging a solicitor or business lawyer is a must for a start-up business to ensure all legal obligations are considered.

Ethical factors

When financing a start-up business, ethical factors will influence the decisions made by stakeholders to either invest in the business or choose to be a customer. Ethical factors focus on transparency in how the business is going to operate, what values it has in relation to its supply chain, its strategies regarding environmental, social and governance (ESG) frameworks and how it will maintain security of stakeholder information. In financing, a lender or investor may want to see what ethical commitments are embedded in the business plan of the business, to ensure it has longevity in the market and will appeal to customers. For example, the toilet paper disrupters Who Gives a Crap were able to crowdfund their investment by promoting their ESG objective of donating 50 per cent of their profits to countries with poor sanitation and citizens who didn't have access to a toilet.

GAINING INSIGHT 7.7



émotions toilet paper

The émotions toilet paper brand is an Australian social enterprise created with a dual focus on sustainability and mental health awareness. Founded by Rochelle Rich, émotions was developed as a way to support mental health initiatives across Australia. émotions offers eco-friendly toilet paper made from 100 per cent recycled materials or bamboo, with an emphasis on reducing environmental impact.



Weblink
émotions
article

Follow the weblink to read the article 'émotions joins roll of toilet paper companies giving a crap about social causes', published by Business News Australia, and respond to the questions below.

Questions

- 1 Identify the financial data in the article to indicate that émotions is in the start-up and subsequent growth stage of the business life cycle.
- 2 From the business situation, **describe** the financial knowledge that Rochelle Rich has been able to bring to the émotions business model.
- 3 **Analyse** the macro environmental factors that have influenced émotions as a start-up business using a STEEPLE analysis. **Interpret** a trend and relationship from your analysis to draw conclusions about successful business start-ups in Australia.



Figure 7.31 The émotions product design

QUESTIONS 7.10



- 1 Summarise the impact of STEEPLE factors on business financing.
- 2 **Create** a table to suggest a range of local start-up or small businesses that would be influenced by STEEPLE factors related to financing. A sample response is provided.

Macro environment factor	Example of local start-up or small businesses
Socio-cultural	A new business focusing on providing consulting for artificial intelligence uses market data and statistics as part of their business plan to seek investment.
Technological	
Economic	
Environmental	
Political	
Legal	
Ethical	

- 3 Select information from a start-up business in your local community and **analyse** the macro influences on the business using STEEPLE.

A STEEPLE analysis template is available for you to download on Nelson MindTap.



Template
STEEPLE
analysis

Sources of finance

Key learnings

You will learn about sources of finance by examining:

- equity finance
- debt finance.

The word ‘finance’ is used for many purposes, but most common is the way a business secures money for its operations. Financing a business requires careful management and a business owner should seek advice and guidance from an **accountant** as well as a **financial adviser** to ensure the best financing decisions are made.

Before a business owner can approach a bank or investors, they need to have saved their own money to invest into the business start-up. This is called equity finance. When a business approaches a bank for a loan, where a time limit and interest rates are part of the contract, this is called debt finance. A business uses debt and equity finance together to purchase assets for the business so it may begin trading.

Equity finance

Equity finance is the **investment** made in the business by the owner, or by others who see the business’s potential to make a profit and want to receive some of this profit in return for their investment. It is considered an internal source of finance and, depending on the business’s legal structure, can be termed differently. For example, sole traders and partnerships refer to equity finance as capital; private companies refer to equity finance as capital, shares or stake; and public companies refer to their equity finance as shares.

Accountant: a person who records, monitors and reports upon a business’s transactions and subsequent financial reports

Financial adviser: a person who is qualified to provide investment advice to clients

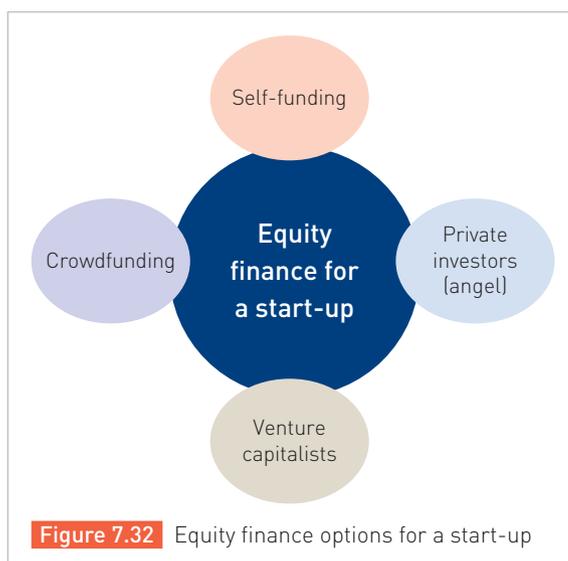
Investment: when a person contributes their own funds to a business or enterprising activity, with the goal of making a return on their money



For a business in the start-up stage (likely to be a sole trader, partnership or private company) there are numerous ways in which equity finance can be sourced. These are:

- self-funding by the owner(s)
- seeking **private investors** (angel investors) or **venture capitalists**
- **crowdfunding** (Figure 7.32).

Regardless of how equity finance is sourced, a business must strive to achieve profitability and solvency to ensure that there is a return on investment. If the business fails to perform, then investors may choose to withdraw their equity finance, which could put the business in a challenging financial position. For a start-up business, equity finance would be considered a long-term option as investors will generally commit their funds for longer than one year. In the current environment, most investors will only come on board with a business after it has been launched in the market, as the investor will want to understand the financial value of the business, the cost price for products, their selling price and subsequent profit margins. As such, most new start-up businesses are initially funded by the owner using their personal savings as equity.



QUESTIONS 7.11



- 1 **Explain** equity finance and why it is considered an investment.
- 2 **Explain** the relationship between retained profit and strategic planning.
- 3 There are different types of crowdfunding. Create a paragraph to compare donation-based, reward-based and equity-based crowdfunding.
Interpret a relationship or a trend in the STEEPLE analysis to draw conclusions about the implications of crowdfunding for a start-up business.
- 4 **Analyse** crowdfunding as an equity finance option for a new driver safety program that travels to different cities and towns in Queensland using a STEEPLE analysis.

A STEEPLE template is available for you to download on Nelson MindTap.



Template
STEEPLE
analysis

Private investor: a person or business that provides equity finance to a private company structure. A private investor who chooses to specifically fund a start-up business is referred to as an 'angel investor'.

Venture capitalist: a person or business that provides equity finance to a business with plans for growth and expansion

Crowdfunding: seeking funding from a large number of people who each contribute a small amount, generally promoted through a fundraising website. The people who invest may choose to donate or request a share in the business and be paid a return from any profits.

Profit can also be considered a type of equity finance. For example, profit that is recorded at the end of a financial period can be reinvested into the business, rather than being distributed to the business owner or investors. This reinvested money is referred to in financial reports as retained profit. Businesses that choose to reinvest profit into the business often use these funds to support the growth financial objective because the greater its access to equity finance, the greater opportunity the business has for expansion.

GAINING INSIGHT 7.8



Shark Tank Australia

Shark Tank Australia is a television show on which aspiring entrepreneurs pitch their business ideas to a panel of successful investors, known as the Sharks. The Sharks decide whether to invest their own money in the business in exchange for equity, providing the entrepreneurs with both financial backing and valuable mentorship. The show is designed to highlight innovation and entrepreneurship, giving viewers insight into the challenges and opportunities faced by new businesses.

Question

- 1 Watch a pitch from Season 5 of *Shark Tank Australia* (available on 10 play or YouTube). **Analyse** the financial considerations undertaken by each Shark as they relate to each entrepreneur's pitch by completing the following table. **Interpret** a relationship from your analysis to draw conclusions regarding a start-up business securing equity finance from an investor. Create a paragraph response.



WebLink
10 play

Shark Tank highlights

Business name	Investment requested/proposed	Business pitch	Positive or encouraging comments from the Sharks (investors)	Negative or critical comments from the Sharks (investors)	Outcome of business pitch



ssi77/Shutterstock.com



I Wei Huang/Shutterstock.com

Figure 7.33 The Shark Tank television show provides insight into equity and debt financing for entrepreneurs.

GAINING INSIGHT 7.9



Helix Legal

FOCUS QUESTION: How do start-ups find an edge in a competitive marketplace?

Janelle Kerrisk, a talented lawyer, and co-founders decided to cause a 'wave of disruption' in the legal industry after identifying a 'way to practise law differently'. Within 12 months, Helix Legal has built up a reputation in Brisbane as an innovative, forward-thinking business.



Figure 7.34 The Helix Legal brand



Figure 7.35 Helix Founder and CEO, Janelle Kerrisk

Helix Legal was established in 2016 to provide business-to-business (B2B) legal services within the building and construction industry. Instead of time-billing, Helix Legal uses a fixed-fee strategy, which has given the firm a competitive edge by allowing it to build a more trusting and transparent relationship with its clients. By charging fixed fees, Helix Legal can carefully monitor its budgets and cash flow to ensure that its income is guaranteed, expenses are covered, and growth objectives are realistic and achievable.

Helix Legal is incorporated as a private company, rather than as a partnership, which is the traditional ownership structure for law firms. Hence, it is considered a legal business rather than a law firm. This allowed Kerrisk and the co-founders to bypass the legislative requirements that exist to regulate partnership structures. Setting up in this way has also allowed Helix Legal to employ staff with a range of backgrounds to offer a 'multidisciplinary consultancy', which its clients perceive as value-add for engaging their services. Like all start-ups, Helix Legal needed to comply with all registration, taxation and regulatory requirements to become established. Kerrisk and co-founders also contributed personal savings to start Helix Legal (equity finance) and have not sought any debt finance to fund the business.



Figure 7.36 The Helix Legal team

In the start-up stage, Kerrisk and the co-founders balanced their management responsibilities with their legal work. They appoint hardworking and loyal staff to the business, who appreciate the flexibility but are studious in meeting deadlines.

Kerrisk believes that start-up business owners need to network so the business can build a profile and be promoted in its industry. She and the co-founders have set up the Helix Legal offices in an innovations hub in Brisbane's central business district. There, a range of start-up businesses all rent the same space, allowing them to support other start-ups, seek advice and build entrepreneurship in Queensland. They also applied for government grants to support their business, and were awarded funds from the state government's Advance Queensland initiative. Further, Helix Legal has won awards for its innovative approach to the law, including Lawyers Weekly Women in Law Awards 2021 (Innovator of the Year). Kerrisk has also achieved a National Association of Women in Construction (NAWIC) Award.

Questions

- 1 **Describe** the business opportunity that led to the establishment of Helix Legal.
- 2 **Explain** the business ownership structure for Helix Legal and how it differs from other law firms.
- 3 Identify how Janelle Kerrisk and her co-founders funded the start-up of Helix Legal.
- 4 **Explain** the relationship between charging fixed fees to clients and a business's cash flow.
- 5 Consider why Helix Legal applied for a grant with Advance Queensland and **evaluate** this strategy using the business criteria of effectiveness.

Debt finance

Debt finance exists when a business borrows funds from an external lender or financial intermediary such as a bank, credit union, non-bank lender or, in the case of trade credit, a supplier. In most cases, debt finance is provided in the form of a loan; however, financial intermediaries can also offer overdraft facilities, credit cards, leasing and bridging finance. These debt financing options can meet both short-term and long-term business needs.

Features of short-term debt finance are that:

- the debt product is suitable for incidental purchases that can be paid off within a 12-month period
- approval can be obtained easily and within a short time frame. For example, a business owner could apply online and receive a response within 48 hours
- the repayment period for the debt finance is specified in days. For example, repayments are due within 44 days from the date of purchase
- interest charged on the debt is considerably higher than the cash interest rate set by the Reserve Bank of Australia. For example, the interest rate for short-term financing ranges from 13 per cent to 20 per cent.

Features of long-term debt finance are that:

- the finance is required for the purchase of a non-current asset that the business will keep for more than one year
- the borrowing amount is generally high – for example, \$10 000 upwards
- repayments are specified in months over a fixed contractual period. For example, a minimum monthly repayment is required over a five-year period
- interest charges are generally lower than short-term debt finance options, ranging from 4 per cent to 12 per cent, because the financial intermediary knows it has secured income in the form of interest for the contractual period.



Sally Adams

Figure 7.37 The different types of debt finance

Table 7.1 explains the different types of debt finance and whether they are suitable as short-term or long-term options for a start-up business. When considering short-term or long-term suitability, a business should review its debt finance and, if required, negotiate changes that put the business in a stronger financial position, aligned to achieving its financial objectives. It is important to note that lenders have strict application processes and often require a business to have been trading for at least 6–12 months before an approval for debt finance will even be considered. This is so the financial position and performance of the business can be assessed, along with cash flow and the credit rating of the owner.

Table 7.1 Types of debt finance and their short-term and long-term suitability

Type of debt finance	Explanation	Short-term or long-term suitability
Bank loan	A financial institution provides funds to an individual or business in a contractual agreement where those funds must be paid back in instalments, generally monthly, and within a set period. A standard business loan from a bank can be approved for between \$10 000 and \$100 000 and have an interest rate between 10% and 20% per annum. A mortgage , which is another type of bank loan, applies to the purchase of land. A mortgage can be approved from \$70 000 up to many millions of dollars and attract an interest rate between 4% and 8%.	Long-term
Bridging finance	This product is offered by financial institutions and is used when a person or business uses debt finance to purchase a new asset, but is still waiting to sell an existing asset. It generally attracts a high rate of interest and a short, fixed contract.	Short-term
Credit card	A financial product with which a person or business is approved for a small loan from the bank, to be used on incidental purchases at the point of sale. Credit card balances generally need to be paid within 44 days and, due to the convenience of the feature, can have interest rates ranging from 12% to 20% per annum.	Short-term
Line of credit	Financial institutions may offer the business a set amount of funds, which can be drawn down when required by the business. For example, if a \$20 000 line of credit is offered, the business may only utilise \$5 000 in the first few months, and then not touch the line of credit again until later in the year for any amount the business requires (provided it falls within the \$20 000 limit).	Short-term
Leasing	Offered through a finance company or agent , a lease is a contractual agreement whereby an individual or business is approved to purchase an asset and retain it in return for a monthly payment over a fixed period. The lease payment also includes servicing and maintenance costs for the asset. At the end of a contract period, there are generally funds still owing on the good, called a balloon payment. Legally, the lease is owned by the finance company, as is the asset purchased until it has been paid in full. A lease generally has an interest rate similar to a loan.	Long-term
Overdraft	A facility offered by a financial institution that allows an individual or business to withdraw more money from their account than they have available (to go into a negative balance) from \$500 to \$10 000. Going into overdraft can attract an instant fee plus a charge of interest for each day the account maintains a negative balance.	Short-term
Trade credit	This financial agreement occurs between a business and its supplier, whereby the supplier agrees to provide goods to the business when required, but does not expect payment for the goods until a later date. The supplier will invoice the business to notify them of what they owe and the due date for payment, which is generally between 7 and 30 days. Some businesses will charge a fee for late payments.	Short-term

Issues for debt and equity finance

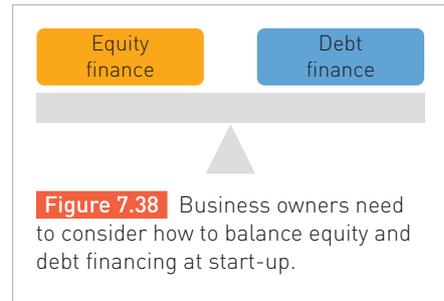
A business owner needs to carefully consider the amount of equity finance and debt finance used to source the purchase of business assets. Generally, businesses should try to achieve a balance of debt to equity (Figure 7.38), but in start-up it is safer for a business to utilise more equity finance. This is because debt finance has an interest component. If a start-up business has minimal sales or a slow inflow of revenue in its initial period of trade, the business will still be required to pay interest (an expense), and this may challenge start-up businesses that are trying to establish themselves in the market.

Mortgage: the name given to a loan that is used to secure land and/or buildings

Finance company or agent: an organisation that provides debt finance products to the market, but that is not legally established as a bank or financial institution

In addition to balancing debt and equity finance, a business owner must also consider how much funding is needed to purchase the assets required to run the business. For example, a small start-up does not need \$1 million of debt and equity finance if it only turns over \$100 000 of revenue a year.

When strategically planned, the combined value of equity and debt finance may not be an issue, but the business owner must be aware of **over-capitalisation** and **under-capitalisation** risks. Over-capitalisation occurs when a business uses its sources of finance to purchase more assets than it requires to operate, affecting the efficiency objective. For example, in a small town of 10 000 people, a taxi company may only use five vehicles at a time. If the company owns 12 vehicles, this means seven are not being used. As all vehicles lose value, this is not an efficient use of assets, and the business should sell the vehicles and invest elsewhere. On the other hand, under-capitalisation occurs when the business does not have enough equity or debt finance to source the purchase of assets and to run the business, and as a result, the liquidity or solvency objectives of the business are not met. For example, a business that grows so quickly that it cannot keep up with demand may start spending more money than it has, or has budgeted for, resulting in the business ‘going backwards’. Over-capitalisation can also occur as a result of too much debt finance where the interest charges prevent a business from making a reasonable profit, if any at all.



GAINING INSIGHT 7.10



The accounting equation

In accounting, the relationship between using debt and equity finance to purchase assets is demonstrated in a formula, known as the ‘accounting equation’ (Figure 7.39):

$$\text{Assets} = \text{liabilities} + \text{owner's equity}$$

In the accounting equation:

- *Assets* are what the business owns – items of value, such as inventory, furniture, land, buildings, fittings, equipment and goodwill.

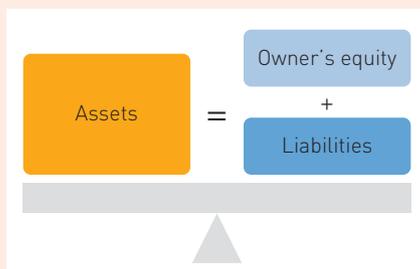


Figure 7.39 The accounting equation

- *Liabilities* are the value of money that the business owes to others. For debt finance, these others may include banks and credit unions. Liabilities can also include the money that is owed to suppliers, but billed using trade credit.
- *Owner's equity* is the value or net worth of the business. It is where net profit and capital (the money invested into the business, such as equity finance) is recorded.

The accounting equation plays a fundamental role in ensuring that businesses keep accurate financial records. In accounting, the outcome of the accounting equation is reported in a balance sheet or statement of financial position. Accountants use this report to analyse the distribution of debt and equity finance in a business, and will advise the business owner of what they should do that best helps the business to achieve its financial objectives.

Over-capitalisation: the financial position in which a business has more assets than are required for its core operations

Under-capitalisation: the financial position in which a business does not have enough equity or debt finance to source assets and operate the business



It is also important that a small business owner undertakes due diligence of any potential investor or lender, to make sure they are securing a fair deal, and are not prone to scams or hidden fees and charges that pose a risk to the small business owner's solvency and liquidity objectives.

QUESTIONS 7.12



- 1 **Explain** debt finance.
- 2 **Create** a Venn diagram to compare short-term and long-term debt finance.
- 3 **Describe** 10 different purchases a start-up business would make and identify which type of debt finance would be most suitable.
- 4 **Explain** the relationship between equity finance, debt finance and the five financial objectives.
- 5 Discuss the following statement: 'A business can only source debt finance after securing equity finance'. **Create** a paragraph response and reference information from a current Australian lender to validate your response.
- 6 Consider this scenario: A start-up business has been trading for 12 months. It is an animal care service where the business will travel to farms within a region and provide food and care to animals (such as horses, cattle and sheep). The business is performing well financially with sales increasing 100 per cent each quarter, and the business can no keep up with demand based on its current structure. The business owner recognises the need to employ a second vehicle and employ a staff member to assist.
 - a **Evaluate** one equity and one debt financing option for the business to fund the new vehicle and employee, using the criteria of efficiency.
 - b **Propose** a recommendation based on your evaluation of the debt and equity financing options. Include information from a real equity or debt finance provider in Australia to support your response.

Budgeting

Key learnings

You will learn about financial strategic planning by examining budgeting.

A business that carefully considers its costs against anticipated income will create a **budget** to inform decision making. A budget is an analytical tool and is used in strategic planning to assess the viability of a business's purchases

Shake Up business profile

Shake Up is a small-business with one owner (sole trader), who sells protein shakes at the local markets two days a week.

The owner continues to work a second job to secure a stable income, recognising the risks of opening a new business. If Shake Up is able to grow in the longer term, the owner's goal is to expand the business by purchasing a food truck to sell his shakes, and also begin selling fresh juices. As of now, he simply sets up a tent and transports his equipment using a personal vehicle.



Atsushi Hiraol/Shutterstock.com

Budget: an analytical tool used, before transactions occur, to compare anticipated income with expenses

and its anticipated income, prior to any transactions occurring. Therefore, it can be used by a business owner to evaluate financial objectives, most notably liquidity and efficiency. Budgets for a start-up business are used to inform what purchases a business can afford to make. They can also provide an indication of whether debt finance should be sourced or if a business owner has enough equity finance to begin trading.

To demonstrate different types of budgets, a fictional business called Shake Up will be used.

Budget sample A: Start-up costs

In this budget, Shake Up is going to list establishment and anticipated monthly costs. This information can be used by the business owner to inform their decision-making regarding the capital they need to get their business trading (equity finance) or whether using debt finance might help the business purchase more expensive assets. Through interpretation, the business owner may use the data to make decisions about when the business should begin to trade and if some anticipated costs or expenses can be minimised.

Table 7.2 A sample start-up budget

Start-up budget: Shake Up				
June 2026				
	Budget	Actual	Variance	%
Monthly costs/expenses		A business owner would record actual costs in this column after the expense had been paid or the month has passed	This column would calculate 'Actual – Budget'	This column would calculate 'Variance/Budget * 100'
Owner's salary	\$1,733			
Ingredients and packaging	\$1,907			
Market stall rent	\$780			
Motor vehicle expenses	\$50			
Mobile and data plan	\$100			
Insurance	\$80			
Accountant fees	\$100			
Professional association fees	\$33			
Miscellaneous	\$50			
Subtotal	\$4,833			
Establishment costs/expenses				
Utensils and equipment	\$150			
Tent/marquee	\$300			
iPad	\$1,600			
Furniture	\$100			
Commercial Esky	\$400			
Blender	\$400			
Solicitor fees	\$1,000			
Licences and permits	\$1,000			
Promotional materials – signage	\$100			
Promotional materials – business cards	\$20			
Subtotal	\$5,070			
Total	\$9,903			

Budget sample B: monthly budget

A monthly budget analyses the business's trade by identifying anticipated income, monthly expenses and whether there is a residual balance remaining at the end of the month. A business owner would want a positive residual balance, also known as a **surplus**, as this indicates that the anticipated income is exceeding expenses. If the opposite occurs, and the expenses exceed the income, this is known as a **deficit**. This data can provide an indication if profit is likely to be achieved, but this is only an estimate as calculating net profit is a more complex task.



wutzko/photo/Shutterstock.com

Table 7.3 A sample monthly budget

Monthly budget: Shake Up				
June 2026				
	Budget	Actual	Variance	%
Income				
Protein shake sales	\$5,200			
Subtotal	\$5,200			
Monthly costs/expenses		A business owner would record actual costs in this column after the revenue is earned, expenses have been paid, or the month has passed	This column would calculate 'Actual - Budget'	This column would calculate 'Variance/Budget * 100'
Owner's salary	\$1,733			
Ingredients and packaging	\$1,907			
Market stall rent	\$780			
Motor vehicle expenses	\$50			
Mobile and data plan	\$100			
Insurance	\$80			
Accountant fees	\$100			
Professional association fees	\$33			
Miscellaneous	\$50			
Subtotal	\$4,833			
Residual: surplus (deficit)	\$367			

Surplus: occurs when a business has forecasted more income than expenses when formulating a budget

Deficit: occurs when a business forecasts that its expenses exceed income when formulating a budget

Table 7.4 A sample month-by-month budget

Month-by-month budget: Shake Up				
June–September 2026				
	June	July	August	September
Income				
Protein shake sales	\$5,200	\$5,100	\$4,500	\$5,800
Subtotal	\$5,200	\$5,100	\$4,500	\$5,800
Monthly costs/expenses				
Owner's salary	\$1,733	\$1,733	\$1,733	\$1,733
Staff wages	\$ -	\$ -	\$ -	\$150
Ingredients and packaging	\$1,907	\$1,907	\$1,907	\$2,167
Market stall rent	\$780	\$780	\$780	\$780
Motor vehicle expenses	\$50	\$50	\$50	\$50
Mobile and data plan	\$100	\$100	\$100	\$100
Insurance	\$80	\$80	\$80	\$80
Accountant fees	\$100	\$75	\$75	\$75
Professional association fees	\$33	\$33	\$33	\$33
Miscellaneous	\$50	\$50	\$50	\$50
Subtotal	\$4,833	\$4,808	\$4,808	\$5,218
Residual: surplus (deficit)	\$367	\$292	\$(308)	\$582

Budget sample C: month-by-month trade

A month-by-month budget analyses trade across months. Shake Up will need to consider what factors (internal and macro) may impact on sales. This could include times when the stall cannot operate (e.g. due to family commitments), risk of weather preventing the markets from opening and seasonal demand for cold drinks.

While three start-up budget samples have been provided, there are an infinite number of budget templates that businesses at all stages of the business life cycle use. These assist business owners to identify the likely achievement of financial objectives and whether changes need to be made so the objectives can be achieved. Once a business has had continual trade over time, historical data, such as comparing years, can be used to identify any relationships or trends relating to the business's financial decisions.

Other examples of budgets include:

- cash budgets, which monitor the movement of physical cash in the business (liquidity objective)
- marketing budgets, which align promotional expenses with anticipated sales (profitability objective)
- staffing budgets, to analyse potential sales against wage expenses (profitability, solvency and efficiency objectives)
- operational budgets, to identify the money needed for a project (growth, efficiency and solvency objectives).

QUESTIONS 7.13



- 1 **Explain** the concept of budgeting.
- 2 Contrast a start-up budget with a budget that is used once sales have been recorded.
- 3 **Evaluate** the use of variance and percentage columns in a budget to make a decision based on the criterion of stakeholder satisfaction.
- 4 **Evaluate** the statement 'While budgets are useful, they are not essential to a business start-up', to make a judgement using the criterion of efficiency. **Create** a response.
- 5 **Interpret** the implications of sourcing equity and debt finance to draw conclusions regarding budgeting for a start-up business.

GAINING INSIGHT 7.11



Thriday: A start-up built on supporting small business financing

Thriday is an Australian financial technology platform designed to streamline financial management for small businesses by integrating banking, accounting and tax services into an easy-to-use tool. Using automation, Thriday helps small business owners manage their financial administration more efficiently, allowing them to focus on growing their businesses instead of getting caught up in paperwork.

Start-up story

Thriday was co-founded in 2019 by Michael Nuciforo and Ben Winford with the mission to alleviate the heavy burden of financial administration for small business owners. Both founders are from Melbourne and had extensive experience in digital financial services. Michael had worked at major institutions such as ANZ and Lloyds Bank, where he specialised in digital banking, and also co-founded Parkhound, a parking space app, which was acquired by the company Spacer in 2017 after achieving success.

In a Craig Schutz podcast interview, Michael explained that the inspiration for Thriday came from his and Ben's observations of how time-consuming and inefficient financial administration tasks were for small businesses. Michael, in particular, had seen family and friends struggle with financial management. The co-founders realised that many small business owners were using multiple systems to manage banking, bookkeeping and tax, impacting on their time and resources. They envisioned a single platform that could automate these tasks, maximise artificial intelligence (AI) capability and subsequently reduce the need for multiple providers, and that is how Thriday was born.

Thriday's success included their pursuit of partnerships, including a 'Banking-as-a-Service' collaboration with Regional Australia Bank, which allowed Thriday to integrate banking services seamlessly into the platform. By 2022, the platform had amassed a waitlist of over 11 000 small businesses and attracted investment from NAB, through their ventures initiative. They have seen rapid growth, but both Michael and Ben remain focused on Thriday delivering user satisfaction and long-term stability.

The Thriday platform

Using AI and automation, the Thriday platform allows business owners to open accounts, issue invoices, manage cash flow, track expenses and file taxes, all from a single platform.

For budgeting specifically, Thriday excels by offering real-time financial insights, enabling businesses to maintain tighter control over their finances:



Figure 7.40 The Thriday app makes managing financial administration easy for small business owners.

- **Automated expense tracking:** Thriday automatically categorises transactions in real time, eliminating the need for manual input.
- **Cash flow and forecasting tools:** Thriday provides accurate and up-to-date cash flow statements and tax forecasts. Business owners can monitor income and expenses, helping them make informed decisions and avoid cash shortages.
- **Receipts and invoices:** Thriday's invoicing and receipt scanning tools simplify budgeting by keeping all financial documentation in one place. This ensures that all expenses are accounted for and provides a clearer view of spending.
- **Custom budgeting alerts:** The platform allows users to set custom alerts when they exceed certain spending thresholds, ensuring they stay within their budgetary limits and avoid unplanned expenses.

Questions

Referring to the information above and the Thriday website:

- 1 **Explain** the features and benefits of the Thriday platform for businesses in the start-up stage of the business life cycle.
- 2 **Analyse** the Thriday business concept using a STEEPLE analysis.
- 3 **Interpret** the unique relationships that exist between Thriday's own start-up journey and how its business concept is designed to support other start-ups and small businesses.

Break-even analysis

Key learnings

You will learn about financial strategic planning by examining break-even analysis.

A key strategy for a business is to ascertain how much money it needs to earn before breaking even – before all expenses are covered and profit is being generated. For a start-up business, a **break-even analysis** considers all the expenses of the business and how they impact the achievement of profit.

ANALYTICAL TOOL 7.2



The tool: Break-even analysis

A break-even analysis is a key strategy for a business to ascertain how much money it needs to break even – that is, to reach the point where total revenue equals total expenses or costs. The break-even point is zero because the income of the business covers the expenses exactly, and then anything above the break-even point is profit and anything below is a loss. It is important to know the break-even point because even a business with a lot of sales or cash turnover could be running at a loss. The break-even point is also used to help decide on prices, set sales budgets and prepare business plans. The break-even analysis also identifies the key drivers relating to profit, including sales, volume, production costs and sale price. Knowing the break-even point also helps a business plan for the future and know how viable the business idea is by calculating:

- how profitable the business idea will be
- how far sales of the business idea can decline before a loss is incurred
- how many products need to be sold before the business makes a profit
- how reducing price or volume of sales of the product will impact profits
- how much of an increase in price or volume of sales is needed to make up for an increase in fixed costs.

How to use the tool

The break-even point can be calculated in the dollars required in sales value to break even, or the number of products that need to be sold. The formulas to calculate break-even are:

$$\text{Break-even total quantity of units sold } (x) = \frac{\text{fixed costs}}{\text{contribution margin}}$$

$$\text{Break-even total dollar value in sales } (d) = \frac{\text{fixed costs}}{\text{contribution margin ratio}}$$

Where:

- Fixed costs (FC) include the expenses that exist regardless of how many sales are made, for example the total cost of rent, wages, power and insurance.
- Contribution margin (CM) is the excess between the selling price of the good and total variable costs. For example, if a product sells for \$80 and the total variable costs are \$20 per product, the product has a contribution margin of \$60 (\$80 – \$20). This \$60 reflects the amount of revenue collected to cover fixed costs and be retained as net profit.
- Contribution margin ratio is represented in a percentage and is the contribution margin per unit divided by the sale price. For example, with the product above, the contribution margin is \$60 for a product that sells for \$80. Therefore to calculate the contribution margin ratio: $\$60 \div \$80 = 75\%$.

Calculating the break-even point in units of sale (x)

To calculate the break-even point in units of sale, the contribution margin is first calculated, as in the example above, and then divided into the total fixed costs.

Break-even analysis: a tool to analyse the break-even point of a business where total revenue equals total expenses or costs; identifies key drivers relating to profit, including sales, volume, production costs and sale price



$$\text{Break-even point} = \text{total fixed costs} \div \text{contribution margin}$$

For example, if the total fixed costs of the business are \$30 000, with a contribution margin of \$60, the break-even point is 500 units.

$$\$30\,000 \div \$60 = 500$$

This means that 500 units need to be sold to cover all fixed costs and break even with a net profit or loss of \$0.

Calculating the break-even point in the total dollar value of sale (*d*)

Alternatively, to calculate the break-even point in sales dollars, the contribution margin ratio is first calculated, as in the example above, and then divided into the total fixed costs.

$$\text{Break-even point} = \text{total fixed costs} \div \text{contribution margin ratio}$$

$$\$30\,000 \div 75\% = \$40\,000$$

This means that \$40 000 worth of sales need to be made to cover all fixed costs and break even with a net profit or loss of \$0.

Confirming the break-even point

To confirm that the calculation of the break-even point is correct, the calculated break-even point in units is multiplied by the sale price and this should equal the calculated dollar value of sales.

For example:

$$500 \text{ units} \times \$80 = \$40\,000$$

This confirms the break-even point as 500 units or \$40 000 in sales when the item is sold for \$80 per product.

A break-even analysis can also help to identify the implications of business changes. For example, if another employee is hired, the fixed costs will rise, and the break-even analysis can determine how many extra sales dollars will be needed to recover the extra wage expense. Many retailers calculate a daily break-even point and this is where sales targets and budgets are derived from.

A break-even analysis template is available for you to download on Nelson MindTap.

Activity

Determine the break-even point of the following business scenario. A new mobile hairdresser plans to open in their local area. The owner has calculated that the fixed costs for equipment, insurance and the hairdresser's wage is approximately \$65 000 per year. The average service provided for a colour, cut and style is \$250. The average variable cost for supplies and travel is \$25 per client.

- 1 Select data and information to calculate the break-even point for the number (*x*) of haircuts and the total dollar value (*d*) of haircuts to be sold in order for this new business to break even.
- 2 **Create** a graph to visually represent the break-even point, the fixed costs, variable costs and the areas of profitability and loss.
- 3 **Analyse** and discuss the impact the following changes to the business situation could have on the break-even point and the viability of the business idea.
 - a There is a high demand for haircuts, so the average sale has increased to \$290.
 - b A second hairdresser is hired part-time on a wage of \$30 000 per year following the sale price increase.

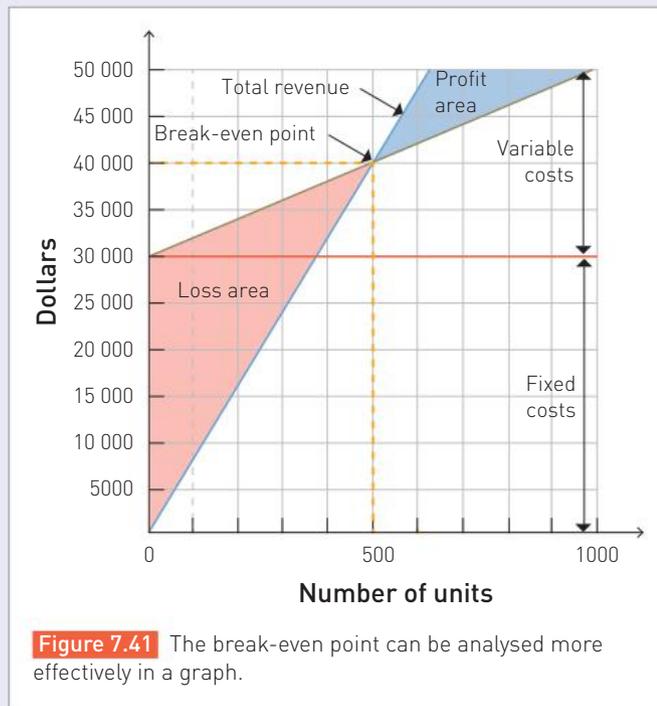


Figure 7.41 The break-even point can be analysed more effectively in a graph.



Template
Break-even
analysis

Below is an example of how a break-even point is calculated, using data from the Shake Up example and these more complex break-even equations.

Fixed costs: \$7997 – taken from Shake Up’s start-up budget (less the ingredients and packaging expenses)

Production costs per unit: \$2.41 – refer to Table 7.5 for breakdown of costs

Table 7.5 Calculating production costs per unit

Item	Cost	Portion used per sale	Calculation	Cost per unit
Protein powder	\$59 per tub (29 scoops)	1 scoop	$\$59 \div 29$	2.07
Ice	\$4 per 5 kg bag	150 g	$\$4 \div 5000 \text{ g} \div 150 \text{ g}$	0.12
Cups and lids	\$168 per 1000 pieces	1 cup and lid	$\$168 \div 1000$	0.17
Straws	\$1 per 100 pieces	1 straw	$\$1 \div 100$	0.01
Bottled water	\$5.50 for 8 × 1.5 L bottles	150 mL	$\$5.50 \div 8 \div 1500\text{mL} \div 150\text{mL}$	0.04
Total production costs per unit				\$2.41

Sale price: \$10.00 – this is per unit and equates to a profit margin of 75.90%

Profit: 0 – to calculate break-even, profit must equal zero

Using this data, the number of sales Shake Up needs to make to break even is:

$$\begin{aligned} \text{Break-even total quantity of units sold } (x) &= \frac{7997 + 0}{10 - 2.41} \\ &= 1054 \end{aligned}$$

Therefore, Shake Up would need to sell 1054 shakes to break even. This equates to earning \$10 540 in sales (1054 units × \$10 selling price) If the business’s objective is to sell 100 per day, it would take approximately 106 selling days to break even.

Using the same data, but assuming Shake Up wants to make \$5000 profit, the impact on the equation would be:

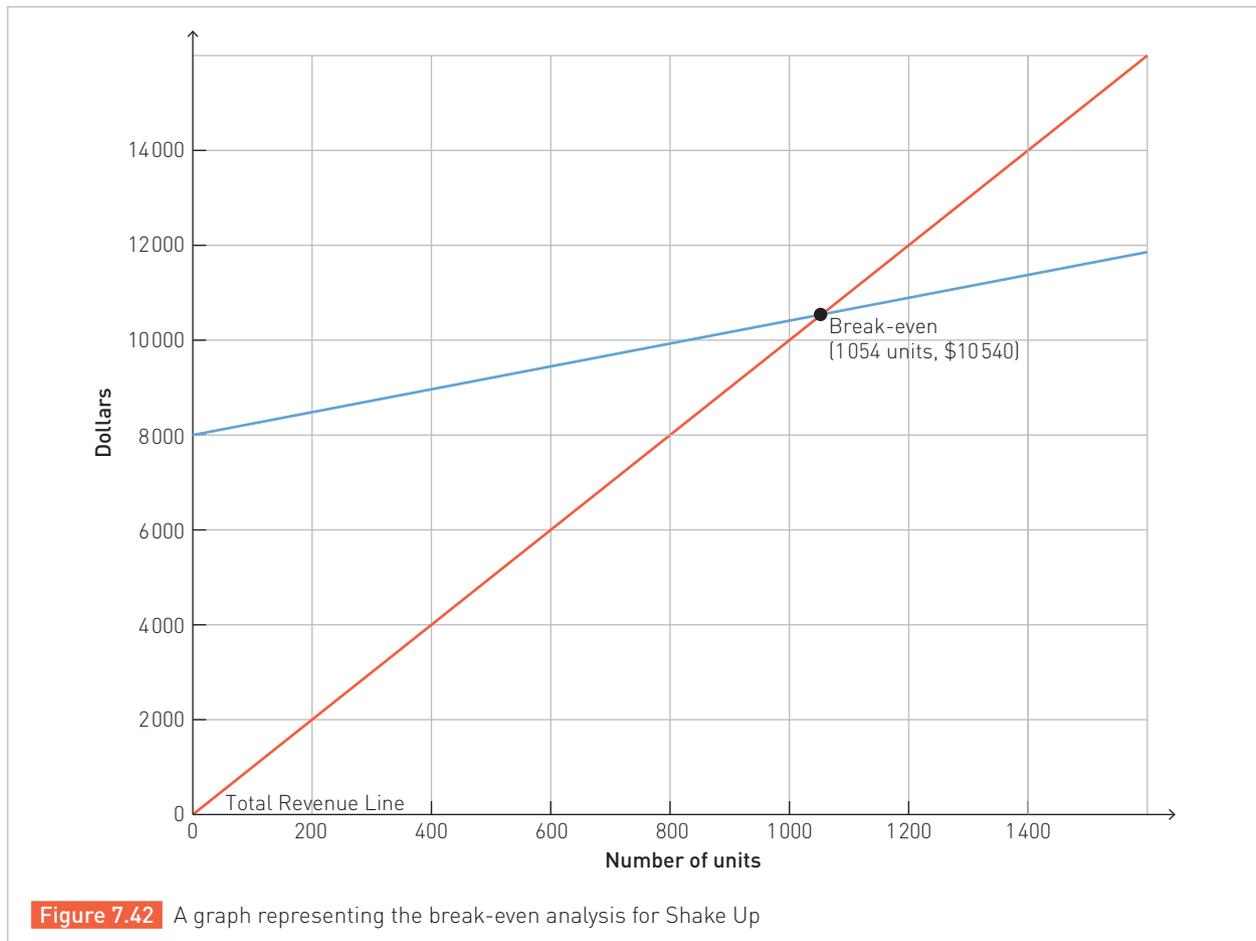
$$\begin{aligned} \text{Break-even total quantity of units sold } (x) &= \frac{7997 + 5000}{10 - 2.41} \\ &= 1713 \end{aligned}$$

Therefore, if Shake Up wants to make \$5000 profit, the business would need to sell 1713 shakes to customers. Using the break-even total dollar value of sales (x) equation, the total sales Shake Up needs to make is:

$$\begin{aligned} \text{Break-even total dollar value in sales } (d) &= \frac{7997 + 5000}{76 \div 10} \\ &= \frac{12997}{76\%} \\ &= \$17101 \end{aligned}$$

This means Shake Up would need to earn \$17 101 in sales to achieve a \$5000 profit for the business.

A graphical representation of the break-even analysis for Shake Up can demonstrate the sales and profit relationship using the break-even total quantity of units sold (x) formula (Figure 7.42).



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QUESTIONS 7.14



- 1 **Explain** the strategic importance of a break-even analysis.
- 2 **Describe** the features of the following elements of a break-even analysis:
 - a fixed costs
 - b production costs per unit
 - c selling price.
- 3 **Explain** the significance of profit equalling zero when calculating a break-even point.
- 4 **Create** a copy of Figure 7.42 (either digitally or in a workbook) and using the information from the analytical tool (Figure 7.41) demonstrate your understanding of break even by completing the following:
 - a label the break even point
 - b label and sketch the profit area
 - c label and sketch the loss area
 - d draw a line and label where fixed expenses are represented
 - e label where the variable costs are represented
 - f label the revenue line.
- 5 In the Shake Up example, the owner pays himself a wage of \$216 per day (fixed cost).
 - a Calculate the break-even point: (x) and (d), if the owner chose to *not* pay himself a wage, but to earn income from the business's profits. **Interpret** the relationships in the break-even analysis to draw conclusions about the implication of owner wages for a start-up business.
 - b **Evaluate** the business owner's decision to pay himself a wage using the criteria of efficiency (focusing on profitability) and stakeholder satisfaction. **Create** a paragraph response.

A break-even analysis template is available for you to download on Nelson MindTap.



Template
Break-even
analysis

GAINING INSIGHT 7.12



Appster co-founder Josiah Humphrey reveals four fundamental financial metrics for all start-ups

Entrepreneurs face a host of challenges in growing a start-up sustainably, however can go a long way to ensuring success by keeping tabs on key financial metrics ...

Appster co-founder Josiah Humphrey explains that measurement should be a key consideration for start-ups seeking to ensure their business model is sound and will be scalable over time.

Humphrey lists ... key financial metrics that he believes all founders should track closely: fixed versus variable costs, breakeven analysis ... and cashflow forecasts.

Fixed versus variable costs

Humphrey explains the total cost of running a business, consisting of the aggregate amounts of fixed costs and variable costs, is 'one of the most important pieces of financial data' that start-up founders need to understand. 'Understanding your total cost is crucial for various reasons, including the fact that the amount of money your business spends impacts whether, and if so then when, you can turn a profit (and how much that profit will be),' he says. Costs will have a defining impact on how long a company can survive without bringing in stabilising revenue ... with a start-up's 'runway' calculated by taking its cash balance and dividing it by a projected burn rate (the monthly rate at which a business is losing money), Humphrey advises.

'That burn rate explicitly reminds you that your start-up will indeed run out of money at some point in the future if you don't eventually start bringing in sufficient revenue', says Humphrey, adding that understanding your company's burn rate can also be important when attracting investors.

Operating as lean as possible, making fixed costs more efficient and increasing revenue are three ways to extend a start-up's burn rate, Humphrey writes.

Breakeven analysis

Start-ups should also calculate and monitor their breakeven point, or the point at which revenue matches expenses, as this will allow

them to work out a range of other important financial metrics, says Humphrey.

This includes: how profitable a product line is; how far sales can decline before losses start to be incurred; how many units need to be sold before a profit is made; how reducing price or volume of sales will impact profits; and how much of an increase in price or volume of sales will be needed to make up for an increase in fixed costs.

Having completed a breakeven analysis, Humphrey says it is important that start-ups then consider: whether a sales target is realistic; when they anticipate being able to hit the target; the resources they will need to get there; and how cash will be burnt through in the meantime.

Cash flow forecast

Cash flow, or the amount of money going into and out of a business, is Humphrey's ... key metric as it is 'the blood of every start-up organisation'. Humphrey recommends entrepreneurs regularly undertake cash flow forecasting, which provides 'the key data you require to ensure that your start-up doesn't burn money faster than what you need in order to stay in business'.

'Cash flow projections can't, of course, predict the unpredictable but they can alert you to foreseeable potential hazards,' Humphrey advises. 'While it might be best to let a professional accountant carry out the quantitative analyses, it's still important that you as a founder grasp the principles of cash flow forecasting.'

Source: Martin Kovacs, 22/9/2017, Smart Company. Kovacs, M. (2017, 21 September). 'Appster co-founder Josiah Humphrey reveals four fundamental financial metrics for all startups', SmartCompany. <https://www.smartcompany.com.au/startupsmart/advice/mk-appster-josiah-humphrey-four-fundamental-financial-metrics-for-startups/>

Questions

- 1 **Explain** the concept of a 'burn rate'.
- 2 Suggest ways in which a business can more efficiently manage its fixed costs.
- 3 **Interpret** the reasons why Humphrey suggested a start-up business should seek the advice of a professional.

Connecting with strategic networks

Key learnings

You will learn about start-up business support by examining strategic networks.

Start-up businesses will always need to engage with a lawyer/solicitor and an accountant to guide them in establishing their business. If a business has equity finance from investors, they will often provide mentoring and be integral to business decision making, to ensure the business succeeds and they gain a return on investment. If a business sources debt finance from a financial intermediary (such as a bank or lender), they will often provide financial advice and support to the business owner as part of their finance arrangement.

Again, a financial intermediary wants the business to succeed for a range of reasons, including the business repaying its debt; potentially seeking more finance over time, which increases the bank's income through interest; and also to support their social objectives to support small business.

Businesses also benefit from building connections within their industry. Often, start-up businesses can struggle during the first years of operation as they encounter challenges but are unsure how to overcome them. By building a network of support (Figure 7.43), a business owner has the opportunity to seek help from others or, in turn, provide guidance to other business owners who have encountered similar challenges. The business owner will need to be mindful of their business's competitiveness, but seeking to learn more about an industry can prepare the business owner for any foreseeable highs and lows. Networking also allows the business owner to establish a name for themselves in their industry, and forge new and strategically beneficial contacts. Over time, the business owner may find they are the person being sought out to provide support, which will enhance the reputation of the business.



Ways in which start-up business owners can connect with strategic networks include:

- joining professional associations, small business associations and local chambers of commerce
- engaging a mentor
- attending and presenting at conferences
- participating in events run by government agencies such as the Queensland Small Business Commissioner
- connecting with informal business networks through social media platforms.

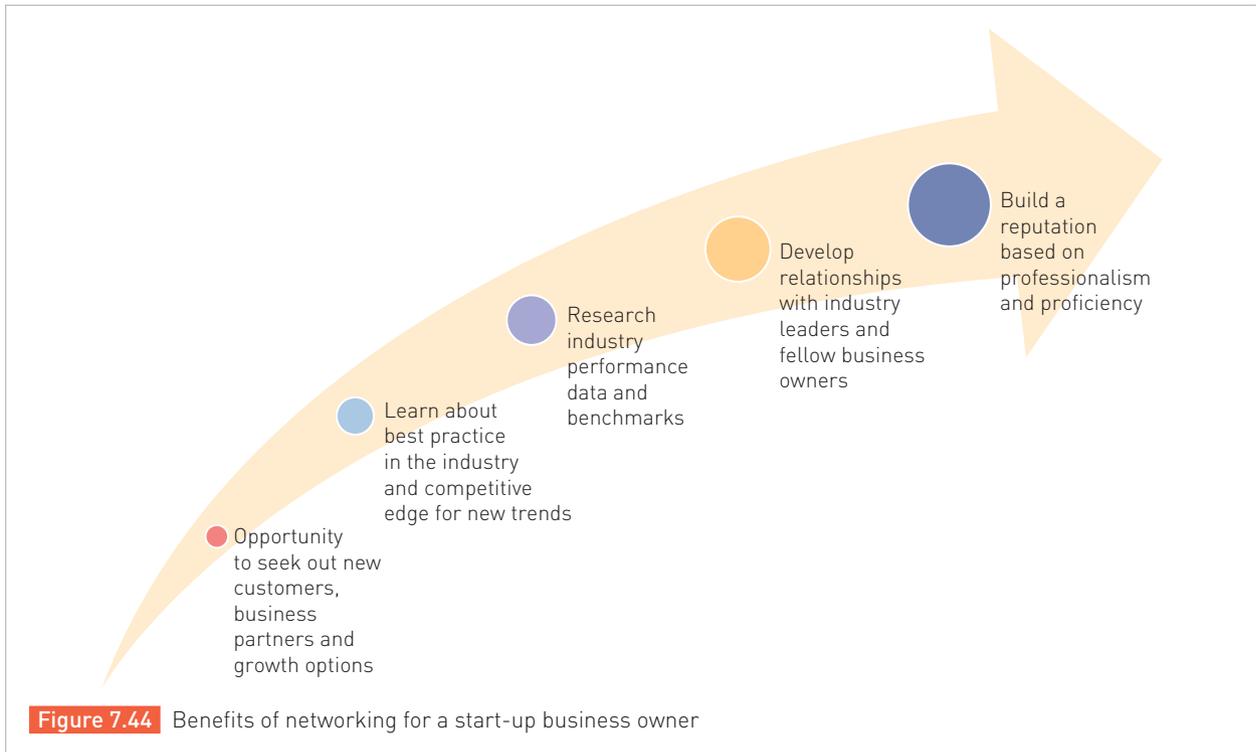
In the operating environment, interest groups can also be considered strategic networks. Examples of these can be found in Chapter 3. Follow the weblink to view the website of Business Chamber Queensland, an independent, not-for-profit organisation that represents and provides services to small and medium-sized businesses in Queensland.

Figure 7.44 identifies the benefits of networking.



Weblinks
Business Chamber
Queensland

Queensland
Small
Business
Commissioner



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INQUIRY 

Investigating small business networks

- 1 Using the inquiry process, select information from two start-up or small business networks in Queensland to **analyse** their similarities and differences using a Venn diagram.
- 2 **Interpret** the Venn diagram to draw conclusions about networking for start-up or small business owners.

QUESTIONS 7.15 

- 1 **Explain** the role of the following strategic networks for a start-up business owner. Conduct research to provide some real-world examples for each of your responses.
 - a Professional associations
 - b Chambers of commerce
 - c Mentors
 - d Government agencies
- 2 Select information to **explain** the key considerations for a business owner who seeks strategic networks through social media.
- 3 Select data and information to identify the strategic network opportunities available in a range of industries using the table below.

Industry	Mentor opportunities	Professional associations to join	Relevant conferences	Social media networks
Franchises				
Retail				
Tourism				
Mining				
Medical				

- 4 Debate this statement as a class: ‘Business owners who engage with strategic networks can achieve more within their market.’

GAINING INSIGHT 7.13



VETNexus

An interview was conducted with the CEO of VETNexus, Kerri Buttery, regarding the journey of starting her business. Kerri was a Business teacher in Queensland schools before venturing into corporate work and becoming an entrepreneur.

What does VETNexus do?

Primarily we work with schools, registered training organisations and other companies to develop eLearning materials for their students. We also work with educational institutions on ensuring their assessments are rigorous and meet compliance requirements, as well as offering a range of professional development services in the training and coaching space. Off to the side we also have our Digital Literacy Licence, which is a program designed to help people ensure they have the foundations needed to participate in work, learning and everyday life, as well as owning a Certificate IV in Digital Learning Design that we partner with training organisations to deliver. Essentially, our focus is on the education sector and ensuring students have great experiences, especially when utilising technology.

When and where did you start your business?

October 2018 working from home. I set up as a company from the beginning due to the advantages of limited liability compared to being a sole trader.

How has it changed from then to now (e.g. staff, size, services)?

Initially it was just me, taking work as it came up and slowly I needed to get help as I couldn't fit it all in myself. And there were some things to be done that were more of an admin level and could be delegated to someone else. So, the team slowly grew and we have eight employees, plus myself and a number of contractors such as a bookkeeper. We have three of us in senior management, two in middle and four junior staff. We are about to add to our senior management with a fourth person.

Remembering the days when you established the business, what tools helped you to succeed when many small businesses fail?

At one stage the business grew very quickly. We got up to 17 employees/contractors, but most were part-time.

The screenshot shows the VETNexus website. At the top left is the VETNexus logo. To the right is a navigation menu with links for 'About', 'Compliance', 'eLearning', 'Qualifications', 'Products', and 'Blog', followed by a shopping cart icon showing '0' items and a 'Contact' button. The main content area has a large heading 'Working in Vocational Education?' and a sub-heading 'We've got you.' Below this is a paragraph: 'VETNexus is a do-it-all RTO consulting and support service with expertise in delivering digital solutions.' Another paragraph follows: 'By streamlining your processes, strengthening your compliance practices and enriching your overall student experience, we'll help make your Registered Training Organisation (RTO) a leader in its field.' On the right side of the page is a photograph of a woman with dark hair, wearing a white top and black pants, sitting in a white armchair and using a laptop. The background of the photo is a light-colored wall with a tall, dried plant. The VETNexus logo is visible in the bottom right corner of the page.

Figure 7.45 Setting up a website helped attract customers to VETNexus.

There was a lot of double up and wasted effort, plus inconsistency in availability. Working with a business coach I restructured to a more streamlined team, most are now full-time. We began strategic and operational planning, including a quarterly 90-day plan for all areas of the business. This 90-day, or quarterly, plan is an essential tool for businesses to utilise.

In relation to technology, luckily this is my area of expertise so I have looked after our tech and we are 100 per cent cloud-based as all employees work remotely. This was also helpful in the first few years as there was no money required for renting an office space.

The other essential tool is a cash flow forecast and planning for times when things are slow, such as Christmas and New Year. This is a period of time where businesses shut, no money comes in as no one is there to pay what they owe you, staff are being paid for annual leave but not bringing any income into the business, and then there is a lag of this throughout January where the time of no work happening means there is no cash coming in. So, a business in our space needs to plan for up to eight weeks of no incoming funds and manage how everything else will be paid (e.g. wages, superannuation, tax, insurance, internet), especially as there are a lot of expenses that are direct debits from the accounts and continue to come out. Obviously, this is the opposite to retail, who experience their busiest time of the year at Christmas.

How did you fund your business at start-up and subsequent growth in its first few years?

Initially it was me working as a consultant and getting money into the business and paying myself a wage, paying overheads such as subscriptions, a new computer, internet, etc. I didn't pay myself the full amount that came into the business. Instead, I took a smaller wage and built the equity in the business to allow me to take on other employees. There have been stages of the business growth where I have needed to invest into the business. I considered angel investors, crowdfunding, etc., but decided to keep 100 per cent control over the business myself and borrowed from the bank and from family.

What financing challenges did you encounter?

In my experience, when you haven't been in business for at least two years it is impossible to get any sort of finance, including a credit card from a bank. I still don't have a huge credit card limit as Australian banks are very wary about providing credit to Australian businesses.

What advice would you give regarding sourcing equity and debt finance?

With equity finance, you need to carefully consider the trade-off that comes with bringing other 'part-owners'

into the business. At this stage I have not done this, as I want to retain 100 per cent ownership and control of the business, and not be answering to other owners in terms of decisions that I make. You would also be sharing in profits, but to me this isn't such a big issue. It is more the decision-making implications and pressures that come from investors that want to make a profit and may want a say in decisions to be made without fully understanding the situation or having a deep enough knowledge of the operational aspects of the business.

Debt finance has the downside of having to pay interest, but you retain 100 per cent ownership and decision-making ability. You do need to make sure you can service your debts, and make repayments when they fall due, as well as the interest expense.

The decision about whether to go with equity versus debt finance would really depend what your goal is, how much money you need and your ability to pay that money back. If you need a huge amount of money to take your business to the next level, such as those appearing on Shark Tank, then you need to go down the path of equity finance. If it is a smaller investment and the interest is doable, then I think debt finance is the better way to go if you know you'll be able to pay it back.

When considering the budget for your business what things did you not consider that became important to the business?

The biggest expense for our business is salaries, so I need to consider the amount we pay staff for their expertise in various positions, as well as how much we can charge customers for that expertise. We are heading towards items that are scalable, which means we can charge a smaller amount for something but with little effort involved in delivery, but the majority of our work is trading time for money. Therefore, I need to consider the full cost of an employee. This means the wage they are paid is just the beginning. We put aside money to pay their tax, superannuation and leave entitlements. Then we must pay things like WorkCover, which is based on the total salaries of the organisation (a direct impact from what we pay employees), and a range of software subscriptions per person. All of this needs to be added up to show what the cost of one employee is, and it is much more than the hourly rate they are paid. Some formulas say to allow 1.4 times the hourly rate to show the cost; however, this depends on the additional expenses per employee. Given we use a lot of various software, our rate is closer to 1.9 times the hourly rate.

Break-even point on services. As described already, the rate we pay employees is not the cost of those employees. When we quote on projects, we need to make sure we are covering the cost of a pool of employees who are working on a project, plus any additional items associated with the project, plus overhead expenses

such as our office rent (which we do now have), website hosting and maintenance, etc. There’s a range of expenses associated with running a business that need to be factored in when quoting for a project to ensure the overall expenses of the business are catered for throughout all projects. By looking at the break-even point, we know when we will start to make money on a project rather than it costing us money. By looking to scalable projects we will be able to reach that break-even point much easier.

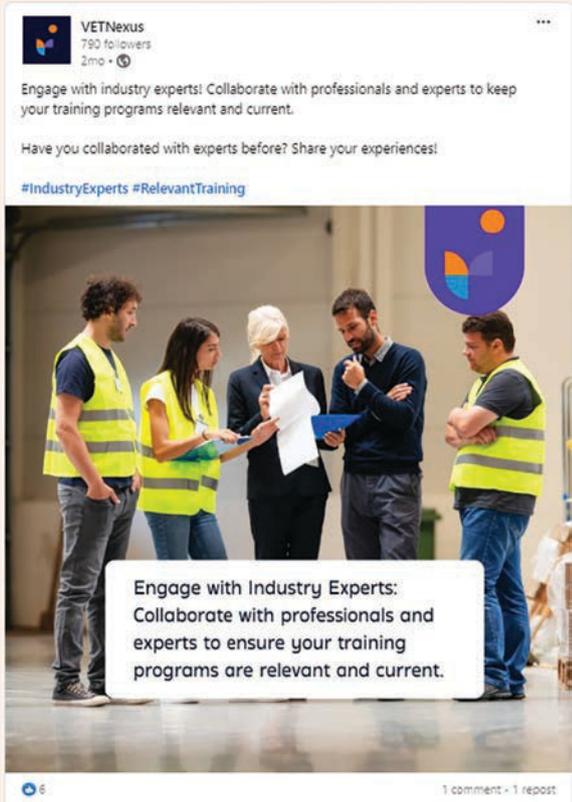


Figure 7.46 A LinkedIn post by VetNexus to promote their best practice tips to their prospective customers.

How has your approach to budgeting changed from then to now?

When I first started out, and it was just me, I didn’t really budget. I just said, ‘That will take me 10 hours and this is my fee for 10 hours, pay me.’ I didn’t have a lot of expenses and I wasn’t needing to make sure I covered the wages of other people. That is probably the biggest stress of being a business owner, is knowing you are responsible for all these people who need to be paid every fortnight.

Now, I do all the things described, including spending a lot of time working out costings for projects. I probably spend more of my time working on finances and quoting work than anything else at the moment. If you are

[the] business owner, even for a small business, then understanding of accounting principles and finances is essential.

Did you research your break-even point? If so, how did you calculate this, and what costs did you consider?

Initially no, but this has come together using various software tools over the years, especially Xero as our accounting software that we use. The more data that goes in to the platform, the more useful it is in providing reports, projections and comparisons between years.

When I started out with my initial chart of accounts, it just had one sales account and some basic expense accounts. Now, I have nine different sales accounts and different types of sales go to different accounts so we can more accurately work out the break-even point and profit/loss associated with each type of sale. For example, we have a sales account for external events that is about public speaking at other events. The sales will be the fee that is charged to speak at that event, and then the cost of sales account is set up against that to record any expenses such as travel, accommodation, wages in preparing presentations, etc. We can then more accurately do the comparison by breaking things down in detail and having a more micro approach to the chart of accounts.

How do you feel about VETNexus’s continued growth in the next few years?

We have a lot of exciting things happening, and we are focusing more and more on our scalable opportunities. This will hopefully help us in our growth over the next few years. We have a one-, three- and five-year plan, with goals for each year, and these need to be reviewed every year.

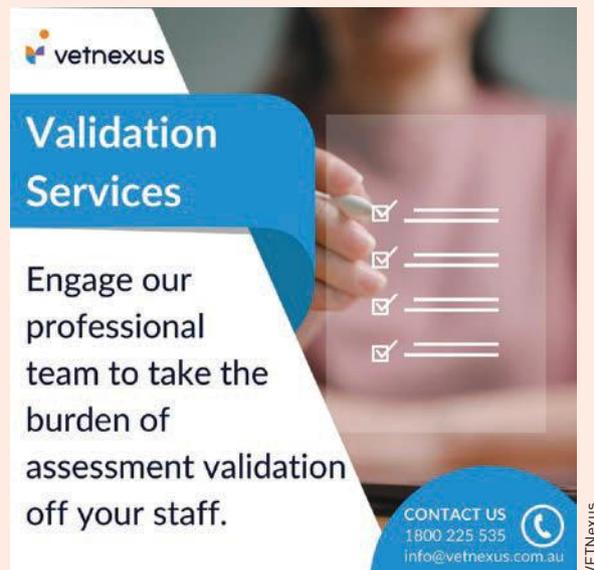


Figure 7.47 One of the services offered by Vetnexus.

If you were to start a new business now, in 2024, what would you do differently?

I would approach the set-up differently initially, looking at a trust structure instead of straight into a company. I went with the most basic set-up, short of going as a sole trader, and it doesn't provide enough protection of assets and distribution of tax. I'm not an accountant and there is still a lot I don't know about this, but I have set up a trust that I will move the business ownership to eventually. There are also different types of trading entities and non-trading entities. There is a lot to know about the best type of set-up and I would probably go to an accountant or solicitor that is across that type of thing rather than just the standard family accountant.

When you got started what support did you get from your accountant and lawyer/solicitor?

I had all support from the accountant. He set up the company and all related paperwork, as well as setting up my Xero account ready to go.

I didn't use a solicitor, but if I were to set up again I would, and I would structure things differently with a trust and subsidiary companies. It can be a bit complicated, but the growth of the business is more than I expected when I first started.

When you started, how did you keep track of the business finances? Has that changed today?

I used Xero from day one and I still do. The only thing that has changed is that I now have a bookkeeper to do a lot of that for me to free me up for other things. Also, we have Xero integrated with many other software packages, such as Zapier, Stripe and Hubspot, to streamline processes.

What regulations do you have to comply with to run your business?

This is something that I learn more about every single day. There's always something new or something I didn't know about. My accountant takes care of some things for me, such as my ASIC reporting each year, BAS and IAS reporting (BAS includes GST). We have to do tax returns each year as well. There's always changes to employment requirements, and I subscribe to the Fair Work Ombudsman for updates to this, but I also have a friend who works in HR who I can go to for advice when needed. Eventually I will have a HR specialist. We have a few trade marks that we own on our intellectual property and we are also very mindful of copyright, which is a huge issue with social media and artificial intelligence. This is an area we really focus on. We are careful with any marketing emails we send as we have to be mindful of spam regulations. We seek permission from people before adding them to our marketing lists. We are also

subscribed to get updates about cyber threats through the Australian Government. We are not yet big enough to need to comply with the Australian Privacy Principles, but hopefully we will be soon.

What insurances do you have to protect your business, staff and clients?

We probably have more insurances than many small businesses. We have WorkCover, Public Liability, Professional Indemnity, Management Liability and Cyber Insurance. I also have a car that is owned by the company so there is motor vehicle insurance as well. Management Liability and Cyber are two that aren't often taken out by small business. Cyber is becoming more and more important as we see data breaches increasing; however, it is a very expensive insurance to have.

What strategic networks have supported you and your business?

This is one of the most important parts of businesses. As the saying goes, it isn't what you know, it's who you know, but I like to think it is what you know and who you know. You can be the smartest person in the world, but if no one knows that then it isn't going to get you far in life. So, you need to make sure you're good at what you do, surround yourself with people who are good at what they do and then make sure people know about it.

In the online environment, you need to be on LinkedIn. That is where business people hang out when they want to know about business stuff.

In the real world, you need to join groups that are relevant to your business. I am a member of the Queensland Chamber of Commerce, as well as other organisations relevant to my business like the Australian Computer Society and Women in Technology. I have managed to progress my career personally through networks, as well as the business.

Questions

- 1 **Describe** the features and characteristics of VETNexus, including the internal operating environment and the four business functions.
- 2 **Explain** the following, giving evidence from the case study:
 - Business size
 - Business pathway option
 - Legal and regulatory requirements
 - Short- and long-term sources of finance including equity finance and debt finance
 - Break-even analysis
 - Budgeting
 - Financial objectives





Templates
STEEPLE
analysis

Break-even
analysis

- 3 **Analyse** the macro environment influencing VETNexus using a STEEPLE analysis. Interpret two trends or relationships to draw conclusions about a small business in the start-up stage.

A STEEPLE analysis template is available for you to download on Nelson MindTap.

- 4 When Kerri started VETNexus, she provided consulting and was the only worker in the business. Using the following assumptions, calculate the break-even point for Kerri and her consulting work.

- Fixed costs: \$100 000 per year
- Production costs per project: approximately \$600
- Sale price (average project quote): \$2000

A break-even analysis template is available for you to download on Nelson MindTap.

- 5 **Interpret** the break-even analysis to draw conclusions regarding the financial objectives and businesses in the start-up stage.

Weblinks:

- ABS (p.208)
- SME Association of Australia (p.208)
- Top 10 Franchises in Australia (p.215)
- Australian Business Register (p.218)
- Australian Taxation Office (p.218)
- Fair Work Ombudsman (pp. 218 & 221)
- Australian Securities and Investments Commission (p.219)
- Australian Business Licence and Information Service (p.219)
- ATO – Superannuation calculator (p.221)
- Australian Human Rights Commission (p.222)
- Queensland Human Rights Commission (p.222)
- Office of the Australian Information Commissioner (p.222)
- Workplace Health and Safety Queensland (p.224)
- Product Safety Australia (p.225)

- ACCC – product liability (p.226)
- Business Queensland (p.231)
- Advance Queensland (p.231)
- émotions article (p.232)
- 10 play (p.235)
- *Shark Tank* highlights (p.235)
- Thrriday (p.244)
- Business Chamber Queensland (p.250)
- Queensland Small Business Commissioner (p.250)
- VETNexus (p.255)

Templates:

- STEEPLE analysis (pp. 207, 215, 233, 234 & 256)
- Break-even analysis (pp. 246, 248 & 256)

Chapter summary:

- Chapter 7 Start-up regulation and financing (p.257)

 Nelson MindTap

To access resources above, visit
cengage.com.au/nelsonmindtap



Chapter 7 review



Summary
Chapter 7
Start-up
regulation
and financing

This chapter introduced the legal regulations and financing considerations for start-up businesses. You can demonstrate an understanding of this chapter's content by successfully responding to the following questions.

7.1 Short responses

- 1 **Explain** how financing a business is linked to the internal and external operating factors of a business.
- 2 **Explain** four challenges that generally exist at the start-up stage of the business life cycle.
- 3 Compare and contrast small and medium sized businesses as classified in Australia.
- 4 **Explain** the three pathway options for a person who wants to own a business.
- 5 Summarise the taxation considerations for a start-up business, including the different taxes and reporting requirements.
- 6 List the 11 overarching legal and regulatory requirements that may impact a start-up business.
- 7 **Explain** the interrelationships between the five financial objectives, including where they may conflict.
- 8 Compare 'equity finance' to 'debt finance'.
- 9 In a paragraph, **explain** the purpose of the break-even analysis as a useful financial analytical tool for a start-up business.
- 10 **Describe** the features of a budget that would justify the following quote by Dave Ramsey. 'A budget is telling your money where to go instead of wondering where it went.'
- 11 **Evaluate** the choice to open a new business or purchase an existing business for a person with entrepreneurial experience, \$100 000 in equity and \$10 000 in a personal unsecured loan to make a decision on a suitable pathway, using the criteria of competitiveness and stakeholder satisfaction.
- 12 **Evaluate** the decision for a business owner not to include a break-even analysis in their business plan, and make a judgement using the criteria of effectiveness and stakeholder satisfaction.

7.2 Extended responses

- 1 Using the inquiry process, **create** a two-page flyer or infographic to **communicate** the following.
 - a **Describe** both the situation and environment of a small business in your community that you are familiar with, and can investigate.
 - b Select data and information from the business and other sources to **analyse** the licences, permits and certificates the business should have.
 - c **Evaluate** two proposed business licensing strategies that the business could consider, using the criteria of effectiveness and competitiveness.
- 2 Using the inquiry process, **create** a presentation to **communicate** the following:
 - a **Describe** an upcoming event being run in your local community that requires business planning.
 - b Select data and information about the event and its organisers to **analyse** the STEEPLE factors.
 - c **Interpret** three relationships and/or trends in the STEEPLE analysis to draw conclusions about the implication of running an event, and how it aligns to a start-up business model.

8

ENGAGING STAFF

What you will learn

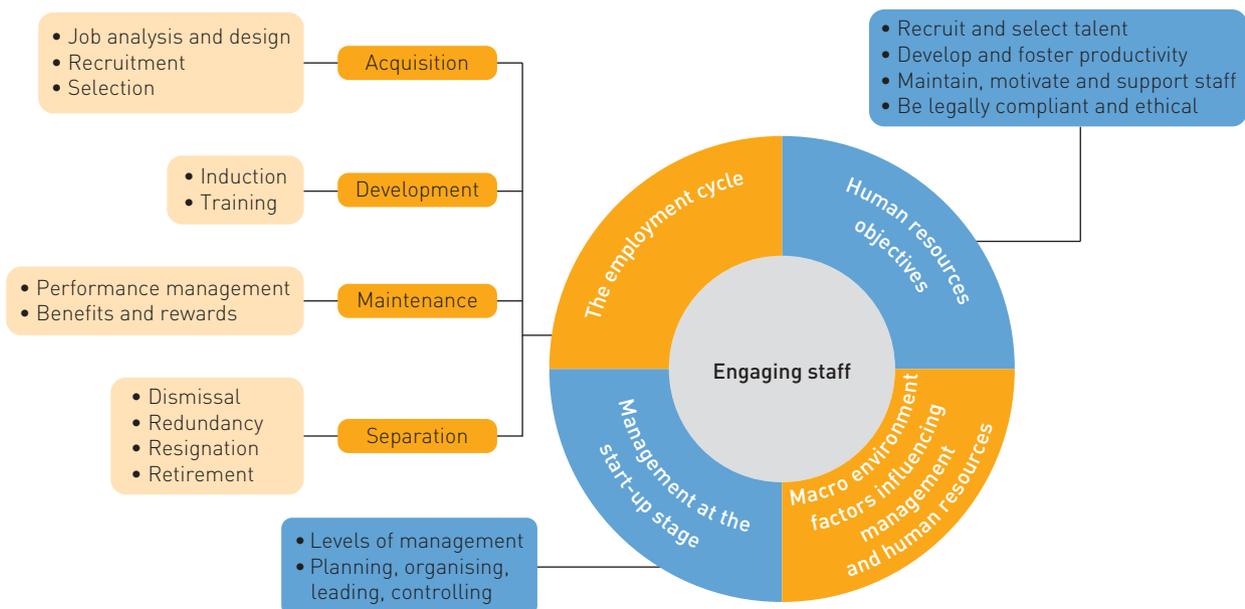
Start-up businesses face an array of challenges when they become established and begin trade. One significant challenge is how the business can recruit, select and develop staff to perform at a high level and be driven to achieve the business's goals. The ability to inspire staff to be 'on board' brings to the forefront the management skills required of the business owner. This chapter will look at the influence of human resources and management for start-up businesses, and explain a range of strategies businesses can use to achieve success when engaging staff.

This chapter will provide you with the opportunity to:

- **describe** business situations and environments relating to business start-up in the growth stage of the business life cycle
- **explain** business concepts and strategies, leadership and management, and business processes and systems relating to business start-up
- **analyse** and **interpret** business situations, environments and the human resource function relating to business start-up, using a STEEPLE analysis
- **evaluate** business strategies at start-up to **make decisions** and **propose** recommendations
- **create** responses that **communicate** meaning to suit purpose and audience.

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The analytical tool used in this chapter is a STEEPLE analysis.



GAINING INSIGHT 8.1



The HR Dept franchise and the essential HR requirements for a start-up

About the HR Dept

Sue Tumelty founded the HR Dept in 2002, having identified the need for offering personalised HR advice to local businesses. The company expanded all over the UK, as well as Ireland and Australia.

In 2017, Pia Engstrom became the first franchisee to bring The HR Dept's unique model to Australia, establishing her branch in Perth. Demonstrating her leadership and expertise, she soon became a director and board member in 2018. By October 2020, Pia, alongside Darren Brandli, took over as co-owner, transforming The HR Dept Australia into a fully Australian-owned entity.

Despite the company's international reach, The HR Dept has maintained its local and personal approach, which has been key to its success. Each branch is led by a highly qualified HR director who is dedicated to supporting their local business communities. The HR Dept's clientele ranges from small start-ups to well-established businesses across various industries. The company prides itself on delivering cost-effective employment law advice and HR solutions, allowing business owners to focus on growth while navigating the complexities of employment legislation.



Figure 8.1 Businesses like The HR Dept support other businesses with their HR compliance needs.

What do start-ups need to know about HR compliance?

When launching a start-up in Australia, it is vital to establish strong HR practices early on. Effective HR policies ensure legal compliance and help attract and retain employees, which is crucial for long-term success.

- **Recruiting the right employees:** Recruiting is a key HR task. A good HR team can manage recruitment, from shortlisting to interviewing, ensuring the right person is hired.
- **Compliance with employment standards:** Australian workers are often covered by modern awards that set out minimum conditions. Compliance with these awards, including pay rates and leave, is essential.
- **Employment contracts and onboarding:** Employees need written contracts that comply with Australian law. These contracts should be regularly updated, and new hires must receive the Fair Work Information Statement.
- **Fair compensation:** Fair pay, including salary and benefits like flexible work arrangements, is crucial for employee retention and motivation, fostering a positive workplace culture.
- **Performance management:** Regular feedback and training keep employees aligned with business goals. Clear expectations and support drive performance.
- **Workplace policies:** A policy manual covering areas such as harassment and safety is vital. These policies ensure the start-up handles issues effectively and maintains a safe work environment.
- **Training and development:** Regular training ensures employees meet safety and behaviour standards. It also supports skill development, helping employees contribute more effectively.
- **Creating a positive culture:** Integrating strong HR practices helps create a positive, inclusive workplace where employees are motivated and work towards shared goals.

Strong HR foundations help start-ups navigate challenges and seize growth opportunities. Early implementation of these practices ensures compliance and fosters a productive, motivated workforce.

Source: <https://hrdept.com.au/>

Questions

- 1 **Describe** the business situation of The HR Dept.
- 2 To familiarise yourself with the content in this chapter, match each key HR requirement to the relevant page/section of this book. An example of a table you could use has been provided.

HR requirement	Relevant heading(s)	Chapter 8 page number(s)
Recruiting the right employees		

Engaging staff

Key learnings

You will learn about engaging staff by examining:

- human resources objectives
- the interrelationship between human resources objectives and business goals.

Human resources is the business function that seeks to maintain and enhance the relationship between employer and employee. In the start-up stage of a business, the owner may assume all roles in the business and be the sole worker/employee but, once the business becomes well-established, the need to employ more staff may become imperative. Business owners and managers who have previous leadership experience will strategically plan their staffing needs with precision and ensure that they support and maintain those employees so they are motivated, loyal to the business and driven to achieve the business's goals and objectives. Business owners who don't carefully consider their staffing needs risk employing candidates who are underqualified, or with a work ethic that does not align with the organisational culture the owner wants to achieve. Further, risk of conflict can arise, which can be a tricky situation to manage when a business owner is trying to support staff while complying with legal requirements. Hence being strategic in human resources planning is essential for businesses in the start-up stage, and at all other stages of the business life cycle.

The objectives for the human resources function in a business are to (Figure 8.3):

- recruit and select talented, proficient staff whose values align with those of the business
- develop staff professionally and foster productivity and leadership
- maintain, motivate and support staff by providing benefits and opportunities for achievement
- be legally compliant and ethical in the treatment of workplace issues and staff.



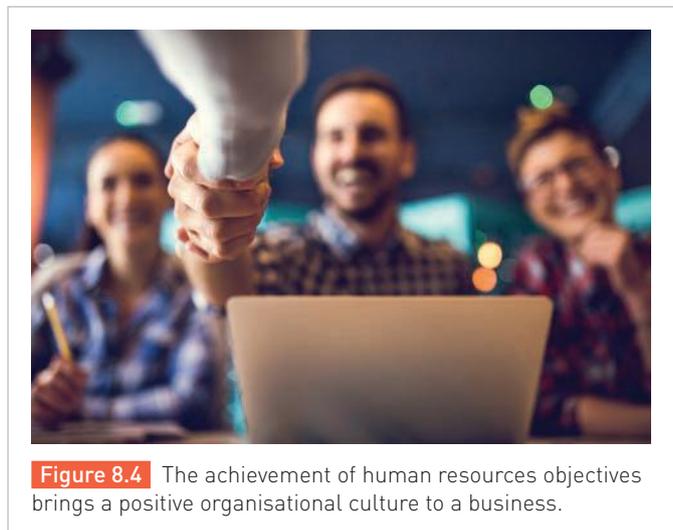
Figure 8.2 Human resources focuses on the relationship between employer and employee.

iStock.com/vadimguzhva



Human resources objectives and business goals

When a business owner strives to achieve human resources objectives, they need to consider how these objectives can align with the business’s overall goals. A start-up business owner needs the foresight to acquire, develop and maintain staff who support the business’s profitability goals and hence seek ways to maximise revenue through sales and reduce expenses. The staff they select must also promote the business to support an increase in market share, and should ideally be passionate or interested about the goods and services provided by the business. Staff should be encouraged to seek out sustainability practices and suggest these to the business owner, and in turn the business owner can achieve their employability goal by providing fulfilling employment opportunities.

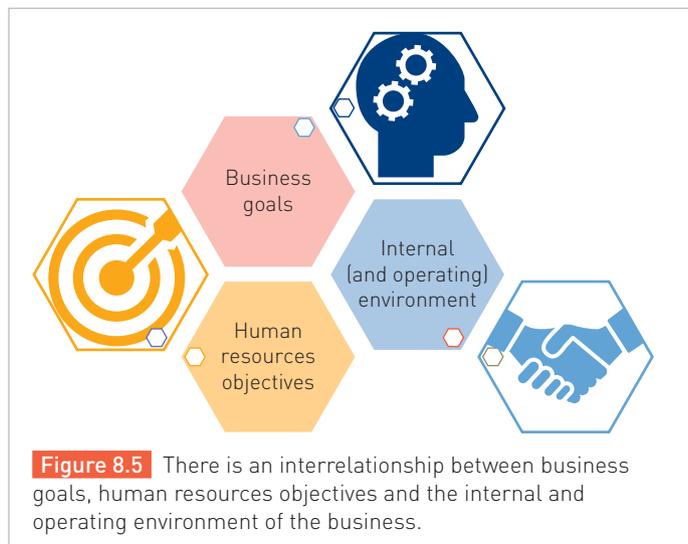


Aligning business goals with human resources objectives is achieved by using strategies and tactics. These strategies and tactics will shape the internal and operating environment of the business (Figure 8.5). This is an example of the strategic planning required of business.

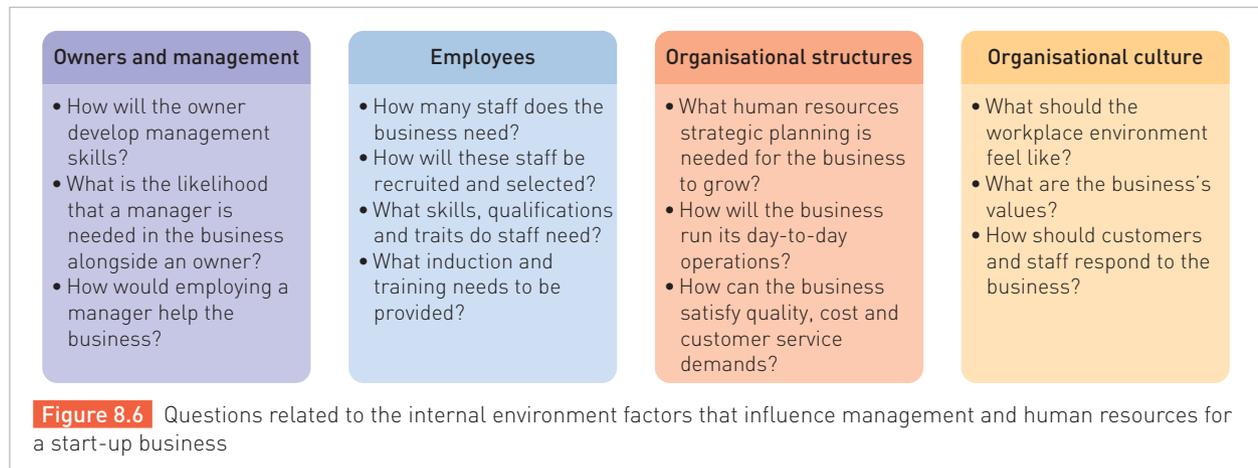
Internal and operating environmental factors impacting on management and human resources

This chapter will examine the internal and operating environmental factors that impact on management and human resources through the exploration of a range of strategies.

In initial strategic planning, a start-up business owner would consider some key questions regarding the internal environment to inform their decision-making, as outlined in Figure 8.6. The operating environment impact



for suppliers, customers, competitors and public interest groups is less relevant at this stage as the business plans for its internal environment needs.

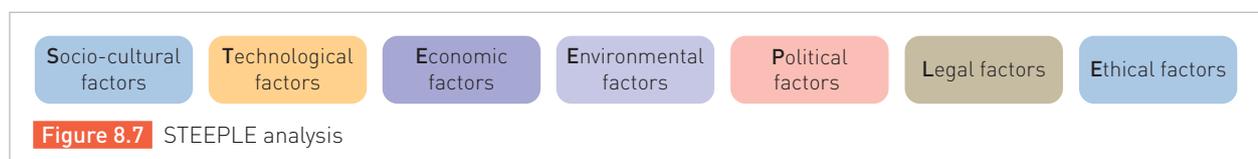


Macro environmental factors influencing management and human resources

Key learnings

You will learn about start-up management and human resources by examining the influence of the macro environment.

The strategic planning that businesses need to achieve their human resources objectives and establish their internal and operating environments is also influenced by the macro environment, which can be analysed using a STEEPLE analysis (Figure 8.7). A start-up business owner should familiarise themselves with these factors to inform their decision-making and ensure they place themselves in an ideal position to achieve their business goals.



Socio-cultural factors

The socio-cultural factors that influence management and human resources are profound. Much research has been conducted in relation to management skills, leadership ability, performance management and motivation strategies that businesses can adopt to achieve competitiveness in management and human resources. A start-up business owner who understands their leadership strengths and weaknesses can work towards building effective and appropriate communication with their staff, which, in turn, can assist in the achievement of business goals. This can include how to manage the different generations, including baby boomers, generation X, generation Y – who are more commonly referred to today as ‘millennials’ – and generation Z, who are also referred to as iGen or ‘centennials’. The new Generation Alpha, born from 2010 onwards, are still young and their workplace traits are still in the early stages of being identified. Figure 8.8 shows a summary of each generation and how they engage with work.



INQUIRY i

Generations and the workplace

The US Center for Generational Kinetics provides a range of sources on the different classifications of generations, including how they act in the workplace. Follow the weblink and select information from the website to **explain** how each generation perceives their role in the workplace. Recommend strategies a start-up business owner or manager could enact to cater to the needs of each generation in the business.



Weblink
US Center for
Generational
Kinetics

Socio-cultural trends relating to recruitment, selection and training can influence the management and human resources strategies of a business, particularly in relation to the internal environment. These trends can also inform the decision-making that emerges following the separation or termination of the employer–employee relationship – in other words, when someone leaves a job. Society’s expectations of equal opportunity, freedom from discrimination and workplace flexibility (Figure 8.9) can alter the way a business chooses to operate, and can influence government to make changes to



Figure 8.9 Providing flexibility in the workplace can allow parents to focus on their family and their career.

workplace relations law. In many cases, socio-cultural factors result in start-up businesses introducing policies and procedures that enhance the business's organisational culture.

Another socio-cultural factor that influences management and human resources is the data published by government in relation to skill shortages within industries. This information can help business owners to analyse the employment market to see if the jobs they are advertising are in high demand or are hard to recruit for.

INQUIRY



Investigating skill shortages

The Australian Government's Jobs and Skills Australia publishes skill shortage data, both nationally and statewide.

Choose an industry and, using the inquiry process, investigate the reasons for Queensland's current skill shortages in that industry. **Create** an individual or small group presentation to **communicate** your findings.



Technological factors

Technology has significantly shaped how businesses operate, both positively and negatively. Technology can provide business owners and managers with exciting ways to acquire and develop talented and productive staff. For example, a business could establish a career database on its website and fund staff training by seeking out internationally recognised online courses. Technology allows staff to work more flexibly thanks to advances in communication, networks, cloud computing and web-based software, but can also reduce the need for staff through the increased use of artificial intelligence (AI; Figure 8.10), automation and robotics in manufacturing. Start-up business owners and managers should be aware of these changes and consider how they might impact on current practices or future growth.

The Foundation for Young Australians (FYA) has published a range of resources to educate and support young people who are ready to enter the workforce.



Figure 8.10 Technological advancement in AI can affect business by improving automation and replacing jobs that were once work tasks performed by people.

TZIDO SUN/Shutterstock.com



Weblink
Foundation
for Young
Australians
(FYA)

Economic factors

Economic factors tend to focus upon the impact that employment or unemployment has on an economy, and whether the economy is considered stable. The Australian Bureau of Statistics (ABS) collects data and regularly

publishes the **unemployment rate** in Australia to inform both business and government about market trends and business growth or decline. The government may use this data to inform policy relating to workplace relations, the welfare system and education or training. An example of this was seen when the government provided incentives to businesses to employ new staff by connecting with **employment agencies**. Employment agencies are businesses whose mission is to upskill a diverse range of unemployed people and place them into sustainable jobs.

Australia is fortunate to have a low unemployment rate compared to many other countries. The rate has fluctuated between 4 per cent and 6.4 per cent over the last 10 years. Because of the social consequences of unemployment, however, governments will always try to reduce the rate. The growth or decline of an economy can influence the number of staff a business can afford to employ based on the demand for goods and services in the market.

GAINING INSIGHT 8.2



Unemployment rises despite another surprise job creation surge

Australia's unemployment rate has increased to 3.9 per cent despite the creation of more than 60 000 jobs last month, as the participation rate surged to a fresh record high.

Key points:

- Unemployment climbs to 3.9 per cent, its highest level since May 2022
- The proportion of Australians aged 15 and over in work or looking for it is at a record high of 67.2 per cent
- Financial markets expect the RBA to start cutting interest rates by June 2024

Because 67.2 per cent of Australians aged 15 and over are now either in work or actively looking for it, up from 67 per cent in October, the estimated 61 500 jobs created in November were not enough to keep the jobless rate steady at 3.8 per cent.

Underemployment also rose 0.2 percentage points to 6.5 per cent, which is 0.7 percentage points up on the low point from November last year, but 2.2 percentage points below where it was at the start of the pandemic, according to the Australian Bureau of Statistics report.

'The recent slowdown in hours worked over the past six months continued into November, with the total number of hours worked now around where it had been back in May. However, this follows very strong growth during late 2022 and early 2023,' ABS head of labour statistics Bjorn Jarvis said.

'The slowing in hours means that overall growth rates in employment and hours worked are now similar



AAP Image/James Gourley

Figure 8.11 Hospitality had seen strong employment growth after COVID lockdowns ended and borders reopened, but that is starting to wane as consumer spending falls.

over the past 18 months. The narrowing gap between these two growth rates suggests that the labour market is now less tight than it has been.'

The Bureau of Statistics estimates that 14.26 million Australians are now in work, leaving the employment to population ratio at an equal record high of 64.6 per cent.

The Asia-Pacific economist of jobs website Indeed, Callam Pickering, said it's likely more people are looking for work due to surging taxes, consumer prices, rents and mortgage repayments. 'Australia's cost-of-living crisis may have contributed to rising participation

Unemployment rate: a measure of the relationship between the number of unemployed people looking for work and the size of the labour force in a given market. It is usually given as a percentage and is calculated by:

$$\frac{\text{number unemployed}}{\text{number in labour force}} \times \frac{100}{1}$$

Employment agency: an organisation that aims to upskill unemployed people and place them into work

in the near-term, with many households needing to find more work to keep their heads above water,' he noted. Mr Pickering said those pressures are unlikely to ease quickly, even as wage rises start to edge above inflation. 'We anticipate that those cracks will become increasingly obvious over the first half of next year,' he said. 'There are genuine concerns around the household sector and their ability to absorb the impact of cost-of-living pressures.'

Unemployment tipped to 'rise well above 4 per cent' early next year

Despite this, Marcel Thieliant from Capital Economics said the economy is struggling to absorb the surge in people wanting a job, both from new migrants and more people in the existing population looking for work. 'The 80 200 jump in the labour force was the largest since the end of 2021's Delta lockdowns and over the past three months, the labour force has expanded by 47 000 per month,' he noted. 'One reason is that the surge in net migration is resulting in the adult population rising by nearly 50 000 per month.'

The other is that the participation rate jumped from 67.0 per cent to a fresh record high of 67.2 per cent.' Mr Thieliant is concerned that this pace of job creation will not be sustained. 'Business surveys point to employment rising by around 20 000–30 000 per month, but that wouldn't be enough to prevent the labour market from loosening,' he warned. 'Indeed, the continued decline in job vacancies suggests that the unemployment rate will rise to well above 4 per cent by early-2024. 'The Reserve Bank of Australia only expects unemployment to get this high by mid-2025, and we think that a more pronounced deterioration in the labour market will convince it to cut interest rates earlier than most anticipate.'

Most economists are forecasting the first cut in the RBA's cash rate to take place over the last three or four months of 2024, however Mr Thieliant expects it to happen before the end of June and financial

markets agree. 'Before the jobs release and following this morning's dovish FOMC [Federal Open Market Committee], the Australian interest rate market was looking for a first 25-basis-point rate cut from the RBA in June 2024, with a second 25-basis-point rate cut fully priced by November 2024,' wrote IG's Tony Sycamore. 'We don't see today's jobs numbers causing a drastic repricing of those expectations.'

Economists were generally expecting unemployment to tick up to 3.8 per cent (October's jobless rate was originally reported as 3.7 per cent, before being revised up this month) with 11 000 jobs created in some payback for October's surprisingly strong jobs gains.

Typical earnings rise to \$1300 a week

Separate ABS employment data from a survey of employment characteristics taken in August 2023 ... showed that the median pay packet rose 4.2 per cent over the past year to \$1300 a week.

The median is what the middle worker in the income distribution receives and, unlike the average, is not skewed by very high-income earners.

The median male worker earned around \$1500 a week from their main job, while the typical female worker received \$1150. Median weekly full-time earnings were around \$1600 (\$1692 for men and \$1500 for women), while median weekly part-time earnings were \$655 (\$600 for men and \$699 for women), according to the ABS.

Chief executives, general managers and legislators earned the most, on average, at \$2800 a week for full-time staff, with specialist managers (\$2404) and ICT professionals (\$2237) close behind. Sales support workers (\$1065), food preparation assistants (\$1100), and farm, forestry and garden workers (\$1100) had the lowest full-time pay packets.

Managers and professionals also had the advantage of working from home at nearly three times the rate of other workers, with 60 per cent doing so regularly versus 22 per cent across other occupations. 'Our

Working arrangements



latest data, for August 2023, shows that 37 per cent of Australians work from home regularly,' said Mr Jarvis from the ABS. 'While this was down from around 40 per cent in 2021, it was still 5 percentage points above the pre-pandemic level, showing that many of the changes in behaviour and working arrangements have continued beyond the pandemic.'

Source: Listen, A. (2018, 30 September). Saturday afternoon – 1. ABC Listen. <https://www.abc.net.au/news/2023-12-14/unemployment-november-2023-abs-data/10322804>

Questions

- 1 Research and define the following economic terms:
 - Unemployment rate
 - Inflation
 - Net migration
 - Underemployment
 - Participation rate
- 2 Although the 61 500 new jobs were created in November 2023, **explain** why the employment rate remained at 3.9 per cent, which was a similar figure from October.
- 3 **Describe** the trends occurring in the economy contributing to the employment to population ratio being at a record high of 64.6 per cent and the 80 200 increase in the labour force.
- 4 Selecting information from the article, **create** a bar, stacked column or line graph to demonstrate:
 - a the median income for men and women – full time and part time
 - b the average weekly income for Australia's highest and lowest paid workers.
- 5 The article suggests the RBA will cut interest rates in June 2024. Discuss as a class why this did not occur.
- 6 **Interpret** the data and information relating to people working from home to draw conclusions for challenges impacting the human resource function for businesses in the growth stage of the business life cycle.

Environmental factors

Environmental factors tend to impact upon business operations, rather than on management and human resources strategies. A business needs to consider the weather, including seasonal changes, and how it might impact on their staffing needs – for example, farmers may employ more staff around picking and harvesting times. In businesses not directly impacted by the environment, there are opportunities for business owners to engage staff who have a social conscience and make decisions in the workplace that encourage sustainability. Sustainability practices may include minimising waste by reusing supplies, reducing the printing budget and running recycling programs.

GAINING INSIGHT 8.3



Business Recycling

About Business Recycling

It can be difficult for a small business to find the reuse, recycling and waste services they need. Many don't have the time or the experience in finding these types of services. So the Business Recycling website and hotline have been set up to make recycling at work easier. Whether you run a cafe, a garage, a factory or an office block, you will be able to find reuse or recycling options for much of the waste generated by your business.



Visit the Business Recycling website to **describe** and classify what types of products the organisation encourages businesses to recycle.



Business Recycling

Political factors

The political factors that influence the human resources strategies of a business generally relate to government policy surrounding workplace or **industrial relations** – the relationship between employers and employees. In Australia, the major political parties have historically taken different philosophical approaches to how workplaces should function, and what rights and responsibilities employers and employees will have. Of significance is the flexibility given to small business owners when organising human resources so that their businesses can remain competitive and profitable in their market. At the same time, it is important that employees are provided fair pay for their work and are protected by legislation in relation to minimum working standards. Regulation or deregulation in an industry can also impact on the qualifications that staff may need to have to work for a business. For example, a builder must have a construction licence and display this licence to the public.

Legal factors

As introduced in Chapter 7, there is legislation in Australia that focuses on protecting businesses and their employees, including:

- the *Fair Work Act 2009*
- the *Superannuation Guarantee (Administration) Act 1992*
- state and federal anti-discrimination laws
- the *Privacy Act 1988*
- the *Work Health and Safety Act 2011* (Qld)
- associated regulations and codes.

Start-up business owners and managers must ensure their human resources decisions comply with these laws along with, for example, checking that staff have relevant qualifications when appointed to a role. Changes to legislation that relate to either workplace relations or the way businesses should conduct their work could influence the start-up business owner's or manager's decisions when planning and organising their staffing needs.

Ethical factors

Ethical factors influence human resources to a significant degree due to the fact that people are at the core of human resources. The focus on diversity and inclusion in society has transcended into workplaces, and businesses should focus on employing staff from different cultures, backgrounds and lifestyles to ensure all people are represented in the workplace. There is also a shift for society to deliver a work–life balance and to ensure the gender pay gap continues to close. Treatment of staff should also be at the forefront of a start-up business's culture, where there is equity and equality. A start-up business that demonstrates its ethical commitments to the market is likely to attract staff that share its values and commitments towards people, society and the environment.

QUESTIONS 8.1



- 1 **Create** a STEEPLE analysis diagram and suggest a range of inquiry questions that relate to the macro influences on management and human resources. The explanation of the STEEPLE analytical tool in Chapter 7 may assist with completing this task.

A STEEPLE analysis template is available for you to download on Nelson MindTap.

Factor	Possible inquiry questions
Socio-cultural	
Technological	
Economic	
Environmental	
Political	
Legal	
Ethical	



Template
STEEP
LE
analysis

GAINING INSIGHT 8.4



Key Hiring Trends In 2024

As 2023 wraps up, many leaders' thoughts naturally turn to next year, especially when it comes to hiring. In doing so, it's important to have the right intel to make informed decisions on your hiring needs and requirements. To assist, our recruitment specialists have pooled their expert knowledge of their sector – from technology recruiting to sales and marketing – to produce this comprehensive analysis of professional job market trends and forecasts for 2024.

Employment Growth and Hiring Demand 2023–2024

It seems 2024 might be a year of modest job growth for the white-collar sector, with Deloitte's Economic Forecasts report predicting a growth rate of just 0.4 per cent (about 21300 hires). It's well below the national average and if it comes to fruition, 2024 will be the slowest growth year for the sector since 2017.

It's no surprise given the economic upheaval of 2023, with skyrocketing interest rates and subsequent severe cost of living pressures. This has naturally resulted in a weakening labour market, with the recent Australian Government Vacancy Report showing online job advertisements decreased by 9.1 per cent (26 200 job ads) annually.

At a state level, over the course of the year:

- Victoria saw a 15.7 per cent drop (-12000 job ads)
- NSW an 11.5 per cent drop (-10400 job ads)
- Queensland a 6.6 per cent drop (-4 100 job ads)

While it seems this slowdown will continue, particularly in the first half of 2024, things look set to pick up by the end of the year and into 2025 and 2026. Interestingly, Deloitte forecasts growth in the CBD-based jobs market will outstrip the national average, with Brisbane leading the way thanks to a boom in public administration and professional services positions.

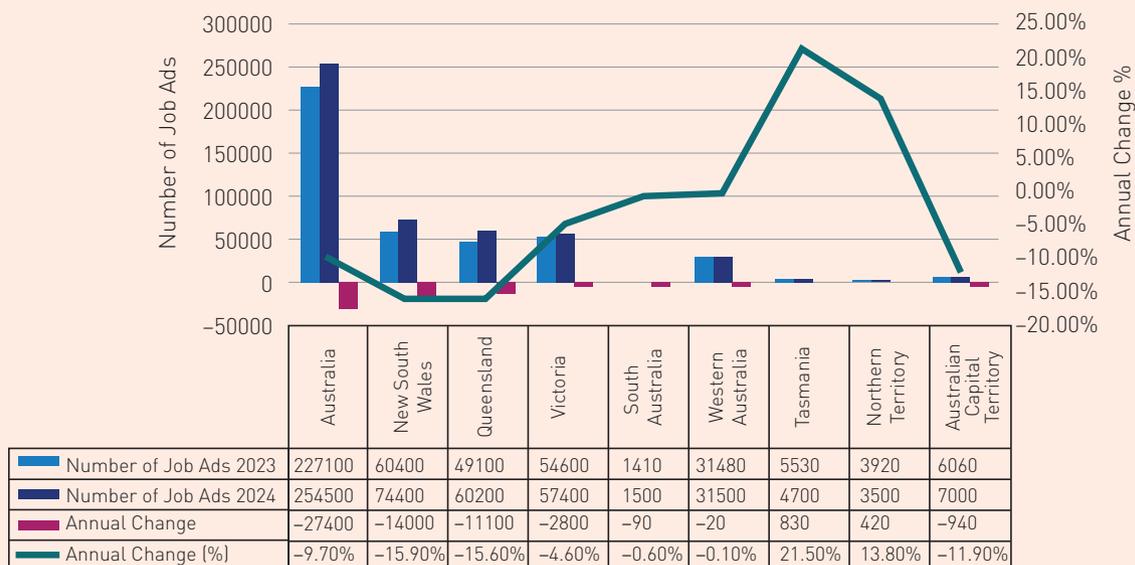
According to the government's Labour Market Insights, while employment is projected to increase across all 19 broad industries and all 8 broad occupational groups by November 2026, four will dominate. One of these is the professional, scientific and technical services sector, with over 200 000 new jobs in architecture, engineering, legal, accounting, and advertising. This trend reflects the long-term employment structural shift towards service-oriented industries.

From our standpoint as one of the leading recruitment agencies in Sydney, Melbourne and Brisbane, employers are certainly still planning to expand and hire, but with an increasingly strategic approach. This will encompass balancing cost efficiencies with targeted work on their branding, DEI policies and flexible working models to attract the right talent.

Remuneration Movements

The latest Wage Price Index (WPI) shows a big movement in Australian wages, with a 4 per cent jump this year. This is the highest annual WPI growth recorded since March 2009.

Change in Number of Job Advertisements in Australia



Source: Based on data from job advertisements in Australia found in the Jobs and Skills Australia Vacancy Report January 2024, released 14 February 2024, <https://www.jobsskills.gov.au/sites/default/files/2024-02/Vacancy%20Report%20-%20January%202024%20-%20Jobs%20and%20Skills%20Australia.pdf>

Figure 8.12 Job advertisements from January 2023 to January 2024 according to the Vacancy Report for January 2024

A confluence of economic factors has led to this big uptick. The post-pandemic labour demand surge, skills shortages and inflationary pressures created a perfect storm, placing employees in the driver's seat when it comes to salary negotiations. This resulted in a record number of salary increases, alongside the 5.75 per cent bump to the adult minimum award wage.

While the WPI provides a comprehensive and consistent measure of wage growth across our economy, advertised salary rates also provide useful insights into the current market. SEEK advertised salaries grew faster than the WPI this year at 4.6 per cent. South Australia led the nation with a 5.4 per cent increase in advertised salaries, with Queensland just a touch behind at 5.1 per cent. NSW and Victoria lagged behind at 4.4 per cent and 4.0 per cent respectively.

Here is a breakdown of how TalentWeb's core recruiting areas fared in advertised salary growth:

Turning to salary forecasts for 2024 and beyond, it seems likely a median 4 per cent hike is on the horizon. By industry, Mercer predicts the highest increases will be in financial services at 8.8 per cent, with construction

and engineering around 5.5 per cent. This is followed by IT at 4.2 per cent, transport and storage at 4.1 per cent and property at 3.6 per cent.

Key hiring trends in 2024 [n.d.]. We Believe in Your Potential | TalentWeb. <https://www.talentweb.com.au/key-hiring-trends-in-2024>

Questions

- 1 **Interpret** data and information in the article to draw conclusions regarding Queensland's employment landscape and its impact on human resources for a business in the start-up stage. **Create** a paragraph response.
- 2 **Explain** the benefits and challenges of AI and **interpret** how these might influence decision-making in a start-up business.
- 3 **Explain** the relationship between diversity, equity and inclusion and the human resource function.
- 4 Referring to Figure 8.12, **create** a paragraph that analyses and interprets the trend in job advertisements in Australia between 2023 and 2024. You may have to conduct additional research into each state/territory to support your response.

Management at the start-up stage

Key learnings

You will learn about management at the start-up stage by examining:

- top-level management
- middle management
- front-line management
- planning, organising, leading and controlling responsibilities.

In the start-up stage, the way in which management is structured is a decision made by the business owner. In the case of many start-up and small businesses, the business owner controls the entire business and is accountable for the planning, organising, leading and controlling (POLC) responsibilities of the business. However, as a start-up business grows, the owner will have to relinquish some of their responsibility and appoint managers, with defined levels of authority, to assist the owner in achieving the business's goals. An introduction to management is covered in Chapter 3.

Levels of management

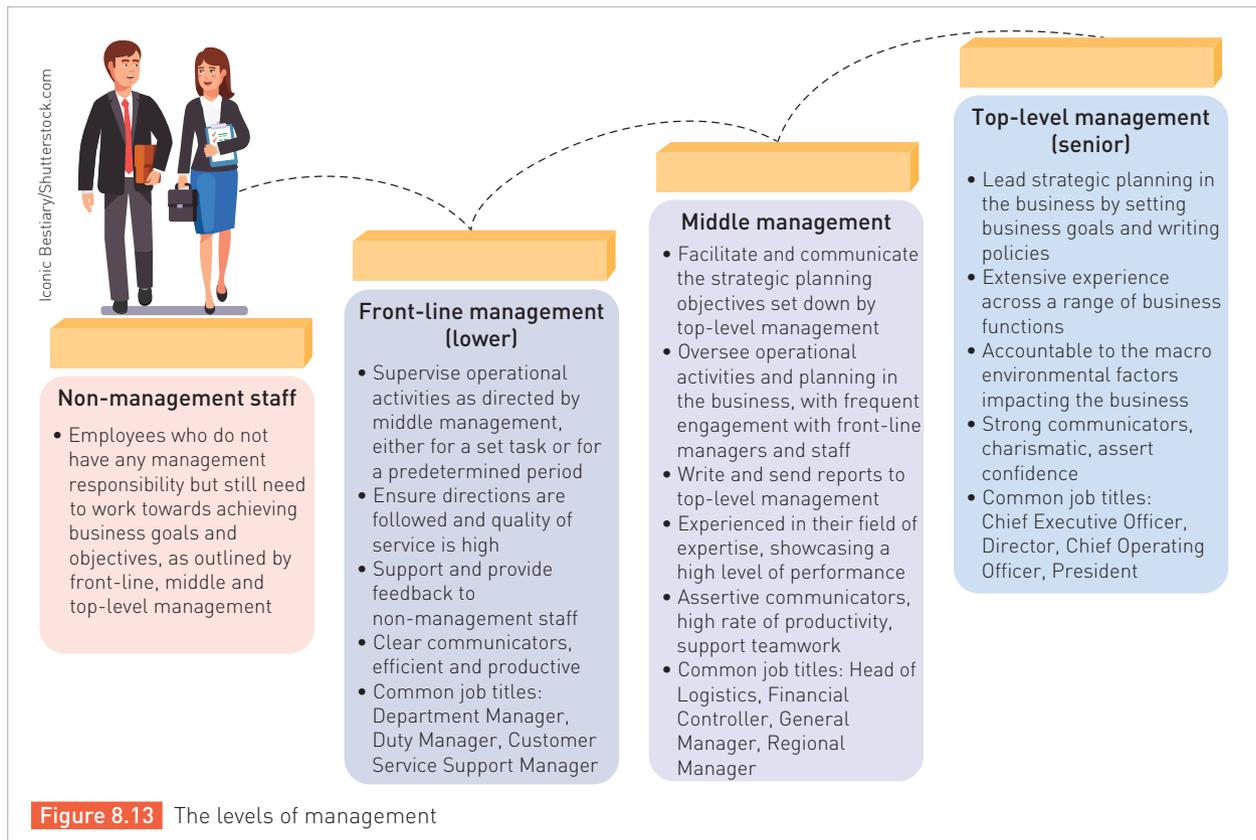
The different levels of authority in management can be classified into **top-level management**, **middle management** and **front-line management**, as seen in Figure 8.13 – though this can change depending on the size and structure of a business. Classifying management also allows a business to establish a **chain of command** for decision-making, which can have a significant impact on how staff are managed in the business.

Top-level management: senior-level executives who sit at the highest level of decision-making in a business, and who have the most authority

Middle management: leaders within a business who are responsible for implementing the decisions of top-level management while also supporting front-line managers and employees in achieving business objectives

Front-line management: staff who are tasked with responsibility for supervising or overseeing day-to-day business operations and are accountable to middle management in the chain of command

Chain of command: the line of authority and responsibility of different management roles within a business



Top-level management

The most significant and highest level of decision-making in a business occurs with top-level management. In a start-up the business owner simply takes on this role and assumes all management responsibilities in the business. Top-level managers are the ultimate source of authority and control. They make decisions on the direction of the business, and develop and manage strategic plans and policies. Top-level management lead and direct all staff in a business, regardless of its size, and are responsible for its performance. They ensure that the goals and objectives of the business are achieved, and they do this through planning and organising. Top-level managers appoint middle managers to a business as it grows. They are also more accountable to the macro external environment that impacts on the business, and must keep abreast of any trends or changes to ensure that the start-up business maintains its new competitiveness in the market. This allows them to manage the internal and operating environments of the business.

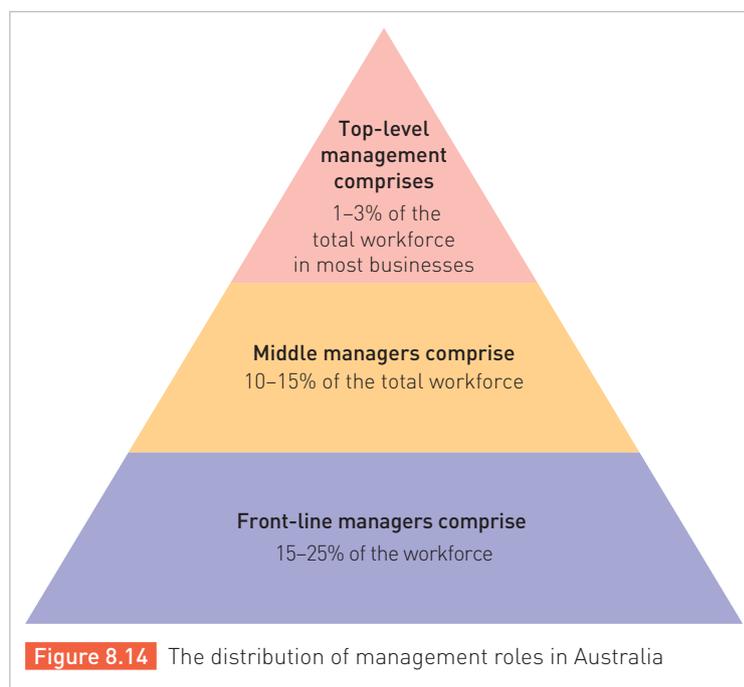
Middle management

Middle management refers to the tier that sits below top-level management. Staff who are appointed to middle management are accountable to top-level management and are responsible for implementing the business's strategic plans and policies. They also liaise or communicate between top-level management and the rest of the organisation, being more visible in the workplace. This also requires middle management to report to top-level management on how the business is functioning at an operational or day-to-day level, aligning with their organising and controlling responsibilities in the business.

It is not common for a start-up business to have middle management; in most cases, the business owner will take on the middle management responsibilities. However, as the business grows, the business owner may find it beneficial to appoint or employ a staff member who is suited to the role. Middle managers are generally proficient in one of the key business functions (e.g. finance, human resources, marketing or operations) or have expertise in delivering a particular program or business process. Thus, in business, some middle managers are responsible for inspiring and monitoring front-line managers and non-managerial staff to achieve better performance.

Front-line management

Front-line management is also known as lower-level management. Front-line managers take on a supervisory role in a business, ensuring that tasks are assigned and completed by staff. A front-line manager in a start-up business can improve the day-to-day functionality of a business by providing direction and control in relation to the quality delivery of products and services. They frequently communicate with customers, hence need to have developed effective interpersonal and customer-service skills. They report to middle management in large organisations, and for a start-up business would be in regular contact with the business owner, reporting on the business's performance. Introducing a front-line management level to a start-up business can also be seen as a reward to loyal staff. By increasing their level of responsibility, staff appointed to front-line manager roles can be made to feel they have achieved greater job enrichment. In start-up businesses that are micro or small, the business owner may again assume front-line responsibilities as the business becomes established, but it would be a strategic and beneficial move to appoint front-line management to the business when this becomes financially viable.



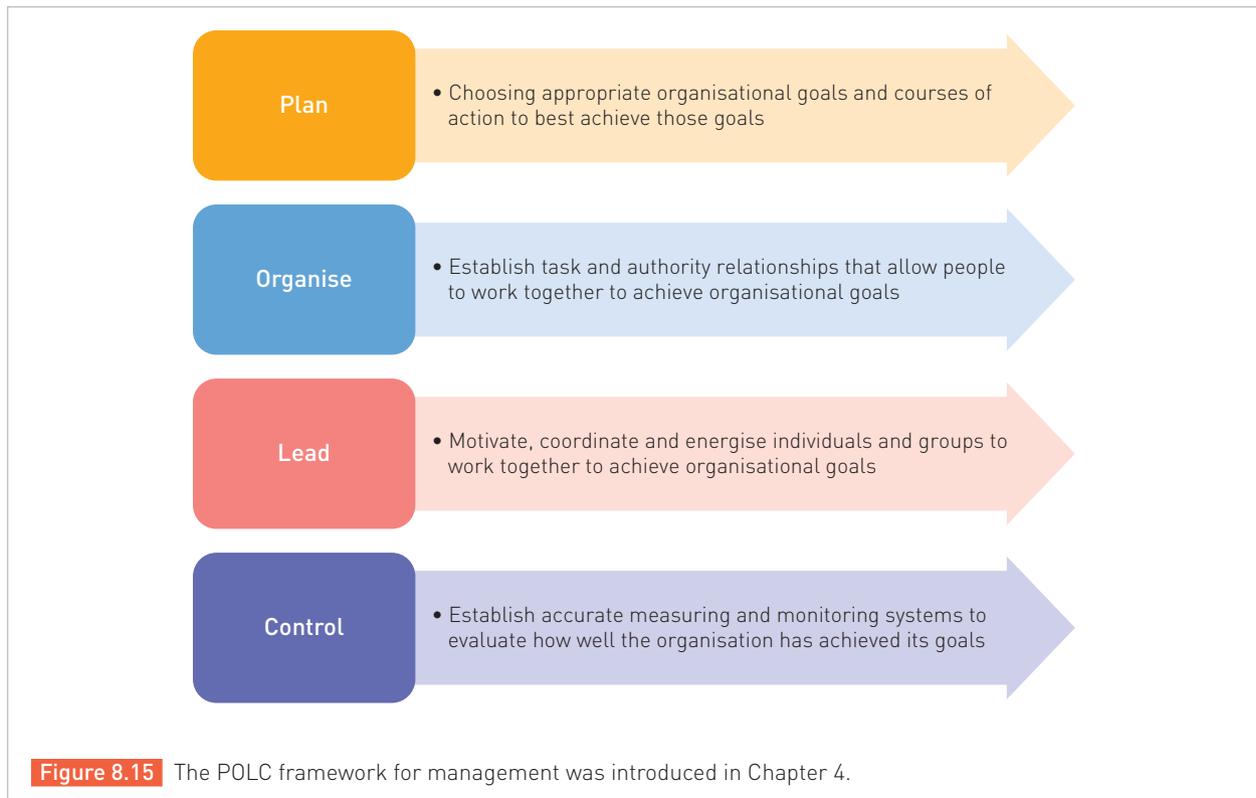
QUESTIONS 8.2



- 1 **Explain** the four human resources objectives.
- 2 **Explain** the interrelationships between top-level, middle and front-line management.
- 3 Discuss how a business owner may have to assume the responsibilities of all levels of management when establishing a start-up.
- 4 In your class, debate the following statement: 'Small business owners are often not prepared to manage effectively.'

Management responsibilities

Every business is different, with management structures established to suit its needs, hence no two management roles are the same. However, as outlined in Chapter 4, the POLC framework provides a guide to management responsibilities. In a start-up, the business owner or manager (depending on the business structure) can be guided by POLC to ensure the business will quickly achieve its goals and objectives (Figure 8.15).



Planning

The planning responsibilities for a business owner or manager in the start-up stage are immense, as many tasks must be completed before trade commences, regardless of whether the business has employed staff. These planning responsibilities are strategic and are foundational to a business achieving its goals and setting objectives. Some of these responsibilities are outlined in Chapters 6 and 7. They include:

- conducting feasibility studies
- securing trade marks and patents for the business and/or its idea
- preparing business plans
- complying with legal requirements, including registering and licensing the business
- financing the business through equity and debt finance channels
- calculating break-even points and preparing budgets.

Once the business commences trade, the business owner's or manager's planning responsibilities shift to become tactical, and they focus on the implementation of the business plan and action plan. This includes finalising marketing strategies for the business, planning for future staffing needs, and implementing its operational plans. It is important that business owners and managers engage with strategic networks at this time, particularly if they are the only staff member in the business, as decisions require careful consideration.





Figure 8.17 Organising for a start-up business involves making sure all resources are coordinated so that the commencement of trade is successful.

Organising

During the start-up stage, organising is often the ‘busiest’ work business owners and managers undertake, as it requires the actioning of tasks. As organising focuses on the coordination, allocation and preparation of resources (human, physical, capital and time), the number of activities to be completed is extensive. Some of the major organising tasks all start-up businesses require can be classified into the four business functions, and are presented in Figure 8.18.

Finance	Human resources	Marketing	Operations
<ul style="list-style-type: none"> • Purchase assets to set up the business, including equipment, furniture, technology and supplies • Apply for trade credit with suppliers • Set up financial recording procedures, including arrangements made with the accountant 	<ul style="list-style-type: none"> • Prepare rosters for staff • Dedicate time to completing the job analysis process • Ensure compliance with legal regulations • Prepare induction plans and schedules 	<ul style="list-style-type: none"> • Contact and work with designers to prepare marketing materials • Coordinate distribution of marketing materials • Implement customer feedback strategy 	<ul style="list-style-type: none"> • Seek and attain functional business facilities • Ensure input quantities and process/transformation requirements are ready for trade • Implement the desired production process

Figure 8.18 Organising responsibilities for a start-up business, classified according to function

Leading

Leading in the start-up stage may prove challenging if the business does not have any staff; as the business grows, however, a business owner or manager who displays leadership can ensure the business is building a positive organisation culture. Leadership focuses on how business owners and managers communicate the vision of the business to staff and, further, how this inspires staff to achieve the business’s objectives. It is important for a start-up business owner to identify their leadership style and make sure they find a balance between managing tasks and motivating their staff.

Controlling

The controlling function of POLC may prove to be the most challenging for a start-up business owner or manager whose day-to-day work is heavily influenced by their organising responsibilities. Through strategic, tactical and operational planning and the establishment of standards, a business should be able to achieve its objectives and achieve its goal faster than if no planning takes place. As discussed in Chapter 3, a business’s objectives need to follow the SMART framework to ensure they are achievable. When controlling, a business owner would evaluate how effectively the business has achieved its objectives and take action to correct any oversights. A way to do this is to translate business objectives into **key performance indicators**, commonly referred to as KPIs. The use of KPIs can also inform staff of the business’s expected standards, so that they can monitor their own performance and support the business in achieving its goals. For a start-up business, key objectives or KPIs could include those in Table 8.1.

Key performance indicators: objectives set by a business, which can be measured to allow business performance to be assessed

Table 8.1 KPIs for a start-up business

Types of KPIs	Example of KPIs for a start-up business
Improving or achieving sales (marketing and finance)	To generate sales of \$5000 per day To achieve a net profit of \$40 000 for the year To achieve a 20% increase in sales during the Christmas period To grow customer base by 30% in 3 months
Reducing expenses (finance and operations)	To reduce bank loan (debt finance) by 10% in 12 months To reduce the business's break-even point by 5% To minimise wage expenses by \$500 per month
Monitoring customer service outcomes (marketing and human resources)	To achieve fewer than four customer complaints per month To survey 10 customers a week about the business's service To respond to customer emails within 3 hours To employ three new staff to the business in the next 12 months
Maintaining staff (human resources)	To increase one part-time role to full-time in the next 12 months To transition two staff from casual to part-time employment contracts in the next 12 months To maintain the staff retention rate per year by 5% To complete a first-aid report for staff within 24 hours of an incident

QUESTIONS 8.3



- 1 Complete the following table to **analyse** the relationships between POLC and the internal and operating environments for a start-up business. Note: as part of your analysis, you may find instances where the relationship is minimal or not relevant to this stage of the business life cycle.

POLC framework	How does POLC affect the internal environment? (Owners and management, employees, organisational structure, organisational culture)	How does POLC affect the operating environment? (Customers, competitors, suppliers, interest groups)
Planning		
Organising		
Leading		
Controlling		

- 2 **Explain** the relationship between business objectives and key performance indicators.
- 3 **Explain** how POLC responsibilities are still applicable to a start-up business owner who is yet to employ staff.

The employment cycle

Key learnings

You will learn about human resources objectives and strategies by examining the employment cycle.

A significant part of managing a start-up business relates to how the owner or manager engages with people – be they clients, customers, suppliers or staff. A start-up business owner or manager who sets and strives to achieve human resources objectives (outlined earlier in this chapter) will have built a staff who are productive and motivated to work. The human resources objectives can be aligned with the four stages of the employment cycle:

- acquisition
- development
- maintenance
- separation (Figure 8.19).

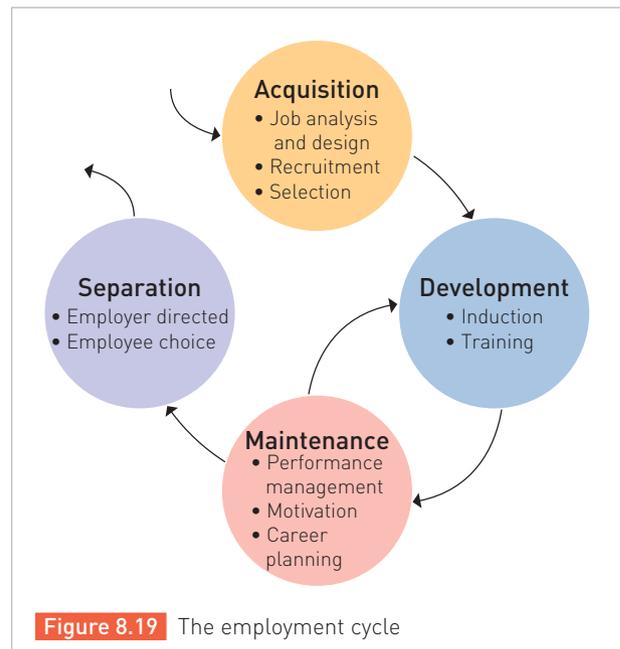


Figure 8.19 The employment cycle

This chapter will explore each of these and demonstrate how strategic planning allows a business to maximise its human resources practices.

A start-up business owner who uses simplistic strategies to recruit, select and maintain staff may find their human resources objectives and business goals difficult to achieve, as they will not source the best staff for the business.

Acquisition

Key learnings

You will learn about strategic planning and human resources tools used in the employment cycle by examining:

- the **acquisition** stage
- job analysis
- recruitment
- selection.

The first stage of the employment cycle

focuses on acquiring employees. It is important that staffing needs are carefully planned in all businesses, but start-up businesses in particular will benefit from having efficient and committed staff who support the business owner in navigating the early days of business success. Further, salaries and wages will quickly become the biggest expense for a business, so a business owner needs to be confident and satisfied with the staffing decisions that are made. In strategic planning for human resources, business owners and managers need to analyse the type of employee they need, then set up appropriate recruitment strategies and undertake sophisticated selection strategies to ensure the best **candidate** is placed into the role. This can be seen in Figures 8.20 and 8.21.

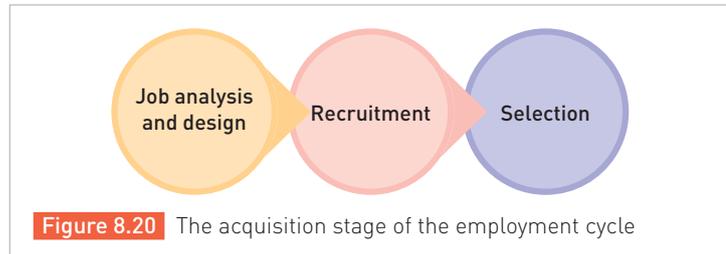


Figure 8.20 The acquisition stage of the employment cycle

Job analysis and design

It is often easy for a business owner or manager to identify when staff numbers need to increase. This need is generally linked to an increase in demand for a business's goods and services and, as a result, new staff are employed to fill a gap. Performing a **job analysis** is an effective and efficient way for a business owner or manager to examine the needs of the business and identify what sort of employee they are looking for to achieve the business's objectives in the long term. A start-up business that relies on positive cash flow and strict budgeting may find that this type of strategic planning helps it to grow efficiently.

A business owner or manager can complete a job analysis by answering the general questions shown in Figure 8.22 and using the information gathered to create a **position description** (or job description).

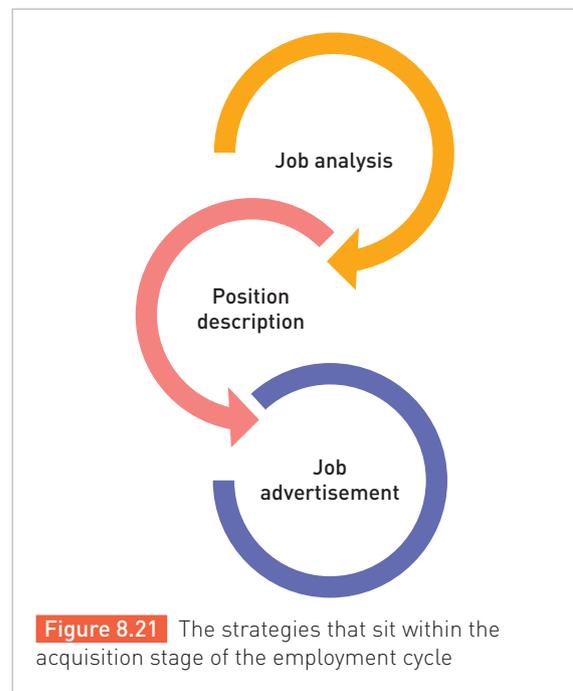


Figure 8.21 The strategies that sit within the acquisition stage of the employment cycle

Acquisition: the first stage of the employment cycle, which focuses on assessing a business's staffing needs and continues through to the recruitment and selection process to seek the best candidate for a job or role

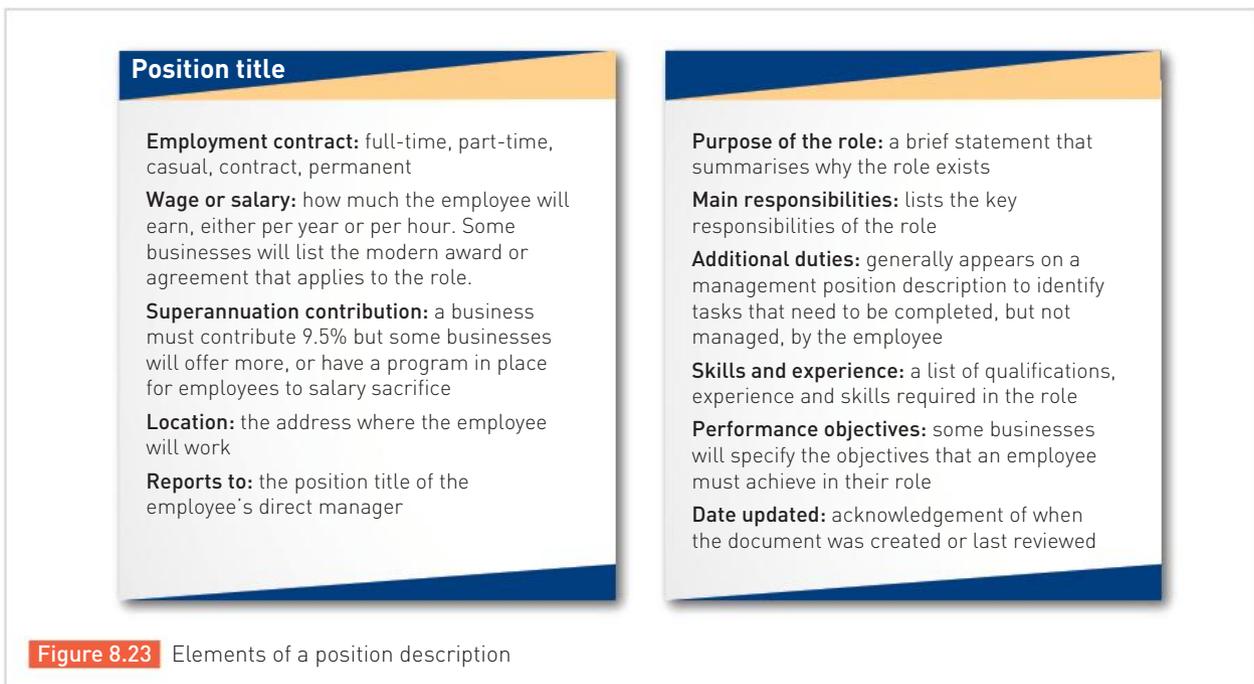
Candidate: a person who is shortlisted from a pool of applicants in the selection process

Job analysis: the process by which a business identifies its staffing needs

Position description: a document that outlines the key responsibilities, tasks and specifications of a role



Once these questions have been answered, a business owner or manager should evaluate the role to see if it is fair (does the wage cost align with the level of responsibility?) and sustainable (can the business afford to offer this job?). From this, a position description can be created. A position description is a business document that outlines the key responsibilities, tasks and specifications of a role (Figure 8.23). For the business, a position description is a strategically prepared document; for potential **applicants**, it allows them to identify whether they are suitable for the role. Staff may also use their position description as a point of reference to monitor their performance, and it may also be used this way in performance management systems. It is the responsibility of business owners and managers to review and update position descriptions to ensure the staff member maintains productivity and meets the objectives of the role.



Applicant: a person who applies for a job or role



QUESTIONS 8.4



- 1 **Explain** the relationship between a job analysis and a position description.
- 2 **Evaluate** position descriptions as a strategic planning tool using the criteria of effectiveness and stakeholder satisfaction.
- 3 **Create** a position description for a job role with which you are familiar to **communicate** your understanding of their purpose. Identify the key elements you have included.

Recruitment

Recruiting staff is a process that, when strategically planned, can help a business achieve its goals. It involves transferring a position description into a **job advertisement**, selecting the medium in which to publish the job advertisement and setting timelines for applications to be due. Businesses that carefully plan their **recruitment** processes can save time and money by positioning themselves to receive applications from highly capable candidates. Businesses that do not consider their recruitment carefully can end up employing staff members who lack competence and don't fit into the workplace culture. This can be detrimental for a start-up business that relies on its potentially small staff to achieve the business's objectives.

Internal and external recruitment

Following a job analysis and the formation of a position description, a business needs to assess whether it wants to recruit internally or externally (Figure 8.24). **Internal recruitment** involves inviting employees from within the organisation to apply for the job. An employee might do this because they want a promotion, or just want to 'move sideways' to use new skills or pursue a role in which they have more interest. Internal recruitment can reduce the time and money a business must invest in the recruitment process, and may be perceived by staff as a motivating strategy or a reward for working in the business. **External recruitment** involves seeking applicants from outside the business. This may be appropriate due to growth in the business, or if the business is seeking a new employee who has a different skill set or who can bring new ideas to the business. While most start-up businesses will recruit externally, it is not uncommon for current staff to seek opportunities for a promotion within the business.



GAINING INSIGHT 8.5



Internal or external candidates? That is the question.

'I'm an internal candidate and management suggested I'd be a good fit for an internal vacancy. I was sure I'd be a shoo-in, but now they want me to go through the whole interview process, and are comparing me with external candidates!

Surely, they should just know whether I'm good enough or not?'

A friend of mine relayed this story to me last week. He was feeling quite despondent after his hopes for an internal promotion had

Job advertisement: a business document created to attract potential candidates to a job by outlining what the role will entail, its pay structure, qualifications or experiences required and its location

Recruitment: a strategy within the acquisition stage of the employment cycle which focuses on how and to whom a job will be advertised

Internal recruitment: refers to a business inviting employees within the organisation to apply for a job or role

External recruitment: occurs when a business seeks applicants from outside of the business

gone from being a 'sure thing' to now being 1 of 4 candidates. Internal candidates fear being trumped by external candidates, and external candidates hate going through a long recruitment process to be told the successful candidate was an 'internal candidate'.

In the pursuit of finding the best candidate, it's important that an employer considers both internal and external candidates. For senior and specialised vacancies this dual approach is even more important. Still, there are some advantages and disadvantages.

Advantages of considering both:

Explores all options, ensuring the best candidate in the market is chosen. You want the best available candidate, right? Then you need to look at all the candidates, not just the ones under your nose. Choosing to just consider only known internal candidates is very appealing, but it means your candidate pool is very limited.

The successful candidate knows they were chosen on merit. Being successful after a thorough recruitment process should mean the successful candidate knows they have been chosen on merit. This should give them a sense of achievement and confidence to do well in their new position.

Other employees know that promotions are given on merit. It's not uncommon for some employees to think that they are entitled to a promotion due to tenure or other reasons. It's valuable to an employer that its employees know that promotions are based on merit and suitability, not just 'time in the role'.

Getting a good mix of external candidates and internal candidates in the workforce. It's likely that [over time] successful candidates will be a good mix of internal and external candidates. This should lead to the cream of the workforce rising, and being mixed with strong external candidates who can bring fresh ideas.

An organisation is able to benchmark its own employees ... against the market when meeting external candidates. This can help an organisation learn what it is doing well, and where it needs to improve.

Disadvantages of considering both:

Can demotivate internal employees and stunt career growth. Career advancement consistently ranks as one of the most important aspects of any job. Employers looking at external candidates when internal candidates are available can demotivate their own employees and stunt their career growth, leading to further turnover.

Potential to damage employment brand if not handled correctly. For external candidates (and agency recruiters) to hear 'we've decided to go with an internal candidate' is an extremely frustrating line. The perception is that employers should know whether an internal candidate is suitable before looking at external candidates. Not handling this correctly can discourage quality candidates from applying for future roles and damage the employment brand.

Time and cost. To go through a full external recruitment drive can take time, when an internal candidate may be able to start immediately. The drain of time on the recruitment team, line managers and associated costs with finding external candidates can be significant.

Communication is the key. My friend was disappointed because he only learned very late in the process that other candidates were involved. It's important for employers to be upfront and honest with candidates that [there] are both internal and external candidates from the start.

Candidates want honesty and transparency and employers want the best candidate for the job. There's no reason why both can't be achieved.

Source: SMAART Recruitment, <https://www.smaart.com.au/news/internal-or-external-candidates-that-is-the-question/10313/>

Question

1. **Analyse** the information from this article to prepare a pros and cons analysis of internal and external recruitment. **Interpret** your analysis to draw conclusions for a business owner who needs to employ senior management in their start-up business.

Job advertisement

To attract potential candidates, either internally or externally, a business needs to create a job advertisement (also known as a job post). The job advertisement includes aspects of a position description, but with the purpose of attracting candidates. To create a job advertisement effectively, a business owner or manager should aim to extract all the most essential information from the position description and layer it with background information about the business, its mission, the benefits offered by working for the business, and the personality traits and experience it is looking for in a candidate. As with any document that is strategically prepared, a start-up

business may gain competitive advantage if it consistently delivers high-quality job advertisements, which attract high-quality candidates when compared with the competition. Where the business chooses to post the job advertisement can also have an impact. A start-up business trying to build community connections may choose to post its job advertisement in its shop window, on its website or social media pages, in the regional newspaper, or may contact an employment agency to attract a candidate.

When a start-up business is seeking to fill a position where qualifications or specific expertise are required, its owner or manager may decide to post the job advertisement on a job search website, such as SEEK or Indeed, or pay for it to be published in a statewide newspaper with a high readership. They would also post the job advertisement on the business's website or social media pages and, sometimes, with an employment agency. In choosing where to post job advertisements, a start-up business would need to consider its budget, along with how many applications it wants to process and within what time frame it wants the successful candidate to start. An example of an effectively constructed job advertisement can be seen in Figure 8.25.

Office Manager CBD Hobart

Take responsibility for the smooth running of our small, dynamic CBD office where your professionalism, initiative and office skills will be welcomed. You will have plenty of room to be creative and management is always open to new ideas.

Your full-time role will include providing a full range of office management duties including:

- day-to-day running of the office
- provision of administrative support to the Director
- staff management
- accounts management
- payroll
- production of reports and educational packages
- some marketing duties
- other adhoc duties as requested.

You will have the flexibility to implement new procedures and systems to improve the smooth running of the office.

This is an autonomous role and you need to be comfortable being independent and making decisions. This position will suit you if you have good interpersonal and presentation skills, and office management experience. You need to be self-directed and have organisational and problem-solving skills.

Applicants must have:

- experience with QuickBooks or similar accounting packages and be proficient in processing pays, superannuation and preparing the BAS
- extensive experience with Microsoft Office Suite of products including advanced Microsoft Word and Excel skills
- knowledge of Lotus Notes and Desktop Publishing
- experience using database management systems
- excellent interpersonal, oral and written communication skills
- a positive disposition.

Applications outlining qualifications and demonstrating how your experience and skills match the job requirements are due by 12 December.

Please submit your resume and cover letter by email:
Amira Nawzad, Recruitment Coordinator, amira@gotechaustralia.com.au

For more information, call Amira on 0400 000 000 between 9 and 5 Monday to Friday.
www.gotechaustralia.com.au

Source: Career FAQs (n.d.). Sample office manager job advertisement | Career FAQs. <https://www.careerfaqs.com.au/careers/sample-resumes-and-cover-letters/sample-office-manager-job-advertisement>

Figure 8.25 A sample job advertisement from Career FAQs

Headhunting

When businesses are hoping to secure a specific candidate for a position, they may choose to headhunt. Headhunting occurs when a business owner or manager seeks out the talent they are looking for and approaches one or more candidates who have a top reputation in their industry. The potential candidates may not be seeking alternative employment, but could be persuaded by an increase in salary, the position title and responsibility or additional benefits. This strategy is most often used to recruit for top-level management roles or intrapreneur positions as a business that acquires highly regarded staff can gain a competitive advantage; however, a start-up business that is building a strong reputation in the industry may headhunt staff to assist it in achieving its growth goals. LinkedIn provides an option for a user to indicate they are looking for new work, which can create opportunities for headhunting.



Figure 8.26 Headhunting is the practice of approaching a person and asking them to apply for a job or role in another business.

iStock.com/wernerimages

GAINING INSIGHT 8.6



Modern recruitment trends



Westend61/Getty Images

Finding the right people to work for your company is really important for its success. To do this well, companies need to use smart strategies that help them find, hire and keep good employees. Here are some of the best ways to do that in today's employment landscape based on the expertise of the Australian Human Resource Institute, Forbes Magazine and LinkedIn.

Table 8.2 Strategies for effective recruitment

Type of debt finance	Explanation
Build a strong brand	Make sure your company is known for being a great place to work. Share your company's story and values on your website to attract candidates.
Use social media	Advertise job openings on social media and share what your company is about. This helps attract people who already like your brand.
Write job ads that match your culture	Your job ads should reflect what your workplace is like. If your company is fun and casual, show that in your ads to attract similar people.
Try niche job boards	Post jobs on websites that focus on specific industries or types of jobs. This helps you find candidates with the right skills.
Engage passive candidates	Reach out to people who aren't actively job hunting but might be interested in the right opportunity.
Use hiring software (applicant tracking systems)	Use software to help manage job applications and interviews. This makes the process quicker and more organised.
Treat candidates well	Treat job applicants with respect, just like you would customers. This includes being on time for interviews and being polite.
Focus on skills-based hiring	Hire people based on their skills, not just their past job titles or degrees. This can help you find talented people you might have missed.
Start an employee referral program	Encourage your current employees to refer people they know for job openings. Offer rewards to make it more fun and motivating.
Market your jobs	Use marketing techniques to make your job openings more attractive, like videos and employee testimonials.

By using these strategies, companies can do a better job of finding and hiring the right people. This helps create a strong team that can lead to long-term success. Whether it's building a strong brand, using social media or focusing on skills, these methods are key to recruiting the best talent today.

Question

- Complete** the table to prioritise which business criteria each strategy listed in Table 8.2 is best matched to. An example is provided. Be prepared to justify your responses in class.

Strategy	Effectiveness	Efficiency	Stakeholder satisfaction	Competitiveness
Build a strong brand				

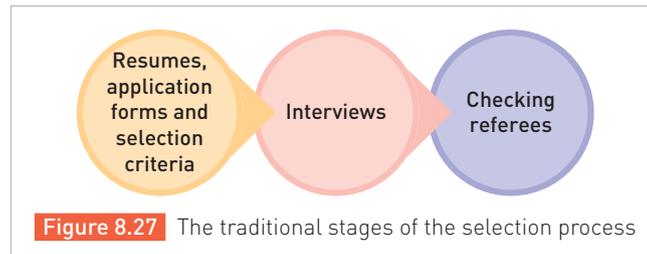
QUESTIONS 8.5



- Explain** the relationship between a position description and a job advertisement.
- Compare internal and external recruitment.
- SEEK, one of Australia's leading job search websites, provides advice on how businesses can construct an effective job advertisement. Follow the weblink to read the article, then **evaluate** the quality of the job advertisement in Figure 8.25 using the criteria of effectiveness and stakeholder satisfaction.
- Select** two job advertisements from a job search website to **analyse** the similarities and differences between them.
 - Interpret** the similarities and differences to draw conclusions about the implications of preparing job advertisements for a start-up business owner.

Selection

The process of selection is how a business chooses to filter or screen applications gathered through the recruitment process. This process is outlined in Figure 8.27. It is at this time that applicants may become candidates for a job or role based on their suitability. Traditionally, a business would read through application forms or resumes, shortlist candidates, conduct interviews, contact references and notify candidates of the outcome (both successful and unsuccessful). However, within each of these steps, there are strategic ways a business, including start-ups, can maximise their opportunities to seek the best candidate for a job, and do this in a timely and cost-effective manner.



Resumes, application forms and selection criteria

The first step in the **selection** process is to analyse the range of applicants who have applied for the job and to generate a short list. In most instances, businesses will ask applicants to submit a **resume**. Traditionally, a resume was a paper-based or printed document that outlines a person's work history, qualifications and experience, used when a person wants to apply for a job. However, submitting resumes digitally is the new norm. A resume can also be referred to as a curriculum vitae. It is usually accompanied by a **cover letter**, and, if specified in the job advertisement, applicants may be required to provide copies of qualifications and registration details required for the job. Within a resume, business owners and managers will look for succinct and clean presentation of information, where previous experience or job history can be analysed alongside the features of the position description. Further, a resume that provides credible **referees** can assist an applicant in being short-listed for a role.

In addition to providing a resume, some businesses ask applicants to complete an application form. In this way, a business may be able to more easily identify stand-out candidates by considering how precisely they complete the form, and whether they satisfy key criteria (such as qualifications or availability) that the business owner or manager is looking for. This is often the case for businesses that employ staff on a regular basis, such as those in the retail, hospitality or fast-food industries. Once the application forms are screened, the business may then refer to submitted resumes to examine each applicant and decide who makes the short list for interviews. While a start-up business owner or manager may not initially use an application form when recruiting, they may find this to be a useful strategy that improves efficiency.

Selection: a strategy within the acquisition stage of the employment cycle that focuses on how a pool of candidates can be shortlisted to find the ideal candidate for a job

Resume: a document that outlines a person's work history, qualifications and skills, and which they use to apply for a job

Cover letter: a document that accompanies a person's resume, communicating to a business that the person would like to be considered for a job

Referee: a person, generally a current or former manager or colleague, who vouches for a candidate's ability to complete a job. Referees' names and contact details are provided on a resume

Businesses, including start-ups, often receive a considerable number of resumes from applicants who have no genuine interest in the job or role. A technique that businesses use to ensure that applicants are committed to a role is to ask them to respond to **selection criteria** and attach their responses to a resume or application form. Selection criteria are a set of standards or expectations that a business requires of a successful candidate – they could be considered the objectives of a job or role. Applicants are asked to respond in paragraphs, to demonstrate their understanding of the business's needs and to provide evidence of how they can meet each criterion. The business then uses the selection criteria to short-list suitable candidates, whom they may invite to an interview. Further, the responses to the selection criteria may suggest questions that the business owner or manager might ask at interview to fill gaps in the information the candidate has supplied. A start-up business owner may choose to implement this strategy if they need to appoint a manager to the business.



Figure 8.28 Business owners or managers need to process resumes in the acquisition stage.

QUESTIONS 8.6



- 1 **Explain** the purpose of the following:
 - a resume
 - b cover letter
 - c application form
 - d selection criteria.
- 2 Discuss the relevance of a business asking applicants for a resume and responses to selection criteria.
- 3 **Create** a Venn diagram to compare resumes and application forms as selection tools.

Influence of technology in selection

In influencing the way businesses communicate and store information, technology continues to have a positive impact on the human resources strategy of selection through career databases, infographic and video resumes and the use of social media to recruit and select staff (Figure 8.29).

Businesses that invest in their websites can create career databases where applicant information is kept for a designated period. Career databases give businesses access to a greater pool of applicants, save time in the recruitment process by reducing advertising costs, and can short-list potential candidates

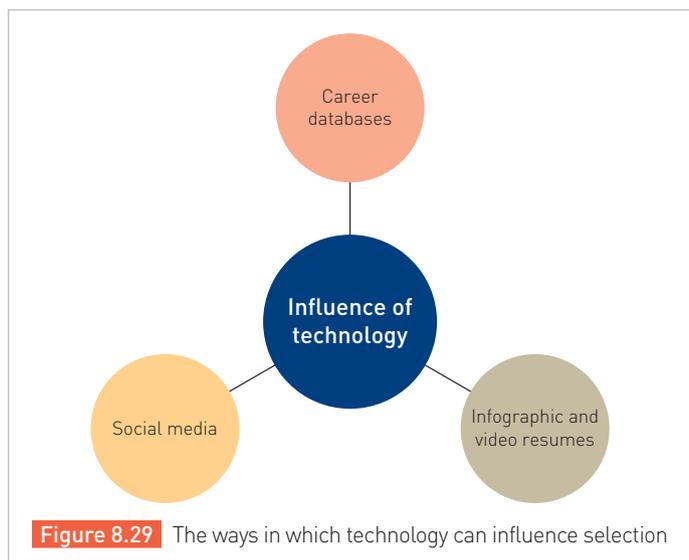


Figure 8.29 The ways in which technology can influence selection

Selection criteria: a set of standards or expectations that a business requires of a candidate to be successful in obtaining a job or role

by using search tools to define any key skills, qualifications or availability required for a specific role. It is generally large businesses that receive numerous applications for roles, particularly in the retail and labour industries, that use career databases. Start-ups too, however, could benefit from increased efficiency by retaining the information gathered from previously unsuccessful, yet capable, candidates.

Technology has also led to innovation in the human resources function. To stand out from the competition, some applicants today produce resumes using an infographic genre, and some businesses ask applicants to present a video resume to accompany the traditional written or typed resume. These viable alternatives to traditional methods of selection have brought excitement and opportunities for greater business engagement within human resources. Start-up businesses that show an innovative approach to human resources may benefit from improved effectiveness and efficiency in the selection process.



Figure 8.30 Video resumes are becoming a popular trend in recruitment due to the influence of technology.

fizkes/Shutterstock.com

Businesses use social media strategically, either to advertise jobs or to conduct background checks to help them judge whether a candidate will fit into the business's culture. In the last few years, businesses have found that using social media is also an efficient way to headhunt candidates, as it can reduce the time and cost it takes to recruit. However, there are limitations: not all candidates make their profiles public, and the business needs to use the right social platform based on its needs. LinkedIn, for example, was established so people around the world could build a professional profile using social media tools. This includes listing a job history, building networks with contacts, and indicating if they are interested in being pursued for other jobs.

INQUIRY



Weblink
6 Best HR
Software
Platforms In
Australia For
2024

Read the article '6 Best HR Software Platforms In Australia For 2024' by Arielle Executive to learn more about the HR platforms that are available in the market, such as Elmo and Workable.

Based on this list and using the inquiry approach, **evaluate** two platforms using the business criteria of competitiveness and efficiency to make a decision on the best platform for a start-up business wanting to grow its staff from 5 to 20 people in a two-year period.

INQUIRY



Investigating LinkedIn

About LinkedIn

Welcome to LinkedIn, the world's largest professional network with more than 1 billion members in more than 200 countries and territories worldwide.

Vision

Create economic opportunity for every member of the global workforce.

Mission

The mission of LinkedIn is simple: connect the world's professionals to make them more productive and successful.

Who are we?

LinkedIn began in co-founder Reid Hoffman's living room in 2002 and was officially launched on May 5, 2003. Today, LinkedIn leads a diversified business with revenues from membership subscriptions, advertising sales and recruitment solutions under the leadership of Ryan Roslansky. In December 2016, Microsoft completed its acquisition of LinkedIn, bringing together the world's leading professional cloud and the world's leading professional network.

Source: About LinkedIn (n.d.). About LinkedIn. <https://about.linkedin.com>

Question

- Using the inquiry process, research additional information to **analyse** and **interpret** the strategic benefits and potential risks of businesses using LinkedIn in their recruitment and selection process. **Create** the analytical tool and a short paragraph to demonstrate your analysis and interpretation of a trend or relationship.

Interviews

The traditional method of a business owner or manager inviting a potential candidate to an interview continues to be a strategy used by most businesses. This is due to the success businesses have in selecting an ideal candidate for a job based on the interview process. However, businesses are exploring alternative methods to ensure that the interview process is completed efficiently, and these include one-on-one interviews, panel interviews, pitches, group interviews and testing.

One-on-one interviews

For start-up and small businesses, the interview is generally conducted in a one-on-one scenario, and can be either formal or informal. An informal interview is characterised by the location of the interview, by whether the business owner or manager has prepared a predetermined set of questions, and by wide variability in the length of the interview. This is a situation many young people who seek employment in junior positions in the retail sector will encounter. More formal proceedings allow a start-up business owner or manager to thoughtfully consider an applicant for a role, asking questions not only of the candidate's previous work experience but also about their behavioural traits, work ethic, values and problem-solving skills. Inviting a candidate to meet at a designated time, where the business owner's sole focus is on the interviewee, can allow the owner to make a more informed and strategic decision for their business. One-on-one interviews can also be conducted online, using a suitable application such as Zoom, Teams or Skype. This technique is frequently used by businesses of all sizes if a potential candidate is unable to travel for the interviews.

Regardless of how the interview is conducted, start-up business owners and managers must ensure that interview questions are relevant and do not infringe upon anti-discrimination law. In some instances, a candidate may be required to attend multiple one-on-one interviews with different managers and staff so that the business can get a more comprehensive assessment of the candidate's ability and cultural fit.



Figure 8.31 A one-on-one job interview



Figure 8.32 A panel job interview

Panel interviews

A more strategic approach to interviews is to establish an interviewing panel, where two or more business representatives conduct the interview with the candidate. Panel interviews are more common practice in medium and large businesses. Start-up or small businesses could benefit from inviting their most trusted staff to participate in an interview, in an effort to build loyalty, provide an alternative perspective and make sure that the selected candidate is a good fit for workplace culture. Panel interviews naturally adopt a more formal approach than one-to-one interviews. Each representative is responsible for asking questions to the candidate, allowing a wide range of relevant questions to be asked.

Some businesses choose to **outsource a recruiter** to conduct interviews with potential candidates. As a strategic move, the use of recruiters allows a business owner or manager to carry on with their normal duties, and places the responsibility for selecting the right candidate on a human resources professional. The fee charged for this type of service can be high, and hence it is not often requested by start-up businesses, as the owner or manager will in any case want to meet potential candidates before making a final decision. However, a start-up business owner who seeks to employ someone in a middle or top-level management role might contract a recruiter to participate in a panel interview. Aligning with the effectiveness criterion, a recruiter may provide an objective perspective to the interview. Having a recruiter present can also protect the business owner by ensuring that the interview questions are ethically and legally appropriate.

Asking candidates to **pitch** at their interview is also suitable for a panel interview strategy and is a technique a start-up business could use. Much like responding to selection criteria, the business can ask the candidate to present their suitability for a job or role at the beginning of the interview, before asking questions. For example, a candidate applying for a sales role might be asked to persuade the panel to purchase a product, and a candidate applying for a managerial role might have to present their philosophy on leadership and how they intend to support the business in achieving its goals. Pitches can allow the panel to assess the candidate's communication skills, level of confidence, proficiency for the role and potential to work with current employees. On viewing the pitch, the interviewing panel can also customise the questions they ask the candidate.

Outsource: to contract another business to perform services in return for a fee

Recruiter: a human resources professional, outsourced by a business to assist in the selection process

Pitch: a type of presentation in which a person attempts to persuade others of their worth or the value of their idea. In human resources, a candidate may pitch their suitability for a job



Trials



WebLink
Unpaid trials

A common practice for start-up or small businesses is to ask candidates to come into the workplace as a **trial**. During a trial, a business owner or manager may informally induct the candidate to the business and then observe them completing tasks, as outlined in the job advertisement, for a short period. This strategy allows the start-up business owner to assess the skills of the candidate and to see if they will be a good fit for the business. Trials tend to apply mostly to the employment of junior workers and in industries where particular skills need to be demonstrated, including the hospitality, construction and beauty services industries. Fair Work Australia provides information to business owners and managers regarding unpaid trials to ensure legal compliance is maintained.

Additional recruitment methods suitable for businesses in the growth and maturity stages

Once a start-up business moves into the growth stage of the business life cycle, it may choose to consider other selection strategies to find the best candidates for a job. These include:

- group interviews
- testing.

References

As mentioned previously, applicants should supply a potential employer with referees. A referee is someone whom the applicant has previously worked with, who will vouch for the applicant's skills and behaviours. Applicants will list approximately three referees, with associated contact details, on their resume. If a candidate is successful at the interview or testing stage, a business owner or manager will call referees and ask questions about the candidate's ability to complete the job or role, how they respond to certain scenarios and whether the referee would employ the candidate themselves. Three referees are generally requested, as the business may want feedback from both a current or former manager and a colleague. Having three referees also allows a business to complete two checks if one referee is unavailable. With email being a fast way to communicate, some business owners and managers will ask referees to complete a form providing feedback on the candidate. While waiting for an email response can take some time, it can also be an efficient way of contacting a referee who is unavailable to speak on the phone.

When a referee writes a letter to recommend an applicant for a job or role, and the applicant attaches it to a resume, this is known as a **reference**. References are useful to an applicant who does maintain regular contact with a referee, and can be given as a token of good faith when an employee leaves a previous job on positive terms.

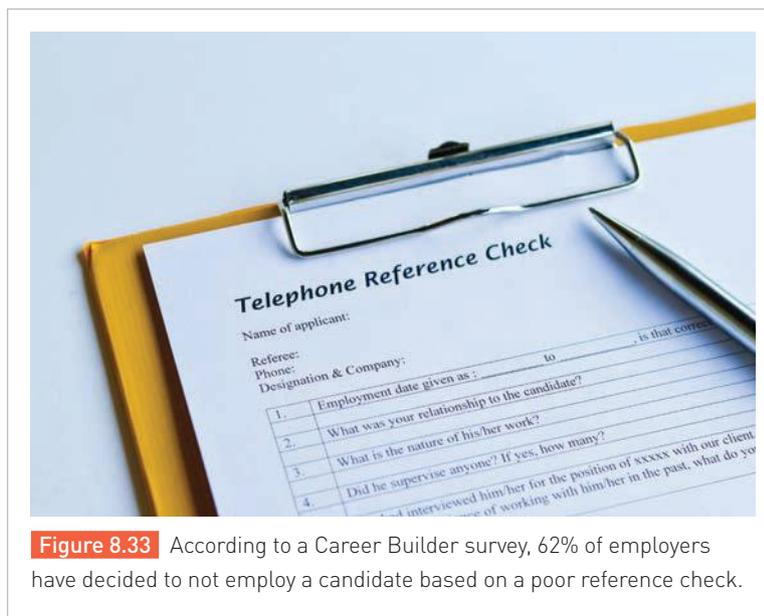


Figure 8.33 According to a Career Builder survey, 62% of employers have decided to not employ a candidate based on a poor reference check.

Sineeeho/Shutterstock.com

Trial: when a potential candidate is invited to work in a business, for the purpose of being observed, before they are offered a job

Reference: a letter, written by a candidate's referee, that recommends the candidate as suitable for a job

Notifying candidates of the outcome

A business should contact a successful candidate as soon as possible to offer them the job or role. A start-up business can enhance its reputation by notifying unsuccessful candidates (and in some cases, all applicants) of the outcome of their application. This task is commonly completed by email and can be structured generically. While it is not common for a start-up to do so, businesses that are well established might provide feedback to candidates who were short-listed to show appreciation for their application and provide some feedback as to why they were unsuccessful.

QUESTIONS 8.7



- 1 **Explain** the strategic purpose of interviews as part of the selection process.
- 2 **a Analyse** the pros and cons of one-on-one interviews.
b Interpret the pros and cons to draw conclusions about the skills required of a small business owner.
- 3 **Evaluate** the use of references in the selection process to make a judgement based on the criterion of effectiveness.
- 4 **Explain** the strategic importance for a business of notifying unsuccessful candidates of that outcome.

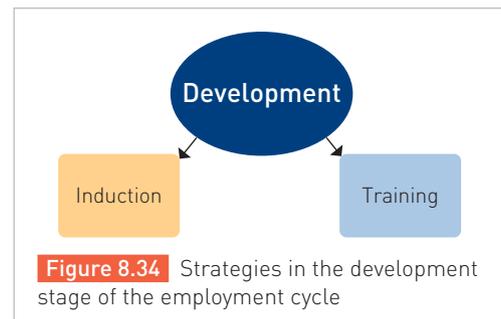
Development

Key learnings

You will learn about strategic planning and human resources tools used in the employment cycle by examining:

- the development stage
- induction
- training (Figure 8.34).

The **development** stage of the employment cycle is critical for a business in establishing a positive organisational culture as it focuses on how employees are inducted into the business, and how ongoing **training** opportunities are provided to all staff so that the business can achieve its goals. A start-up or small business may begin these processes informally. As the organisational structure takes shape and the business achieves growth, however, it is important that formal processes are implemented. This ensures that all staff feel supported, and that they know what their responsibilities are and how their efforts will contribute to the business's organisational culture.



Induction

The process of **inducting** or onboarding new staff to a business occurs naturally as the new staff member is introduced to the business. The business owner or manager must provide the staff member the opportunity to familiarise themselves with the business and how it operates, and to meet other staff whom they will either work alongside or report to. The objectives of an induction process are to:

- make the new staff member feel welcome to the business
- ensure the new staff member understands their role and where they fit within the business
- ensure that legal and administrative requirements are finalised, including familiarising the staff member with the business's code of conduct, and workplace policies and procedures
- give existing staff the opportunity to meet and discuss business processes with the new staff member.

Development: the second stage of the employment cycle, which focuses on the induction and training of staff to support the business in achieving its desired corporate and organisational culture

Training: a process where a staff member is supported in acquiring new knowledge and skills

Induction: a process in which an employee is introduced to, and becomes familiar with, a business

Start-up businesses often use informal, on-the-job training to onboard a new staff member. This type of induction allows a staff member to shadow the business owner or manager and be supervised when attempting tasks for the first time. However, this strategy is not effective for all staff, nor for all types of jobs. There is a risk of a lack of consistency and formal checkpoints, which can result in the new staff member not feeling confident at the workplace and, if they continue to struggle, choosing to end their employment contract. When this occurs, a business must return to the acquisition stage of the employment cycle to recruit and select a new staff member. A business that regularly struggles to retain staff is demonstrating a lack of efficiency, and a start-up business owner or manager in this situation should dedicate the time to implement a more formal induction process. One outcome of this can be that the business owner or manager creates an induction checklist, which is transparent and which ensures all aspects of induction are covered. It may also allow the business owner or manager to delegate responsibility for induction to a trusted staff member in the business, knowing the task will be completed correctly. The main elements of an induction process can be seen in Figure 8.35.

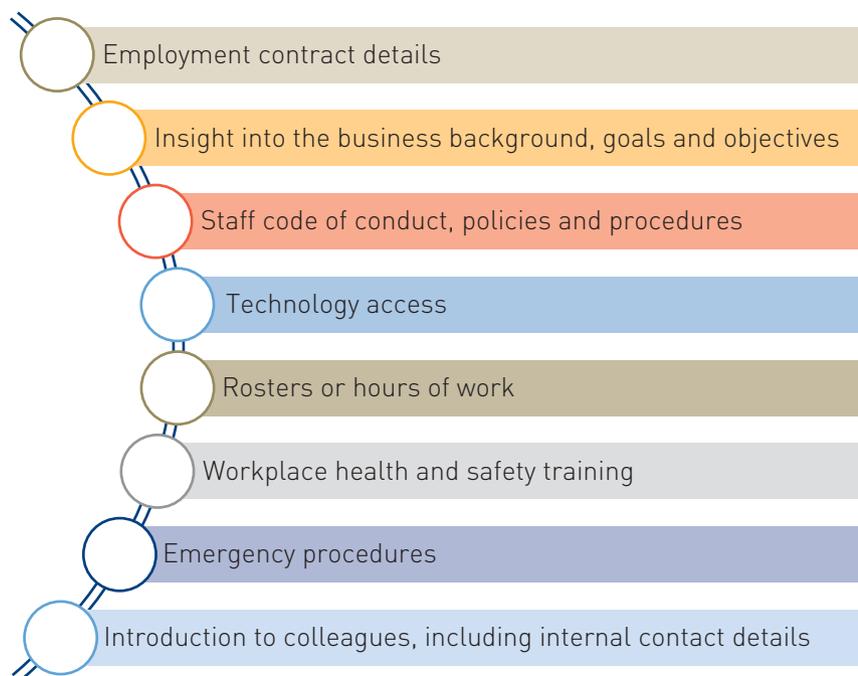


Figure 8.35 An induction checklist should provide a new staff member with this information.

Probationary period

A business owner may choose to employ staff on the proviso that they complete a **probationary period**. This is an agreement that allows an employer to terminate an employment contract if the employee is not meeting the expectations of their job or role within a set time. Probationary periods can run from three to 12 months, depending on the industry and the type of job. Once a new staff member completes their induction, they should be closely monitored and supported in their first few months of employment, in the hope that they will be able to complete the job that they have been employed to do. While probationary periods should be negotiated at the selection stage, the process and implementation of probation sits within the development stage of the employment cycle.

An effective probationary program should include a specific time frame, checkpoints at which the new staff member's performance is reviewed, and training opportunities. Some businesses will use a mentoring program for a staff member in the probationary period. This can be a strategic way for the business to build up the new staff member's confidence and proficiency in the business.

Probationary period: a set time during which it is agreed that an employer may terminate an employment contract if the new employee is not meeting the expectations of their job or role

GAINING INSIGHT 8.7



Belle Vue Cafe

FOCUS QUESTION: How do small businesses adopt human resources practices that demonstrate strategic decision-making at start-up and establishment?

In the Queensland town of Warwick, Mark and Rowena Favero have worked passionately to build two successful businesses. In 2012 they purchased an existing business, the Belle Vue Cafe, and after two years of planning opened their second business, a start-up delicatessen, Pickle and Must. Over the time of business establishment, Mark and Rowena have acquired and developed a staff that began with four and in six years has grown to twenty.

Starting the Belle Vue Cafe

A chef by trade, Mark always had the desire to open a restaurant. He and Rowena researched the Warwick food and dining market and found it was too saturated to open a new restaurant – hence they sought to buy an existing business, the Belle Vue Cafe. The cafe is a town icon, having been in operation for over 100 years, and they maintained much of its original character but updated the equipment to be competitive in the market.

Management and organisational structure

Mark and Rowena manage the business, both front and back of house. With the structure of the business, they are hands-on 95 per cent of the time and try to get all their work completed in business hours, including paying wages and superannuation, setting up rosters, completing their BAS statements and banking. In the back of house, they have a full-time chef, which gives Mark time to work with suppliers. Rowena is generally working front of house, overseeing the staff and providing customer service training.

Acquisition of staff

Mark and Rowena analyse their staffing needs by considering the trading hours of the Belle Vue Cafe and the skills that their staff need to have. To ensure the cafe operates effectively, Mark and Rowena have strategically planned to have one extra staff member available to cover shifts if required. This is also a decision based on efficiency – staff are specifically employed on a permanent part-time or casual basis, allowing Mark and Rowena the flexibility to call on extra staff if required.

Their recruitment strategies are simple and suitable to a regional town. Most staff have been



Courtesy Belle Vue Cafe

Figure 8.36 The Belle Vue Cafe

appointed from walk-ins and by using the strategic networks Mark has established in Warwick through the local TAFE. Mark has also partnered with local employment agencies to access the Youth Boost Payment, which was a grant given to businesses that provide employment to youth in the community. Seeking staff on Facebook has also been effective, but they still find the best method is those who walk in to meet Mark and Rowena as they can gauge a lot about the person from that first interaction.

When selecting a staff member, Mark and Rowena place a high value on a positive demeanour and the way an applicant engages with others. 'You can't teach someone to have a personality ... that's your first goal – to be personable ... you need to have that in hospitality; you want customers to come back. Anything else can be trained. If you need staff to make coffee or anything else, we can train that, and fairly quickly. But if they are a happy and hard worker, we will find a place for them in the business.'

Mark will follow up any recruitment with a one-on-one interview, and then will conduct reference checks with a phone call as he believes these are more reliable than a reference letter. He will also bring staff in for trial days, though he said that most staff continue on to be appointed once the trial period has concluded.

Development of staff

The Belle Vue Cafe has structured induction processes. Mark and Rowena will meet with the new staff member, collate paperwork, cover workplace health and safety requirements, discuss the written policies and procedures and provide access to the relevant modern award. They then provide on-the-job training to familiarise the staff member with the business's practices. Mark recognises the importance of inducting staff well, hence for the first two weeks of employment the new staff member will be rostered on in addition to the minimum staff required for a shift.

Following induction, Mark and Rowena use on-the-job training for staff. Most of this is informal, but to ensure consistency across the businesses, all staff were barista-trained by the Belle Vue Cafe's coffee supplier.

Overall, Mark and Rowena have engaged in a range of human resources practices that have resulted in Belle Vue Cafe having stability and growth.

Impact of COVID-19

The COVID-19 pandemic brought the Belle Vue Cafe to a standstill during 2020 and 2021. They lost 55 per cent of their staff due to only being able to offer takeaway and

the vaccination requirements placed on workers in the hospitality industry. Since that requirement was lifted, they are back to having 15 staff.

However, after trading six days a week before the pandemic, they now only trade five days a week. Their turnover has been steady since the relaxation of restrictions, though they have noticed this has plateaued. Mark and Rowena put this to the cost of living pressures impacting their customers.

Questions

- 1 Identify why Mark and Rowena Favero purchased the Belle Vue Cafe as an existing business.
- 2 **Explain** one similarity and one difference between managing a start-up business and an established business, using the Belle Vue Cafe as an example.
- 3 **Explain** the relationship between strategic networks and recruitment, using the Belle Vue Cafe as an example.
- 4 **Create** a flow chart to **communicate** the acquisition strategy of the Belle Vue Cafe.
- 5 Discuss why Mark chooses to call referees rather than rely on reference letters.
- 6 **Analyse** the external environmental factors that impact on Belle Vue Cafe's human resource strategies using the STEEPLE analysis. **Interpret** two trends from the STEEPLE analysis to draw conclusions about recruitment and acquisition for a small business.

A STEEPLE analysis template is available for you to download on Nelson MindTap.

- 7 Research more information about the Youth Boost Payment online to **explain** the program.



QUESTIONS 8.8



- 1 **Explain** the purpose of the acquisition stage of the employment cycle.
- 2 **Explain** how a formal induction program could assist a start-up business to be more competitive.

Training

To remain competitive, start-up businesses need to keep up to date with demands in their market. One way in which a business owner can achieve this is to provide training for staff as the business moves from the start-up stage to the growth stage. Training is a process by which a staff member is supported in acquiring new knowledge and skills. There is an endless range of topics in which staff can be trained. Some of these are outlined in Figure 8.37.



On-the-job training

As the name suggests, on-the-job training occurs when a staff member learns new knowledge and skills at their workplace. It is considered a cost- and time-efficient strategy as the business can use current infrastructure, such as equipment and technology, to conduct the training. The training can be informal and led by another staff member, or an expert from outside the business can be invited to conduct the training. Hence, on-the-job training is the format that is used most frequently by start-up businesses because of its effectiveness and efficiency. The various on-the-job training methods are outlined in Table 8.3.

Table 8.3 On-the-job training methods

On-the-job training method	Explanation	Example in a start-up business
Job rotation	Occurs when a staff member learns the job of a colleague. It can be used as a contingency measure to ensure a job or role can be filled if a staff member is absent from the business.	A business owner may train a staff member in the opening and closing procedures of a store.
Coaching	When one staff member (trainer) trains another staff member (trainee) in completing a task, and takes on a supervisory and supporting role as the trainee learns new skills	A business owner may coach a staff member in how to change prices through a point-of-sale system.
Seminar or instructor-led training	When one staff member leads the training of other staff in a workshop, demonstration or seminar format, to introduce them to new knowledge, skills or business practices	A business owner may lead a workshop or invite an expert to inform staff members of changes to legislation that impact upon the business's operations. A business owner demonstrates to a staff member how to unload and store stock.
Online modules	When a staff member is required to complete an online training course and is paid to do this during work time	A business owner may request staff complete an online induction course in workplace health and safety.

GAINING INSIGHT 8.8



Developing employees through mentoring, coaching and shadowing

As a business owner, you can use mentoring, coaching and shadowing to develop employees' skills at little or no cost to your business.

Investing time into developing employees can help you make the most of an employee's skills and abilities and avoid expensive and time-consuming recruitment processes, and ensure that valuable knowledge stays within your business.

Mentoring, coaching and shadowing can also help your business:

- improve staff satisfaction, retention rates and team relations
- increase profits through improved performance and productivity
- foster innovative ideas.

By pairing a more experienced employee with a less experienced one, you can use mentoring, coaching and shadowing:

- as a form of induction for new employees
- to develop employee skills in a particular area, such as customer service

- to prepare existing employees to move into different or more senior roles
- for succession planning, if you plan to hand your business over to someone else one day.

Source: Business Queensland, www.business.qld.gov.au
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Questions

- 1 **Explain** the strategic benefits to a business of using mentors in its induction and training process.
- 2 **Create** a paragraph to **explain** how induction does not just involve a new staff member who is joining the business, but can also include existing staff.

Off-the-job training

Off-the-job training is an investment by a business in building the knowledge and capacity of staff in a more formal way. Off-the-job training can include attendance at conferences where the staff member gains new knowledge to bring back to the workplace, or the completion of a qualification, which may entitle the staff member to a promotion or pay rise. The cost of off-the-job training is higher than on-the-job, but, if a business is strategic in how it provides off-the-job training opportunities, it could gain a competitive advantage and become a business that people want to work for. In most cases, the business owner will engage in off-the-job training to build their own professional ability. The various off-the-job training methods suitable to a start-up business are outlined in Table 8.4.

Table 8.4 Off-the-job training methods

Off-the-job training method	Explanation	Example in a start-up business
Formal qualification or accreditation	A business may subsidise or pay for a staff member to gain a formal qualification to enhance their knowledge and skills in a business. This could be done face-to-face or online.	A business owner may pay for a staff member to attain their real estate licence.
Attending conferences, lectures and workshops	A business sends its staff to an industry conference to familiarise them with new business practices or seek information regarding emerging trends.	A business owner may pay for staff to attend the Business Summit to find out about the macro environmental trends impacting on Australia's small businesses.

QUESTIONS 8.9



- 1 **Explain** the relationship between training and a business achieving its goals and objectives.
- 2 a **Create** a table like the one below, and select information to classify the range of training topics as suitable for on-the-job or off-the-job training, or both.

Training topic	How it could be delivered on-the-job	How it could be delivered off-the-job
Management and leadership training		
Professional development and quality improvement training		
Communication, teamwork, customer service and skills training		
Software, hardware and technology advancement training		
Legal compliance and workplace health and safety training		

- b **Interpret** the table to draw conclusions about the implications of on-the-job and off-the-job training for a start-up business.
- 3 **Evaluate** the statement, 'Start-up businesses cannot afford training', using the criteria of effectiveness and competitiveness. **Create** two paragraphs to **communicate** your response.
- 4 **Analyse** the external environmental impacts that may influence development for a start-up business using a STEEPLE analysis. **Interpret** your analysis by identifying a trend of relationship. Communicate this in a paragraph.

A STEEPLE analysis template is available for you to download on Nelson MindTap.



GAINING INSIGHT 8.9



Poor onboarding leads to less engaged workers

The Australian Computer Society (ACS), through their *Information Age* flagship publication, produced the article 'Poor onboarding leads to less engaged workers'. Follow the weblink to read the article and respond to the questions below.

Questions

- 1 Summarise this article into a short, four-sentence paragraph.
- 2 **Create** a graph to present the data regarding employee satisfaction for those who have been in a job for six months or less.
- 3 Identify from the article the two recommendations that businesses can adopt to improve the employee experience within the first 12 months of employment. Suggest ways in which an owner or manager could tailor these strategies to their start-up business.



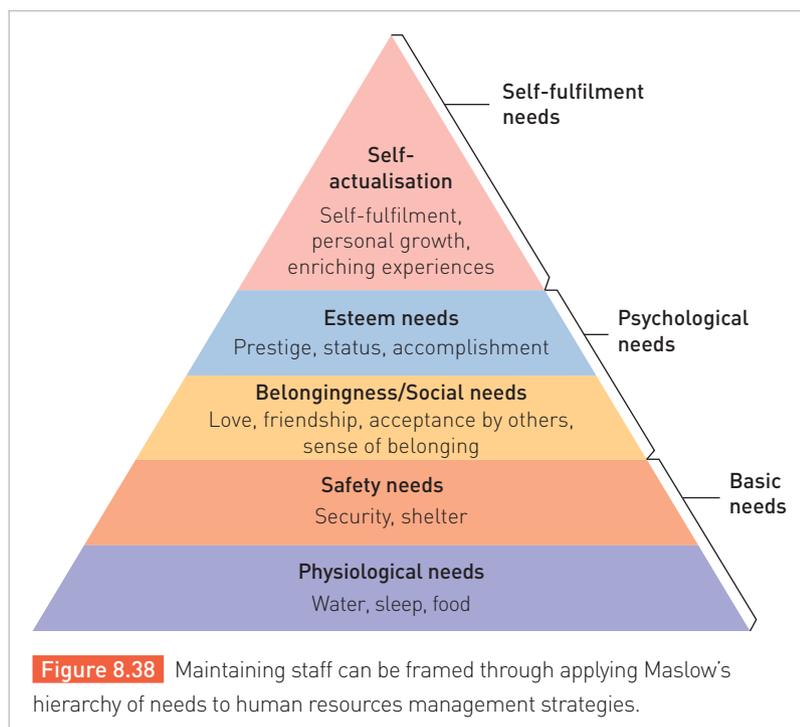
Maintenance

Key learnings

You will learn about the employment cycle by examining:

- the maintenance stage
- performance management
- rewards, benefits and career planning.

The third stage of the employment cycle is **maintenance**. This stage focuses on how the business motivates its staff and provides support to them. Initially, it investigates how staff are motivated, through using frameworks such as Maslow's hierarchy of needs (Figure 8.38), and highlights the importance of a business implementing a **performance management system** that recognises the efforts of high-performing staff and supports underperforming staff to improve. The maintenance stage also includes the way in which businesses motivate their staff through providing benefits, rewards and **career planning** opportunities. The planning of these strategies is crucial to a start-up business's success, particularly as it experiences growth and increases in size from a micro- or small business to a medium or large enterprise. Strategic and tactical planning in the maintenance phase can also increase **staff retention** rates, which helps a start-up business achieve its efficiency goals. The maintenance stage of the employment cycle will be examined in greater detail in Units 3 and 4.



Maintenance: the third stage of the employment cycle, focused on motivating and supporting staff in the workplace to help the business achieve its goals and objectives

Performance management system: a process implemented by a business and used to review and assess a staff member's performance in their job or role

Career planning: the process in which a business tries to support a staff member in achieving their career goals such as moving into management roles, training in new areas or seeking promotion

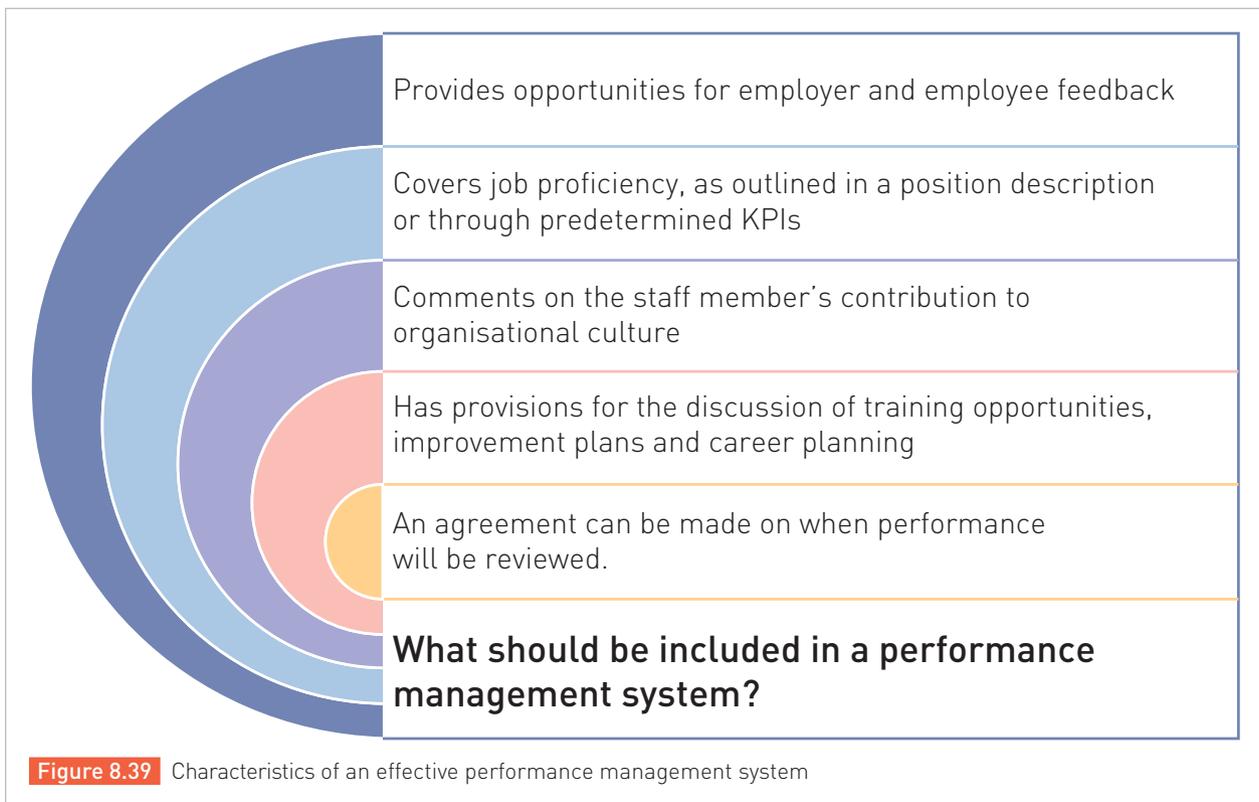
Staff retention: the rate at which a business keeps its staff within a given period. Ensuring staff retention rates remain high can be an objective of the business.

Performance management

Performance management is a key human resources responsibility, particularly for start-up businesses that want their staff to grow as the business does. It is the process by which staff are regularly reviewed on their performance, and the results can be used to inform further development staff may need, such as training, or if the staff member is deserving of a pay rise or promotion. Formal performance management systems are uncommon for start-up businesses, as a business owner or manager will generally give a staff member informal feedback. However, the use of performance management systems is common practice for large businesses, and it can be a strategic move for a start-up business owner to implement one because of its effectiveness in measuring performance.

When a business chooses to implement a performance management system, it must ensure it implements a fair and effective appraisal system. This should include, to varying degrees, the following features:

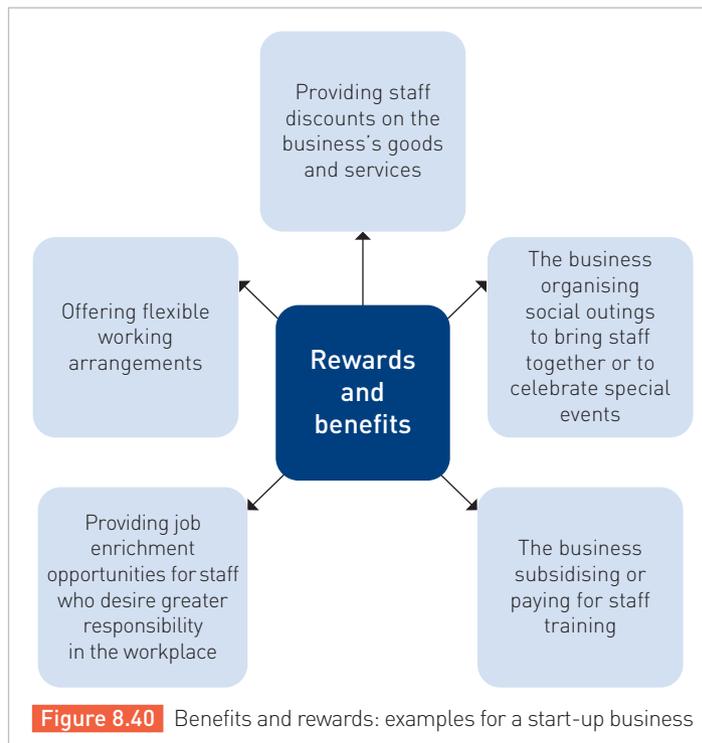
- opportunities for employer and employee feedback
- job proficiency, as outlined in a position description or through predetermined KPIs
- comments on the staff member's contribution to organisational culture
- provision for discussion of training opportunities, improvement plans and career planning
- agreement on when performance will be reviewed (Figure 8.39).



Benefits and rewards

A simple and effective strategy that start-up businesses can use to motivate staff is to provide them with benefits and rewards for working in the business. The benefits and rewards options for a particular business can attract applicants if advertised during the recruitment process, but can also instil happiness in the workplace. For a start-up business, examples of rewards and benefits could include:

- providing staff discounts on the business's goods and services
- the business organising social events to bring staff together or to celebrate special occasions
- the business subsidising or paying for staff training
- providing job enrichment opportunities for staff who desire greater responsibility in the workplace
- offering flexible working arrangements (Figure 8.40).



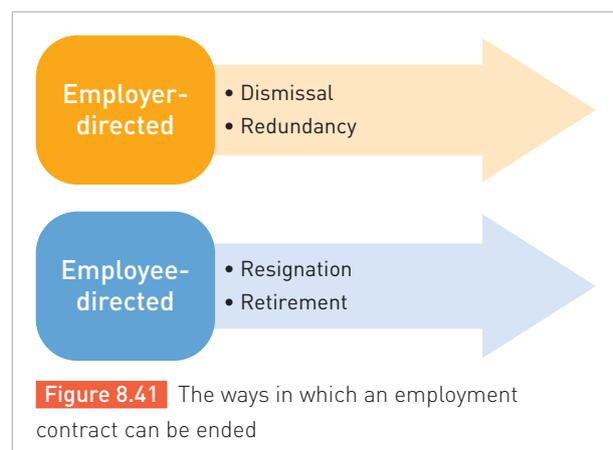
Separation

Key learnings

You will learn about the employment cycle by examining:

- the separation stage
- employer-directed dismissal and redundancy
- employee-directed resignation and retirement.

The fourth stage of the employment cycle is separation, which occurs when the employment contract comes to an end. This can be either employer-directed or employee-directed. Regardless of the reason, a start-up business and its staff must ensure they comply with the requirements of the *Fair Work Act 2009* to ensure that the termination of the employment contract is both legally compliant and ethical. The ways in which an employment contract can end can be seen in Figure 8.41.





Antonio Guillem/Shutterstock.com

Figure 8.42 A business owner or manager may need to dismiss or retrench staff.

Dismissal

All businesses can terminate an employment contract with a staff member if the staff member is guilty of serious misconduct or has underperformed. If an employee is guilty of theft or risks the safety of other staff or customers, a business is protected by law in asking the staff member to leave immediately – or, in more common terms, be ‘fired’. Alternatively, if an employee is not meeting the requirements of their position description, or achieving the KPIs set for them, a business can pursue actions that allow them to cease the employment contract. These actions require a business to prove that the staff member was performance-managed by documenting performance reviews, that the business provided support and training for improvement over a period, and that the employee was issued with several written warnings. A business that does not follow these procedures may face an unfair dismissal claim. Start-up business owners should seek the advice of their lawyers or solicitors if wanting to dismiss a staff member.

The Fair Work Ombudsman provides advice to both employers and employees regarding the laws that apply to dismissal, redundancy and resignation.



WebLink
Fair Work
Ombudsman

Redundancy

Redundancy occurs when a business can no longer afford to keep an employee, or their job or role is no longer required in the business. Technological advances such as automation have influenced the rate of retrenchment in businesses, as have times of economic recession, when business’s profits suffer and they need to take extreme measures to improve their financial performance and position. These circumstances affect the range of businesses from start-ups and small business up to medium and large businesses. The rules surrounding redundancy, including notice and payout amounts, are set out in the Fair Work Act.

Resignation

An employee can decide at any time to cease their employment contract with a business. The Fair Work Act provides details regarding how much notice a staff member must give to a business, and outlines the payout requirements. A business owner or manager should support a staff member’s decision to resign to maintain a positive reputation and good relations with the staff member, but it can be a challenging time for a start-up business that relies on a small number of staff. Businesses can choose to conduct exit interviews, which gather feedback on the business from the staff member, if they feel it will help the business. The staff member should

also comply with intellectual property legislation, which outlines that all work performed in a business is the property of the business, and ensure they follow the employment agreement should a clause be included which prevents them moving to a competitor within a predetermined period.

Retirement

Another employee-directed decision to end an employment contract can occur when a staff member chooses to retire. This means they are exiting the workforce, and it is a time when a business should celebrate the efforts of the staff member and their career. The process to be followed on retirement is the same as for a staff member who resigns from a business.

QUESTIONS 8.10



- 1 **Explain** the separation stage of the employment cycle.
- 2 **Describe** a scenario when a staff member is:
 - a dismissed from a business
 - b chooses to resign.
- 3 **Explain** the role and purpose of the *Fair Work Act 2009* in protecting both businesses and staff members in the separation stage of the employment cycle.
- 4 **Explain** the relationship between performance management and dismissal.
- 5 Discuss the differences between redundancy and dismissal.

Weblinks:

- US Center for Generational Kinetics (p.263)
- Jobs and Skills Australia (p.264)
- Foundation for Young Australians (FYA) (p.264)
- Business Recycling (p.267)
- 6 Best HR Software Platforms In Australia For 2024 (p.285)
- Unpaid trials (p.288)

- Poor onboarding article (p.295)
- Fair Work Ombudsman (p.299)
- Shingle Inn (p.304)

Template:

- STEEPLE analysis (pp. 268, 292, 295, 301 & 311)

Chapter summary:

- Chapter 8 Engaging staff (p.301)

Chapter 8 review

This chapter introduced the management and human resources strategies used by start-up businesses. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.



Summary
Chapter 8
Engaging
staff

8.1 Short responses

- 1 **Explain** the relationship between the four human resources objectives and the achievement of business goals.
- 2 **Explain** each stage of the employment cycle.
- 3 **Explain** the importance of job design for a start-up business.
- 4 **Explain** the risks to a small business owner who doesn't prioritise or have a strategy for induction and training of staff.
- 5 **Describe** how technology has impacted on the human resources function.
- 6 **Explain** the relationship between the internal operating environment and the planning, leading, organising and controlling responsibilities of a start-up business owner.
- 7 **Evaluate** the validity for a start-up business owner choosing to conduct panel interviews using the criterion of effectiveness.

8.2 Extended response

- 1 Using the inquiry process, **create** a short slide deck or presentation to **communicate** the following.
 - a **Describe** the situation and environment of a small business in your community.
 - b **Analyse** the macro environmental factors that influence the business's employment acquisition strategies using a STEEPLE analysis.
 - c **Interpret** a relationship or trend in the STEEPLE analysis to draw conclusions on the implications of acquisition strategies on your chosen business.
 - d **Evaluate** two alternative acquisition and development strategies the business could consider, using the criteria of effectiveness and efficiency.



Template
STEEPLE
analysis

A STEEPLE template is available for you to download on Nelson MindTap.



Case study 3: Queensland's Shingle Inn franchise model



SHINGLE INN

DECADENT • DELICIOUS • DESERVED

This case study will investigate franchising in Australia, including a spotlight on the Shingle Inn.

Sources 1–3 provide industry insights, Sources 4–6 contain information from the Shingle Inn website and Source 7 is an interview conducted with the Shingle Inn's National Brand and Operations Manager.

Source 1: Franchising in Australia – 2024 trends to watch

As the franchising industry in Australia evolves, 2024 introduced several trends that prospective franchisees should be aware of, especially if exploring opportunities in high-demand sectors.

1 Tech-savvy operations

Franchises across various industries are increasingly integrating technology to enhance operations and improve customer interactions. AI and digital tools are becoming essential, enabling businesses to offer personalised services and streamline processes.

2 Sustainability as a core value

Sustainability remains a significant focus, with many franchises adopting eco-friendly practices. Whether through sustainable packaging or locally sourced materials, businesses are aligning with consumer demand for environmentally responsible operations.

3 The health and wellness boom

The emphasis on health and wellness continues to grow, influencing consumer choices and driving demand in sectors focused on wellbeing. This trend is reflected in various franchise offerings, catering to the increasing preference for healthier options.

4 Service-based franchises

Service-based franchises are gaining traction, offering flexible models that cater to changing consumer needs. Whether through on-demand services or innovative delivery models, these franchises are well-positioned to adapt to market demands.

5 Multi-unit franchising

The trend of multi-unit franchising is expanding, with more entrepreneurs opting to own multiple outlets under a single brand. This approach allows for increased market presence and the potential for higher profitability.

In summary, 2024 offered a dynamic environment for franchising in Australia, with technology, sustainability and health trends driving growth. These developments present various opportunities for those considering entering the franchising sector.

Did you know?

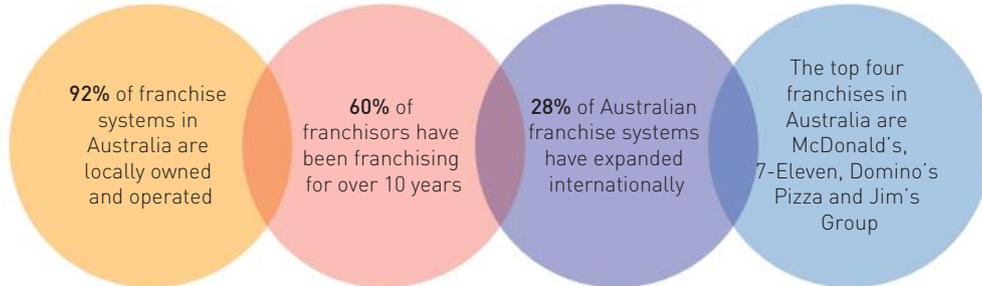


Figure C3.1 Statistics regarding franchising

Source 2: Ibis World

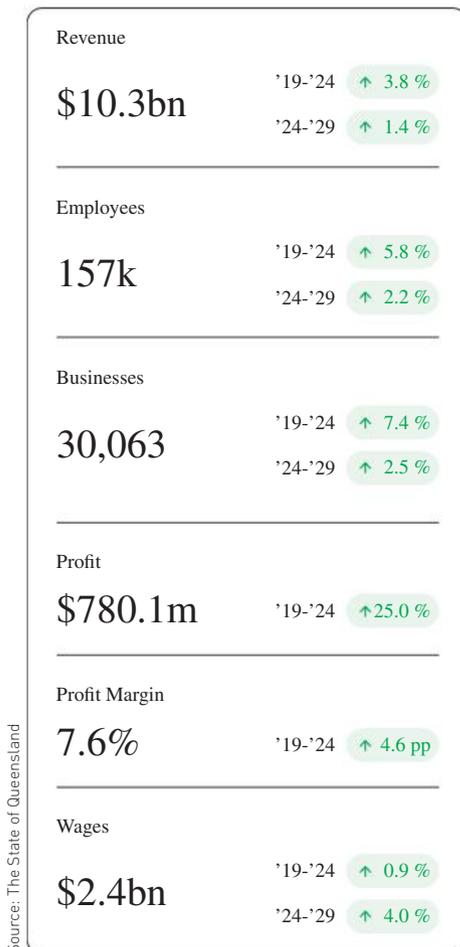


Figure C3.2 Cafes and coffee shops in Australia data

Source 3: Ibis World

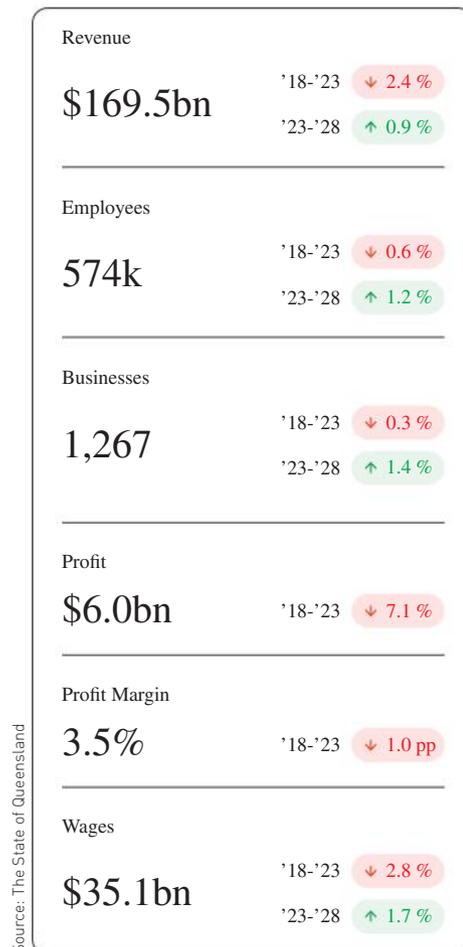


Figure C3.3 Franchising in Australia data

Source 4: Shingle Inn



Weblink
Shingle Inn



Figure C3.4 The Franchising page on the Shingle Inn website

OWN A SHINGLE INN FRANCHISE

Shingle Inn offers aspiring franchisees with a passion for hospitality the opportunity to own an exceptional boutique café and be part of a network that has been delighting generations of customers since 1936.

The Shingle Inn experience starts the moment customers enter our cafes. Luxurious high-back chairs, warm rich colours and comfortable, welcoming environment together with our signature range of decadent cakes, superior quality coffee and delicious menu choices has helped us establish a renowned boutique cafe brand that is well-known for its exceptional customer service. Supported by our proven business system, these elements provide a strong foundation for your success.

Our menu is periodically updated to ensure we are delighting our customers with an exceptional dining experience. Our products are crafted in our centralized bakery and delivered Nationally to each cafe to ensure quality and consistency and most importantly, allowing you to concentrate on creating memorable customer experiences in-store.

If you share our passion for exceptional customer experiences, join the Shingle Inn family and embrace the tradition that has become part of the quintessential Shingle Inn Cafe experience – it's the reason a special occasion shared at a Shingle Inn Cafe is carried through from one generation to the next.

Shingle Inn currently operates across Queensland, New South Wales, Victoria, Western Australia, South Australia and New Zealand with expansion plans for the ACT, North Queensland and Tasmania.

From Our Franchisees

'Becoming a Shingle Inn Cafe Franchisee feels like becoming a member of a family. We feel like we made the right decision by purchasing a Shingle Inn Cafe Franchise, and recommend others to do the same. Go for it!'

Kathy Nau & Annette Kirby
Shingle Inn Sunshine Plaza & Caloundra Franchisees

Source 5: Shingle Inn

FRANCHISE PACKAGE

Shingle Inn offers you a comprehensive franchise package including:

- 1 securing an appropriate location for your cafe
- 2 comprehensive, hands-on pre-opening training
- 3 arranging relevant information technology and training that will help you efficiently run your business
- 4 assisting you to plan your opening promotional activities and training you in identifying and executing local area marketing opportunities
- 5 providing systems and procedures to support your business success
- 6 supplying ongoing support and training once you've opened your store
- 7 providing an ongoing network marketing program including the tools to implement the programs in store
- 8 the opportunity to grow your business and build a saleable asset



Source: Shingle Inn.

Figure C3.5 The Shingle Inn store at Westfield Carindale, Brisbane

Source 6: Shingle Inn

FREQUENTLY ASKED QUESTIONS

Should I get independent advice before buying a Shingle Inn Cafe?

Shingle Inn expects you'll obtain legal and accounting advice from qualified professionals before signing any franchise documentation. We further recommend that you obtain a written quote or a fixed fee for professional services so you can budget for these costs.

Where do I purchase my supplies?

Due to our network of current stores, we have numerous national supplier agreements in place. To maintain consistency in brand presentation across the network we expect all franchisees to utilise the supplier arrangements in place. This agreement especially helps the business to retain its cost of goods leverage, consistency of quality, character and niche identity.

What do I get for the Royalty Fee?

The Royalty Fee is the value Shingle Inn gives the Franchisee when a Franchise Agreement is signed by both parties.

The Franchisee is buying a right to operate a business using a previously established and thus known business. The Franchisee does not have to start from an unknown entity and build a brand. More important than the brand however is that the franchisee obtains access to the operating systems of the company which includes all aspects of business operations that have been tried and proven to be effective by Shingle Inn.

The Fee also covers the ongoing support needed to operate a successful business. This support includes the immediate and constant access to Area Managers who can add value to your business and the effective Advertising, Marketing and HR strategies programmed in advance. So in summary the Royalty pays for the Brand, Operating Systems and Support Systems.

What is the purpose of the marketing levy? Who decides how this is spent?

The marketing levy covers all marketing activities undertaken for the benefit of the entire Shingle Inn network. Activities may be of a 'branding' or 'call to action' nature, at the discretion of the Marketing Manager. In addition to advertising, the marketing levy funds all network-wide point-of-sale (POS) posters, generic product tags and POS kits, agreed opening quantities of POS display materials and support you receive from the marketing team.

Who holds the Lease?

In most cases in a shopping centre environment the Landlord will require the Franchisor to be the Lessee. This also assists the Franchisee as Shingle Inn has negotiation leverage and experience in dealing with Landlords and may ultimately achieve a better deal for the Franchise owner.

How long is the Term of a Franchise agreement and how does this apply to the shopping centre lease?

The Term of the agreement is normally 5 years. The Franchise Agreement will normally correspond with Lease period.

How many staff will I need to employ for my store. Furthermore what are their titles and will they be full time or casual?

The average cafe has two full time Supervisors, up to 3 casual baristas (working different times), and 2 casual Kitchen Specialists. Further to this approximately 7 wait (table) staff, all casual, in a mix of seniors and juniors. Normally you would establish a pool of 10 to 12 casual wait staff to choose from for any given shift.

Source 7: Interview with the National Brand and Operations Manager of the Shingle Inn

One of the authors interviewed Louise Bellchambers in January 2024 about the Shingle Inn.

Interviewer: What are your responsibilities as a national operations and brand manager?

Louise: My responsibilities are many and varied. No two days are the same! Essentially, I am responsible for the effective management of the operations, marketing and HR departments of the franchise, as well as overseeing the effective management of three company-owned stores.

The operations component of my role (principally for Shingle Inn) is responsible for the largest proportion of my time, taking in:

- regular store visits
- analysis of store profit and loss statements, wages reports, store purchasing behaviour and supplier reports
- management of the operations team
- product development for time-sensitive promotions requiring operational ordering and logistics planning (for interstate delivery)
- motivating and inspiring the operations, marketing and administrative teams to maintain focus on the overall business objectives as well as problem-solving issues and providing guidance on a day-to-day basis
- manage meetings and work-in-progress deadlines to keep projects moving forward, then rolling these out to the wider network
- updating the Shingle Inn register backend with new pricing, promotions and menu updates
- liaising with marketing to ensure the loyalty program is being leveraged.

When combining the HR component and oversight of company-owned stores, and comparing that to focusing on brand, these two components constitute a roughly equal amount of my remaining time. For HR my responsibilities include:

- training new franchisees



Figure C3.6 Louise Bellchambers of Shingle Inn

Shingle Inn

- advising franchisees on recruitment and employment initiatives
- communicating with stores regarding HR issues such as changes to legislation or reminders regarding employee entitlements or changes to wage rates
- following up employee complaints or issues experienced in both franchisee or company stores
- responding to queries regarding payment at franchise stores
- placing advertisements and screening applicants for roles in company-owned stores, or within head office
- producing letter of offer and position descriptions for internal employees.

Under brand, my responsibilities include:

- setting a direction for the Shingle Inn and Cayman brands for the year ahead
- monitoring product development
- ensuring brand values are maintained in marketing activities for both brands
- initiating all content for Cayman Cafe social media and coordinating Cayman Cafe promotions
- visiting Cayman Cafe stores as the marketing representative to provide feedback on displays and merchandising, investigate success of promotions and assess gaps in the market
- coordinate packaging and update branding for both concepts to ensure brand standards are upheld.

Interviewer: Do you regularly engage with your franchisees?

Louise: Definitely! I write a weekly newsletter called 'CheckInn' that gives stores a rundown for the week of things they need to look out for:

- Training reminders
- Supplier communications
- Upcoming promotions
- Pricing updates
- Public Holiday information
- Meeting reminders

As the area manager for 10 stores, I visit these stores regularly and others semi-regularly, especially those in Queensland. Visits are a mixture of formal meetings whereby we discuss the store's performance against our minimum performance criteria or informal whereby we complete a service assessment by ordering in-store and assessing if every stage of the process is being undertaken correctly.

Additionally we have quarterly state meetings, which we refer to as 'Family Forums'. These are held in each state and franchisees come together to receive training, hear about upcoming promotions and operational initiatives and have the chance to raise their own discussion points to be discussed with the group. One of these quarterly meetings each year doubles as our annual conference whereby all stores come to Queensland and spend a minimum of two days training. The conference also includes guest speakers and a fancy-dress evening, which is always a lot of fun!

I also periodically work at Shingle Inn City Hall. This is our flagship store, celebrating its 88th anniversary in April this year. We do a lot of high tea events in this store, which means I can interact with customers first hand, whilst helping out the team, place orders, utilise the register and see first-hand how decisions made at the corporate level are affecting the in-store teams!

Interviewer: If yes, what are your observations of the wins and challenges faced by franchisees?

Louise: The past three years have been exceptionally challenging. Although COVID-19 is generally accepted as having affected most businesses between 2020 and 2022, 2023 was a challenging year as stores tried to repay rent debts that had been deferred (not cancelled by landlords) and when everyone was still very much on tenterhooks about the future as well as suffering a form of adrenal burnout from being on high alert for two years where they had to work each day, while not knowing what the future looked like. This has caused many people to decide not to renew their Franchise Agreements or to walk away in times of complete distress.

As of today, the wins are a strong recent Christmas period, whereby at least one store has broken records for the most products sold and others have traded strongly. This has given stores the much-needed morale boost necessary to think beyond the immediate and be able to view their business through a more long-term lens.

The single biggest challenge in this context at present is the constant squeeze on margins. Affecting this in the past 12 months has been:

- Ukraine war driving up pricing
- potato shortage (from weather events) driving up pricing
- weather events effecting transportation of goods

- shortage of reliable team members
- increasing wages and changes to casual employment making it more difficult to run a cost-effective business
- changes to employees' approach to wages/work expectations in a post-COVID economy
- government-imposed environmental initiatives driving up pricing of takeaway packaging.

In addition to margin squeeze, one of the other significant challenges facing stores in today's environment is the ubiquitous nature of social media. Customers can virtually say whatever they like on Google reviews, without it being the whole truth or without any necessity for another side to be considered and that becomes the 'truth'. This is a very dangerous turn of events for small businesses whose business can be hugely affected by the natural tendency to be more outspoken in anger than in praise.

The Cafe Industry

Interviewer: What external environment factors significantly influence the decisions of the Shingle Inn and Cayman Cafe?

Louise: All of these factors play their part in influencing decision making. Economic factors have featured most in the more recent past due to COVID-19 and the other influences mentioned above. Of course, they always play a part though in any business that wants to survive in the long term. Environmental factors are currently playing a part as the Western Australian government has fast-tracked the removal of one-use plastics and other materials used for takeaway ahead of other states, forcing national change within our network (and increased costs that will ultimately have to be passed on to customers). Adapting to legal changes is an ongoing part of business. Increasing superannuation, more legalities around the casual workforce... these are part and parcel of running a business.

Interviewer: Why did Shingle Inn decide to venture into a new brand, the Cayman Cafe?

Louise: Cayman Cafe was dreamt up during COVID-19. Cayman Cafe is a complete departure from Shingle Inn. A much smaller bakery offering, a streamlined menu, pitched at a younger audience, with a holiday vibe and locations that align with a holiday atmosphere, rather than in large shopping centres.

Cayman takes everything the David Peters Group, a second-generation family business and owners of Shingle Inn, Cayman Cafe, Gilhooleys Irish Pubs and ROAM, knows about hospitality and franchising and places it in a new, fresh, streamlined concept that doesn't need to meet any heritage expectations that come with operating an 88-year-old brand. A slightly different product mix and a completely new, fresh brand enables the business to seek a wider variety of locations and expand beyond top-tier shopping centre landlords, enabling a faster rebuild to pre-COVID trading levels.

Interviewer: Have you noticed a different type of franchisee interested in this brand compared to Shingle Inn?

Louise: Not yet. Our first franchisee was a current Shingle Inn franchisee with an extensive hospitality background and the second store was a combination of the franchisee loving Shingle Inn and the landlord loving the Cayman concept. We expect that longer-term, Cayman may attract a different franchisee, looking for a 'quick and easy turnkey' concept, but ultimately the costs involved in set-up are very similar, and hospitality is hard work regardless. Having said that, we have noticed a slight decrease in average age of franchisees in the past 12 months. Whether this is market-lead or a coincidence remains untested.

Interviewer: Where would you like to see sites open, where the Shingle Inn or Cayman Cafe don't currently have a presence? Why is that?

Louise: We are currently investigating a number of Cayman Cafe sites that fit with the 'holiday vibe' concept. These are all within Queensland or northern New South Wales at this stage. This is how Shingle Inn was expanded (from the central hub of Brisbane's corporate office and within driving distance of the Capalaba Bakery). Generally, it's ideal to have a new concept within driving distance on set-up for better monitoring of procedures and compliance and to take advantage of economies of scale and groundwork done in terms of supply chain logistics.

Similarly, the areas we are prioritising for Shingle Inn are close to areas where there are already Shingle Inn stores, especially in New South Wales and South Australia, where there is only one store. Shingle Inn's bakery exclusively supplies products to hubs in each state for these stores and the logistics costs and movement of goods would be improved with increased store numbers.

The Franchise Agreement

Interviewer: How much does it cost approximately to set up a new site and to purchase an existing site?

Louise: An initial (once off) Franchise Fee of \$48 500 + GST is charged to cover the cost of:

- training the new franchisee for six weeks in preparation to open their store; training covers key disciplines including all facets of operations, marketing, human resources, business administration, work health and safety, food safety and extensive coffee training
- a management support person to guide the initial opening of the store for the first two weeks of trade
- the negotiation and securing of the site itself
- provision of all intellectual property associated with the brand, such as operating manuals, websites and social media channels.

The establishment (building) cost of the store depends on the size and location of the site; this may vary from \$200k to \$350k. Other miscellaneous set-up costs include legal costs, purchasing on initial stock and operating capital – collectively approximately \$15k. The cost of purchasing an existing site depends on the financial performance of that specific site, the amount of lease tenure that exists for the site, the condition of the premises (i.e. if any store improvements are required) and any future potential of the specific location.

Interviewer: What financial checks do you run on a potential franchisee?

Louise: Franchisees have to supply comprehensive financial information as part of the application process. Specifically, full disclosure of assets, liabilities, income and expenses. Potential franchisees also need to declare any prior bankruptcy or financial difficulty. Similarly, they are required to, as per the Franchising Code of Conduct, seek advice from an accountant or financial advisor before committing to purchasing the franchise.

Interviewer: Approximately, how much financial capital does Shingle Inn/Cayman Cafe want their franchisees to have?

Louise: This depends directly on the scale and type of business the franchisee is investing in. Hospitality businesses are heavily reliant on cash flow. Typically, Shingle Inn expects there to be an establishment period for new businesses (as well as inexperienced franchise operators), which may limit profitability for 6–12 months. As such, adequate financial reserves, relative to the specific business would require them to have access to cash reserves that ensured employee wages, stock purchases and rental could be sustained.

Interviewer: How long before a franchisee might begin to see a profit in their business?

Louise: This is dependent on so many factors: how much the franchisee paid for the store, their rent (which is different for all stores), their wages (which can be dependent on how many owners are working in the business) and their sales. One important point to make though is that royalties in both these concepts are based on a percentage of sales, so the franchisor's income is inextricably linked to the success of the store.

Interviewer: The Cayman Cafe doesn't have its own website yet. Could you explain why?

Louise: Cayman Cafe was devised with a younger audience in mind; a brand more focused on communicating via social media and less interested in having reams of information to read. A lot of the information provided on a website – locations, menus, promotions – can all be communicated within Facebook, Instagram and Google. That's not to say that Cayman would never have a website; however, it's no longer a necessity for small businesses such as this and is a significant outlay for a small business with only two locations.



Figure C3.7 Two Facebook posts for the Cayman Cafe (www.facebook.com/caymancafeau)

Questions

- 1 **Describe** facts and characteristics of the internal and external operating environmental factors of the Shingle Inn franchise model using the table provided.

Internal environment	Description
Owners and management	
Employees	
Organisational structure	
Organisational culture	
External operating environment	Description
Customers	
Competitors	
Suppliers	
Interest groups	

- 2 **Describe** the environmental facts relating to:
- the cafe industry
 - franchising in Australia.
- 3 **Explain** the:
- sources of finance a franchisee would require to enter a franchise agreement
 - legal requirements of entering into the franchise agreement.
- 4 Analyse the management tasks of Louise Bellchambers and categorise as planning, organising, leading or controlling tasks.
- 5 **Analyse** and **interpret** the business situation by selecting data and information relating to the external environment of a new Shingle Inn franchise in your local area using a STEEPLE analysis.
- A STEEPLE analysis template is available for you to download on Nelson MindTap.
- 6 **Interpret** two relationships or trends in the STEEPLE analysis to draw conclusions about the implications of entering into the franchise agreement.
- 7 **Evaluate** the Shingle Inn franchise option using two criteria. Make decisions and propose recommendations for a Shingle Inn franchise in your local area.



Template
STEEPLE
analysis

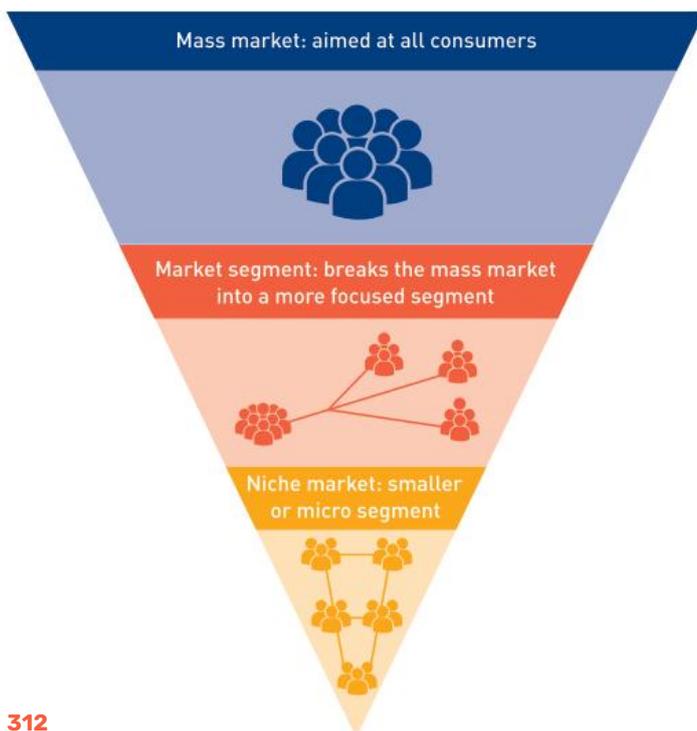
ENTERING MARKETS



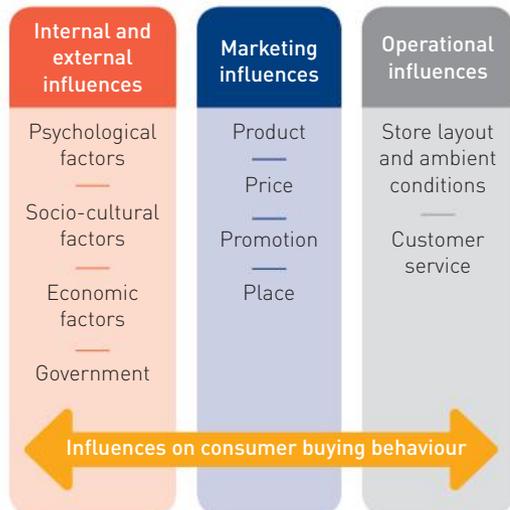
AUSTRALIAN CONSUMER LAW



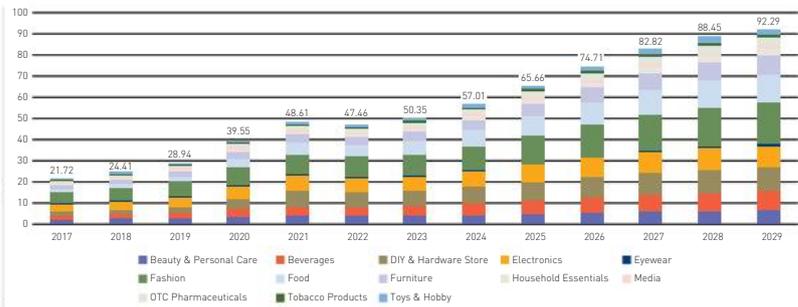
TYPES OF CONSUMER MARKETS



INFLUENCES ON CONSUMER BUYING BEHAVIOUR



MARKETING OBJECTIVES IN THE GROWTH STAGE



Consumer-buying behaviour and trends

82% of Australian households made an online purchase in 2022

Online share of retail spend: **18.1%**

By 2033, we expect around **1 in 3** dollars will be spent online

3 in 4 people look for sustainable options when shopping

56% of online shoppers will choose to receive packages later to reduce environmental impact

Internationally, demand for parcel lockers is expected to almost double over the next 5 years



core product, features, benefits, packaging, options, branding, quality, service, warranty, portfolio

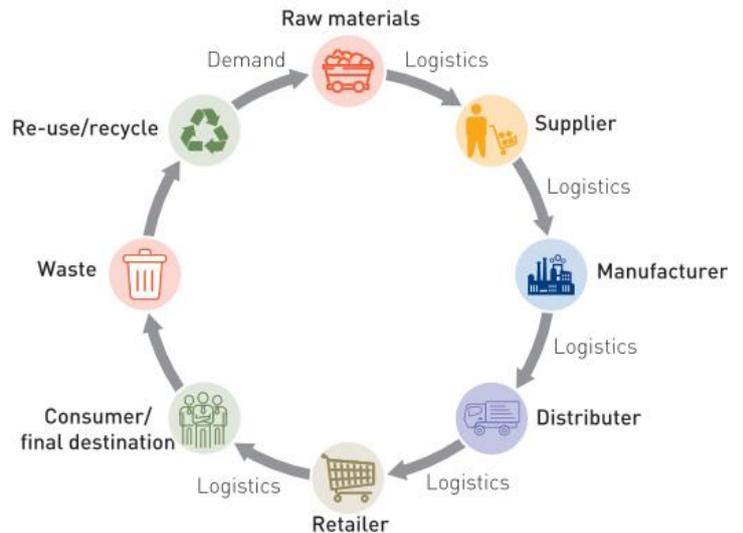
market skimming, penetration pricing, premium, cost-based, psychological, dynamic



intermediaries, distribution channels, non-store, multi-channel

traditional avenues, digital, emerging, advertising, publicity, sales promotion, personal selling, word of mouth, social media

MATERIALS MANAGEMENT



9

MARKETING – INFLUENCES AND STRATEGIES

What you will learn

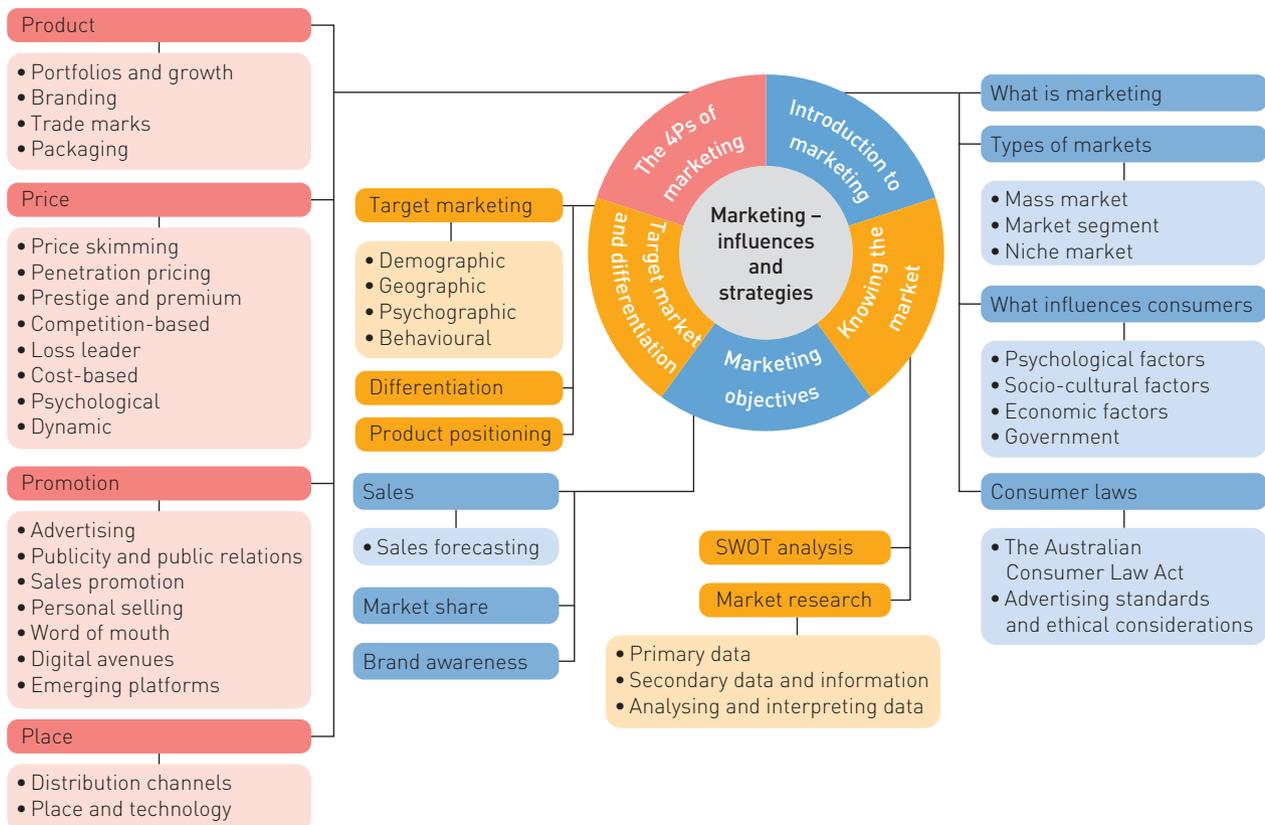
Marketing is a central part of all business activity and the most visible of the business functions. It is through the processes of marketing that a business can understand consumer behaviour and what influences buying behaviour; identify consumer needs and wants; develop a product to meet those needs; and promote, price and distribute to a particular group of customers.

Marketing directs the image and branding of the business and helps to connect businesses with their target markets in an increasingly competitive business environment. As a business moves through its life cycle, marketing will remain a key business function, while the strategies and processes employed will be adjusted to reflect opportunities and challenges.

This chapter will explore the marketing strategies and processes available to a business as it enters a market, launches products or services, attracts new and prospective customers and operates in an increasingly competitive landscape. This chapter will provide you with the opportunity to:

- **describe** the competitive situation and environment faced by businesses competing for market share in the growth stage of the business life cycle
- **explain** marketing objectives and strategies as they relate to consumer buying behaviour and target markets
- **analyse** consumer buying behaviour and marketing strategies by selecting data and information to **interpret** relationships and trends in the market to draw conclusions about the implications of marketing strategies.

Business 2024 General Senior Syllabus© State of Queensland (QCAA) 2024, licensed under CC BY 4.0



- **evaluate** marketing strategies used by a business in the growth stage to make decisions and propose recommendations, using criteria
- **create** responses that **communicate** meaning to suit audience, context and purpose.

The analytical tools used in this chapter are:

- SWOT analysis
- unique selling proposition (USP) analysis.

GAINING INSIGHT 9.1



IMPI SPORTSWEAR

FOCUS QUESTION: How do you conceive a successful business concept for a target audience during the challenging growth stage in the business life cycle?



From ideation to action

Based in Brisbane, IMPI Sportswear was founded in September 2018 by Kim Knox and Candice Jones. Kim shares that the business idea initially came from her family's love of running and the lack of running gear available for her girls that was functional, age appropriate and on trend. Chatting to other mothers who experienced the same frustration in sourcing running gear for their budding athletes, she identified an opportunity in the market for functional and fashionable sportswear for teen and tween athletes. Kim and Candice combined their expertise in marketing, retail,

buying, clothing production and design. With the initial financial backing of Candice's husband, they founded IMPI. The business launched with a range of brightly coloured running shorts and running crop tops that fuse function and fashion, with new collections eagerly anticipated by a quickly established customer base.

Developing a brand that resonates with the market

When developing the brand, the values of hard work, determination, camaraderie and teamwork were paramount. The name IMPI was inspired by the grit, determination and toughness displayed by the group of athletes in Kim's daughters' running squad, while also paying tribute to Kim and Candice's South African roots. Pronounced 'impee', IMPI is a Zulu word meaning a small tribe of warriors and conjures up traits of strength and courage. This resonated with the product concept of activewear for tweens and teens. According to Kim, the tagline 'for the warrior within' embodies the inner strength and determination of the athlete mindset, which IMPI believes all teens can develop through running and sports.



Sally Adams/Impi Sportswear



Sally Adams/Impi Sportswear

Figure 9.1 Functional and fashionable sportswear in beautiful colours and patterns

Mission

IMPI's stated mission is to empower and inspire young girls to embrace an active lifestyle and pursue their passions with confidence. It achieves this by offering high-quality gear that supports their every move as well as by creating a supportive community that fuels their progress.

IMPI believes in helping girls find their tribe, where they can connect with positive role models who embody traits such as hard work, determination and strength. It strives to cultivate a generation of strong, active, happy and healthy teens, fostering their inner IMPI warrior.

Vision

IMPI's vision is to promote a lifelong passion for staying active, ensuring strong physical and mental wellbeing. It is dedicated to consistently offering inspiring products that encourage girls to stay active, healthy and confident. IMPI's goal is to be the premier teen sportswear brand in Australia.

IMPI's vision extends beyond fashion – it is committed to fostering the IMPI community, where teens can forge friendships through sports and daily exercise. By reinforcing the positive impact of movement on destressing and soothing the soul, it seeks to expose the benefits of running and exercise to young minds.

Objectives and strategies

Key marketing objectives during start-up and growth stages have included:

- brand awareness – developing a customer base and generating positive word-of-mouth beyond the local Brisbane running community
- sales – as a predominantly online business, generating consistent sales and accurately forecasting demand are key objectives.



Sally Adams/Impi Sportswear

Figure 9.2 The IMPI warrior philosophy permeates every aspect of the business, from its mission and vision to the bold designs and community focus.

IMPI relies heavily on digital marketing with SEO, social media advertising, Google advertising, email marketing and content marketing as key digital tools. Having a strong presence at events, with sponsorships including the running festivals GC30 in May and GC50 in December, along with the Gold Coast Marathon IMPI Kids Dash in July, fosters brand awareness. Many events also include an 'expo', where the team engage in personal selling and actively promote the brand to new customers. With a strong connection to the running community and a commitment to superior product quality, word of mouth by both teens and their parents has also supported business growth.

IMPI is a strong supporter of the running community, with 2023 proving to be a busy and fruitful year starting with ambassadors competing in the World Cross Country Championships held in Bathurst in February through to IMPI racers being present in December at track racing high performance event, Zatopek, in Melbourne. IMPI has also been expanding its presence in other sports, including triathlon, surf lifesaving, touch football, netball and rowing.

Where to from here?

IMPI began its journey in a modest 4 x 6 metre garage, but within just five years, it has made remarkable progress, expanding to a retail and warehouse space of nearly 300 square metres. Initially, the business consisted of 2.5 staff members, including Candice, Kim and Kim's husband, who, fortunately, was a chartered accountant and handled the books part-time. Today, IMPI has grown to a team of six dedicated staff members, complemented by a wonderful team of casual staff who provide assistance during events, stock takes and other tasks as needed. In its first year, IMPI received a total of 1350 orders, but during the Black Friday sale in 2023, it achieved an astonishing 800 orders in a single weekend!



Sally Adams/Impi Sportswear



Sally Adams/Impi Sportswear



Sally Adams/Impi Sportswear

Figure 9.3 Sponsorship of events for teens and tweens represents a positive association and generates brand awareness.

IMPI Sportswear celebrated five years in September 2023 and continues to grow. They are trialing a collection for boys with the plan to launch two collections a year, including the cross-country season, as they gauge the level of demand for the collection. In January 2024 IMPI launched their first retail store in Milton, Brisbane as an additional distribution channel and promotion avenue.

Kim says, 'It takes a village to raise a child and likewise it takes a team to build a business. We are lucky to have a team of amazing staff, customers, suppliers, friends and family! Teamwork makes the dream work.'

IMPI Sportswear interviews: Sally Adams

Questions

- 1 **Describe** the business situation of IMPI, including how the concept was conceived and its position in the business life cycle.
- 2 Identify and **explain** the target market for IMPI. What might influence consumer buying behaviour for this product range?
- 3 **Evaluate** the use of digital promotion avenues, to make a decision and propose recommendations. (Tip: use two business criteria when evaluating.)

Introduction to marketing

In today's increasingly competitive environment, the role of marketing has never been more important as businesses of all sizes compete for customers and market share. The success of a business is contingent on all key business functions working interdependently. This involves having motivated employees with the appropriate skills to ensure quality products or services are produced that meet the wants of a target market, along with finance creating budgets and managing revenues and expenses to optimise business objectives. In a large business, each of these functions is often undertaken by a specialist department with a team of staff. A marketing department could include product managers, market researchers, promotions managers, sales representatives, customer service specialists and online content managers. In a small-to-medium enterprise (SME), these roles may be undertaken by the owner or a small team of managers who perform a range of marketing processes.

Key learnings

You will learn about marketing in the growth stage by examining:

- the role of marketing
- consumer markets.

What is marketing?

A common misconception is that marketing equates to advertising. This may be because marketing is so pervasive in our daily lives – every time someone turns on an electronic device, goes to the mailbox or travels to school or work, they are exposed to some form of marketing, which is typically an advertisement. Marketing is so influential that even young children can recognise brand names and logos for businesses and their products,

and many businesses form part of our socio-cultural context. While advertising is an important element of the marketing mix, it is only one avenue in the marketing process (Figure 9.4). Marketing is critical to generating consumer awareness of a business and its products and is the primary revenue-making activity of any business. This makes it integral to **strategic planning** so that marketing activities align with and achieve business objectives.

Marketing defined

There are countless definitions of marketing, ranging from a narrow focus on planning and executing the product conception, pricing, promotion and distribution of goods and services, to more contemporary definitions by marketing experts such as Dr Philip Kotler, who states that:

... marketing is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services.

Source: Dr Philip Kotler, Kotler Marketing Group, Inc. (n.d.). http://www.kotlermarketing.com/phil_questions.shtml#answer3

According to the American Marketing Association (AMA) in 2017:

... marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

Source: American Marketing Association (2023, 21 March). What is marketing? – The Definition of Marketing – AMA. <https://www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx>

These definitions have commonalities that highlight the concept of marketing as:

- creating and delivering something of value, whether a good, service or idea
- identifying the needs and wants of target markets
- creating exchanges that satisfy both individual (consumer) and organisational objectives
- relevant to all organisations, including those outside the profit-based sector.

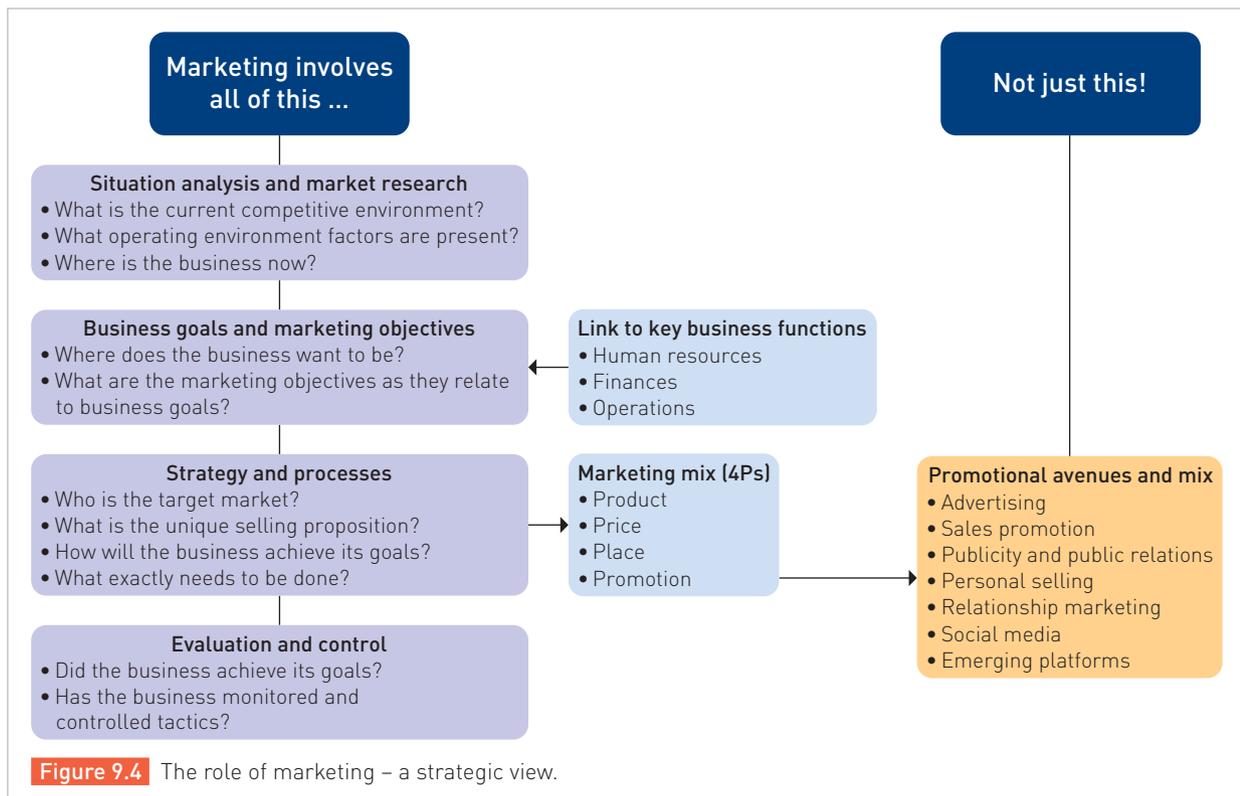


Figure 9.4 The role of marketing – a strategic view.

Studiowide

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

Types of markets

Marketing exists in almost all organisations. It is not directed purely at consumers; business-to-business marketing also occurs. Different products and services are marketed by a wide variety of organisations to varying audiences. For example, consumers do not generally purchase in bulk, so marketing strategies for consumer markets will differ from those of industrial and resource markets, which typically sell in bulk and require different distribution strategies. Marketing plans and strategies must be adapted to the different types of markets and their expectations.

Consumer markets

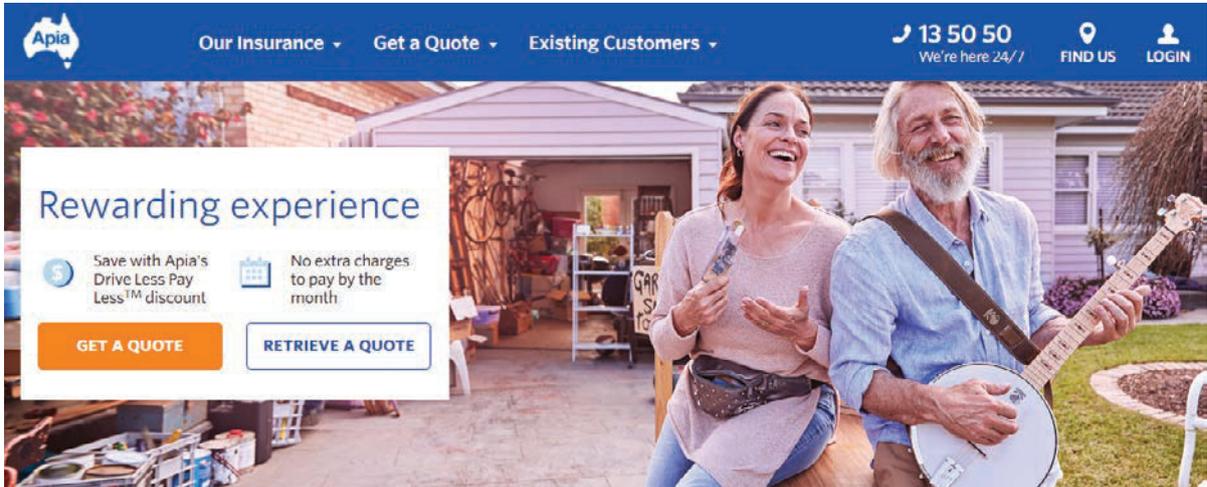
Consumer markets are the most visible and easily recognisable markets in the business environment and are typically referred to as **retailers**. They are where businesses sell directly to the end user of the product or service. Every time you visit a shopping centre or go to the supermarket, you are part of the consumer market. Businesses that wish to gain a competitive advantage must understand consumer behaviour and what motivates potential consumers to purchase a product or service, so that marketing strategies can be tailored to them. Consumer markets are broken into mass, market segment and niche markets.

Mass markets

A mass market is one in which a product is aimed at all consumers, regardless of their age, gender, income or location. This is also known as undifferentiated marketing, as it indicates that a business has decided not to break the market up based on common characteristics. The aim is to appeal to all consumers. Such an approach is typically restricted to basic food items, petrol and services such as electricity and water.

Market segment

A market segment breaks down the mass market into a more focused portion, typically based on one key characteristic. For example, some secondary schools create a market segment as single-gender schools appealing to families with children of that gender; and Australian Pensioners Insurance Agency (Apia) has targeted people aged over 50 years of age (Figure 9.5).



The image shows a screenshot of the Apia website. The top navigation bar includes the Apia logo, 'Our Insurance', 'Get a Quote', and 'Existing Customers'. On the right, it displays the time '13:50:50', the slogan 'We're here 24/7', and links for 'FIND US' and 'LOGIN'. The main content area features a large photograph of a smiling woman and an older man with a beard playing a banjo. Overlaid on the left is a white box with the heading 'Rewarding experience'. Below the heading are two bullet points: 'Save with Apia's Drive Less Pay Less™ discount' and 'No extra charges to pay by the month'. At the bottom of the box are two buttons: 'GET A QUOTE' and 'RETRIEVE A QUOTE'. The Apia logo is also visible in the bottom right corner of the screenshot.

Figure 9.5 Apia has a market segment strategy of targeting consumers over 50 years of age.

Retailers: sell goods or services directly to the final consumer

Niche markets

A **niche market** involves concentrated segmentation and breaks a larger market segment into a smaller segment or micro-segment. This is often referred to as a market within a market. A niche business is likely to be highly specialised and cater for a smaller group of people. Due to its specialised nature, goods and services offered are customised to meet the needs of the market and the business is scaled accordingly. Many businesses start out by harnessing a niche market strategy as a point of difference to mature companies; this enables them to enter the market and capture a moderate share of the market successfully. By appealing to a niche market, businesses may achieve larger profit margins on their products or services due to having a point of difference (Figures 9.6–9.9).

GAINING INSIGHT 9.2



Carving out a successful niche



Figure 9.6 The BSKT brand started in 2013 at the Gold Coast popular health food hub BSKT Cafe, founded by Gold Coast Titans teammates Greg Bird and Selasi Berdie. All products are handcrafted with love on the Gold Coast using traditional methods. Made from high-quality plants and free from refined sugar and anything artificial to nourish your body from within. The product mantra is 'a healthy indulgence'.

Figure 9.7 Squirrel's Nut Butter (SNB) – makers of 'the world's best all natural, anti-chafe and restorative skin salve' targets endurance sports participants, notably ultramarathon runners. Since 2015, SNB has been keeping skin healthy and free from chafing and blisters. Athletes, outdoor enthusiasts, and skincare fanatics have utilised the preventative and healing effects of SNB in running, cycling, triathlon, hiking and everyday life. The product range now includes Born to Rub, a spicy salve for pre- and post-exercise, Happie Toes, a foot-specific salve blended with peppermint and tea tree oils, as well as a vegan version of the original Squirrel's Nut Butter salve.

Source: The SNB story (n.d.). Squirrels Nut Butter Australasia.
<https://squirrelsnutbutter.com.au/pages/the-snb-story>



Sally Adams

Niche market: a smaller section of a larger market segment, focusing on a select group of customers; also known as a concentrated or micro market



Balifim/Shutterstock.com



Andy Dean Photography/Shutterstock.com

Figure 9.8 An indoor toilet for your furry friend! A natural grass alternative to puppy pads and fake grass toilets. The real grass roots will absorb the dog's wee as well as the smell.



Sally Adams

Figure 9.9 Loop earplugs – founded in 2016 by two friends who shared a love of attending festivals, concerts and clubs, but were frustrated by the constant ringing in their ears dampening their experiences, Maarten and Dimitri turned frustration into innovation, setting out to revolutionise the way the world experience sound. Thus, Loop Earplugs was born.

Source: Loop Australia. Earplugs-user-moments. [n.d.].
Loop Australia. <https://au.loopearplugs.com/pages/earplugs-user-moments> and <https://au.loopearplugs.com/pages/why-loop>

Question

- 1 Select one of the niche businesses in Figures 9.6–9.9.
 - a **Describe** the business situation and/or environment that led to the decision to use a niche market approach.
 - b **Explain** how using a niche market, rather than appealing to the mass market, could support the business as it progresses through the growth stage of the business life cycle.

Larger businesses have also sought to embrace the benefits of niche markets to grow their market share and remain competitive in saturated markets. An example is Shannons insurance products (Figure 9.10), part of the Suncorp Network. Shannons is tailored to the needs of the motoring enthusiast with features such as limited use and club plate cover, laid up cover for restorations, insurance for daily drives, as well as home and contents cover.

INSURANCE AUCTIONS CLUB **REQUEST A QUOTE** **Call 13 46 46**
Open today: 8am - 8pm AEDT

About Shannons

The Shannons Story

Shannons was the brainchild of the late Robert Shannon who created an insurance business in the early seventies run by enthusiasts, for enthusiasts.

Shannons insurance products are specially tailored to the individual needs of motoring enthusiasts and relies on direct contact with clients rather than through other agents or brokers.

Today, as part of the Suncorp Group, Shannons has offices in all state capitals, the ACT and Northern Territory. Across Australia Shannons is the first choice of motoring enthusiasts when it comes to insuring their special cars, motorcycles and homes, as well as the day to day cars of owners.

Figure 9.10 Shannons is part of the Suncorp Group, focusing on a niche market of motoring enthusiasts.

Understanding environmental influences

Key learnings

You will learn the following about the influences on marketing:

- factors influencing consumer buying behaviour
- the Australian Consumer Law.

The marketing function is heavily influenced by the business environment and consumer sentiment, as well as the stage in the business life cycle. When a business enters a market, it may take considerable time for prospective customers to become aware of the business and its goods or services. Market research will be important to determine the optimum target market and identify influences on consumer behaviour so that strategies can be launched to increase consumer awareness and convert this to sales. During the growth phase, a business must be cognisant of legislative factors affecting market entry that protect consumers and regulate business processes. A business must also ensure its conduct reflects the prevailing socio-cultural environment, including ethical standards.

What influences consumers?

The domestic Australian consumer market exceeds 26 million people, and is far from homogenous. Knowing one's customer and what motivates their purchase decisions is increasingly important as a business grows and seeks to gain and retain customers and market share. The analysis of **consumer behaviour** involves researching and understanding how individuals make decisions to spend their available resources (money, time and effort) so that marketing strategies can appeal to customer motives.

Consumer behaviour: the behaviour that consumers display in searching for, purchasing, using and evaluating goods or services that they expect will satisfy their needs and the impacts that these processes have on the consumer and society

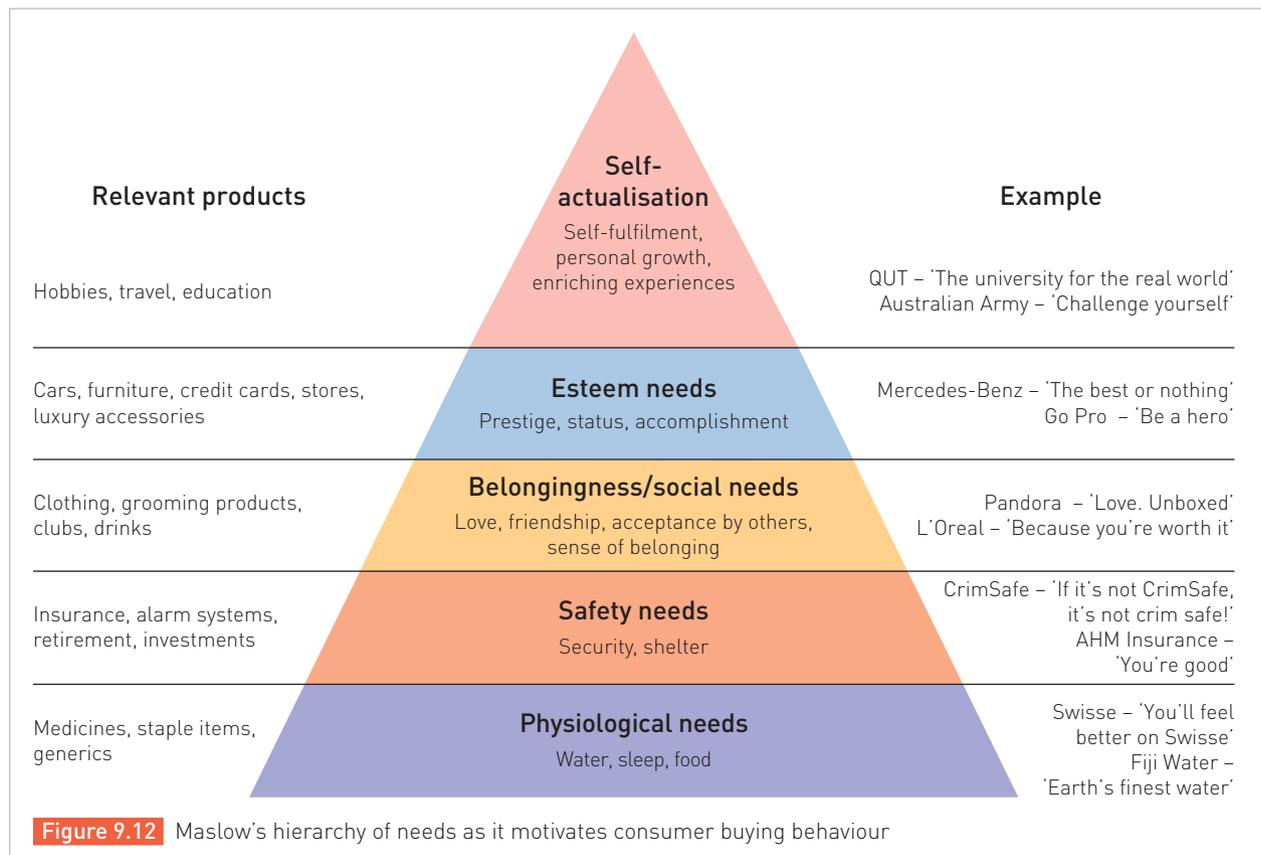
The four key factors that influence consumer buying behaviour are psychological, socio-cultural, economic and government (Figure 9.11). These are intertwined to influence consumer choice and buying behaviour.

Psychological factors

Psychological characteristics are intrinsic qualities of the consumer that affect their buying behaviour. These qualities are often used as segmentation variables and include motivation, perception, learning, attitudes, personality and self-concept.

Motivation

Motivation plays a key role in the consumer decision process, where the consumer has identified a need (or want) and is motivated to search for options to fulfil it. Motivational theorist Abraham Maslow depicted this as a hierarchy of needs to explain why people have different needs at various stages of their lives (refer to Chapter 5). This illustrates that, as consumers satisfy their lower-level needs, they are then motivated to move up the hierarchy and satisfy greater desires. Advertisers attempt to influence consumers by identifying their motives and using these perceived needs to compel consumers to buy products or services (Figure 9.12).



Perception

What one person perceives may be very different from another – and from reality. This can have a significant impact on buying behaviour. One person sees a Mercedes-Benz as a sign of achievement and perceives that esteem needs have been met, while another sees the same product as pretentious and a waste of resources. **Perception** can be described as ‘how we see the world around us’ and is the process by which an individual selects, organises and interprets information to create meaning. This is a highly individual process based on each person’s own needs, values and expectations.

Consumer perceptions are acutely important to marketing managers, as individuals base their actions on their perception, not on reality. Consumers make purchases based on selective perception, where marketing messages are consistent with their attitudes and beliefs, while ignoring those that do not resonate. The perception a customer has of a product can be influenced by the branding, pricing strategy, promotional avenues and distribution strategy employed (Figure 9.13). On what basis did the consumer perceive the Mercedes-Benz as a sign of achievement? Perhaps their perception was influenced by its higher price, luxury branding and European origin.



Figure 9.13 Woolworths is trying to change consumer perception about the aesthetics and quality of fruit and vegetables by stocking imperfect produce that it brands as The Odd Bunch.

Mark Fergus Photography/Cengage

Learning

Learning occurs when the consumer acquires information about a product and has experience with it. This learning will influence the consumer’s future buying behaviour. Advertisements and point-of-sale displays are examples of incentives to learn about a product. Free samples or taste-tests are also a good way to promote a product as the consumer can learn about the product in a direct manner, reducing the risk in the purchase.

Consumers learn from each purchase and from the experiences of others either through direct **word-of-mouth** or product reviews. If the learning is positive, this will favourably reinforce buying behaviour and build loyalty.

Attitudes

Consumer attitudes reflect beliefs and feelings towards a brand, product or business and are generally expressed as favourable or unfavourable. Such attitudes are learned because of direct experience, feedback from others and exposure to marketing. Attitudes are not directly observable, but can be inferred from people’s behaviour. Consumer attitudes towards competing brands are a key determinant in purchasing behaviour.

Perception: the process by which an individual selects, organises and interprets information into a meaningful and coherent picture of the world

Word-of-mouth: a promotional avenue where one customer tells a potential customer about a product or business experience. Information conveyed in this medium is often highly influential as it is not directly controllable by the business and is thus viewed as more reliable

Personality and self-concept

The purchasing decisions of consumers reflect their individual personality and self-concept. Personality can be defined as the inner psychological characteristics that determine how a person responds to his or her environment, and is often described using traits such as self-confidence, responsibility, sociability, dominance, curiosity and adaptability. Self-concept refers to how an individual sees himself or herself and can be a major determinant on purchasing decisions.

A challenge for marketers is to align the business brand with the personality and self-image of consumers. Buying behaviour can be heavily influenced by perceived congruence between the individual's self-image and branding. Marketers aim to appeal to a person's 'ideal self', or the concept of how we would like to be, meaning that products can be pitched as helping the consumer reach his or her ideal self.

The use of endorsement by celebrities and sportspeople highlights the desire to achieve one's notion of ideal self and optimise self-concept (Figure 9.14). The use of 'expert' and celebrity endorsements by people who resonate with the self-concept of the consumer, along with the trend of 'influencers', can be highly persuasive and can strongly influence buying behaviour. Brands can also develop personalities, with consumers more likely to purchase those brands that match their own personality.



Source: Jessica Stenson

Figure 9.14 Consumers buy products that align with their ideal self-image. Three-time Olympian and Commonwealth Games marathon gold medallist Jessica Stenson is an ambassador for Lululemon, adding personality and authenticity to the brand. Jess is pictured training in St Moritz prior to the Paris Olympics.

QUESTIONS 9.1



- 1 Select one substantial purchase you have made recently (i.e. not something from the school shop). **Explain** the factors that influenced your buying behaviour leading up to the purchase. **Describe** your level of satisfaction with the purchase.
- 2 With reference to Figure 9.12, identify at least one product example at each stage of Maslow's hierarchy of needs. **Explain** your choice and how the business aims to influence buying behaviour.
- 3 **Describe** a business situation that has attempted to engage you (or your family) in a learning experience. Give an account of the tactics employed and whether this influenced buying behaviour.
- 4 **Interpret** the relationship between Maslow's hierarchy of needs and the role of perception and self-concept in buying behaviour. Using an example, draw a conclusion about the level of influence on the target audience.

Socio-cultural factors

While psychological characteristics are identified as intrinsic qualities of the individual consumer, socio-cultural factors are exerted by other people and groups, making them external influences on consumer buying behaviour.

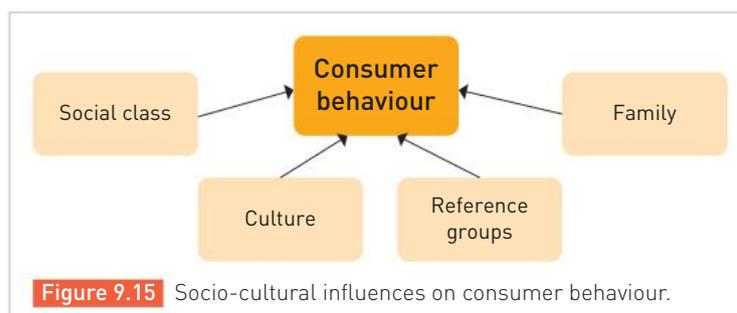


Figure 9.15 Socio-cultural influences on consumer behaviour.

Culture

Culture is the learned values, beliefs, behaviours and traditions developed through parental and environmental influences and shared by a society. Culture influences daily life, thereby what people do, wear, eat and how they live. Subcultures also prevail for groups who share a particular way of life, a way of dressing or particular interests. 21st-century subcultures include goth, cyberculture, gamer and hippies.

Australian **culture** has changed considerably over the past few decades, meaning the typical ‘Aussie’ is now difficult to describe or portray in advertising. With over 200 languages and dialects spoken in Australia, and nearly half of all Australians today having been born overseas or having at least one parent who was born overseas, the nation is very multicultural.

Social class

The concept of social class implies a hierarchy whereby individuals in the same class generally have a similar level of education, income and occupational classification. In Australia, for example, the ‘established affluent class’ is characterised as having high household incomes, large social networks, above average educational qualifications and high-prestige occupations, while the ‘established working class’ has the lowest household incomes, lower rates of social capital and low occupational prestige, including jobs involving manual labour. Perception of social class is said to influence product preferences and buying habits, with people from higher socio-economic backgrounds more inclined to buy products linked to prestige.

Reference groups

Reference or peer groups are groups some individuals identify with, meaning they assume some of their attitudes, values and beliefs. Individuals may modify their purchasing behaviour based on this reference group. For example, consumers’ use of clothing and home furnishings may be more susceptible to the influence of reference groups than their choice of grocery items. The impact of word-of-mouth can also be strong from people within ones’ reference group, meaning buying behaviour can be heavily influenced by this group.

Family

Family is a direct and continuous influence on the decision-making of consumers. For example, the brand of motor vehicle a person drives or the university they attend may reflect previous decisions made by family members. An individual’s role within the family unit also impacts on who influences decision-making, with the ‘pester power’ of children and their influence reportedly being on the rise. According to a 2016 Roy Morgan Research Young Australians Survey, the opinions of children aged 6 to 13 years, known as ‘tweens’, can influence household purchases across a range of product areas. This trend has been termed ‘kidfluence’ and refers to the power exerted by children on consumer decisions made by their parents.

Table 9.1 Purchasing decisions where children are a key influence in buying behaviours – Paramount Insights Sept 2021.

Food and groceries	93%	Family holidays	81%
Restaurants (incl quick service) that families eat at	90%	Televisions and computers	55%
Choice of gaming console	69%	New car purchase	54%

Source: Based on data in Paramount Insights (2021, 15 September). In Australia, kids are the real household decisionmakers. Paramount Insights. <https://insights.paramount.com/post/in-australia-kids-are-the-real-household-decisionmakers/#:~:text=Generally%2C%2093%25%20of%20kids%20have,who%20influence%20the%20weekly%20shop>



Weblink
Paramount



Culture: beliefs, values, attitudes and customs shared by people in a society

INQUIRY



What does the 'kidfluence' trend mean for household decision making?

Form small groups of two or three students to research the 'kidfluence' trend and the role of pester power in Australia. Complete the following steps:

- **Create** a short market research survey that you can have your parents and family friends (or teachers) complete of approximately 5–8 questions. Your aim is to determine the attitudes of parents to the marketing tactic of pester power and the influence of children on decision making. For example, you could ask them to name three recent purchases where children were the main decision-makers in the household and three brands that their children are heavily influenced by.
- Conduct your survey, aiming to have at least 10 respondents, and collate your findings visually in table and/or graph forms.
- Using your survey and other research, identify the categories where kids are influencing consumer behaviour the most and any brands that already have influence over kids. Can you **interpret** any relationships and trends relevant to the situation? Draw a conclusion about the role of pester power and the rise of 'kidfluence' as an influence on consumer buying behaviour and the challenges present for both parents and marketers.
- **Communicate** your findings as either a multi-modal or short business report.

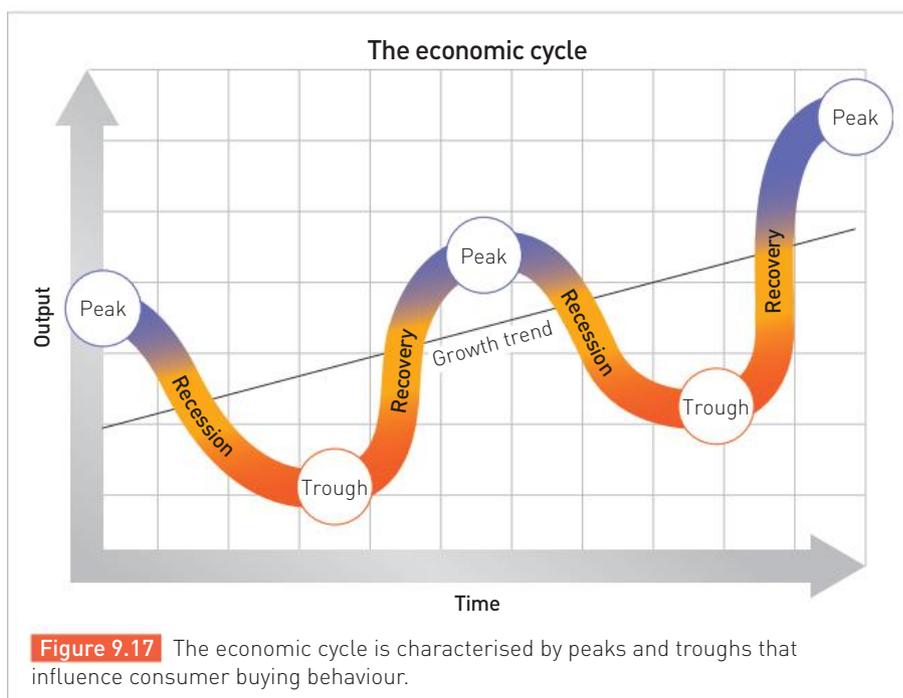


Drobot Dean/Adobe Stock

Figure 9.16 Kids aged 6–13 years have a powerful influence on a range of household purchases.

Economic factors

The economy goes through cycles, which are changing patterns of economic growth over time (Figure 9.17). The prevailing economic conditions will influence both business and consumer decision-making, with a business's marketing strategies depending on the current stage in the cycle. Businesses must understand that changes in conditions as the economy moves through periods of recession and recovery will impact on **consumer sentiment** and spending and thereby impact on business activity.



Consumer sentiment: the degree of confidence consumers feel about the overall economy and their personal financial situation. This influences the level of spending that consumers will engage in

Peaks and prosperity

Periods of economic growth and prosperity are characterised by low unemployment and rising household incomes, resulting in higher purchasing power. As incomes rise, consumer sentiment becomes optimistic and there is a tendency to spend more freely. Businesses experience a rise in output and will seek growth in sales and market share by increasing promotional initiatives, further stimulating the economy.

Recession and troughs

During a recession, unemployment rises and household incomes and purchasing power declines. This can have an adverse impact on consumer confidence, meaning consumers spend more carefully, become more price conscious and postpone spending where possible. The marketing manager is generally faced with a more cautious consumer, trying to spend less, although businesses selling money-saving products may experience increased demand during a recession. For example, do-it-yourself products and home brands may have a rise in sales. As businesses experience a decline in demand, their focus may be on maintaining market share and brand awareness.

GAINING INSIGHT 9.3



Consumer confidence has experienced little improvement, having spent a record period below the mark of 85, showing pessimists prevail

So, what is consumer confidence?

Consumer confidence is a measure of the sentiment or degree of optimism/pessimism that consumers feel regarding the state of the economy and their personal financial situation. It is used as an economic indicator to measure changes in consumer confidence and is quoted on a scale with indices over 100 indicating optimism for the future.

What does consumer confidence show us?

The metric provides insights into consumer behaviour, including likely spending patterns, and shows economic trends that can influence business decision making, especially as it relates to the retail sector. A high level of confidence usually translates to increased consumer spending, while low confidence often leads to more restrained spending and the delay of major purchases.

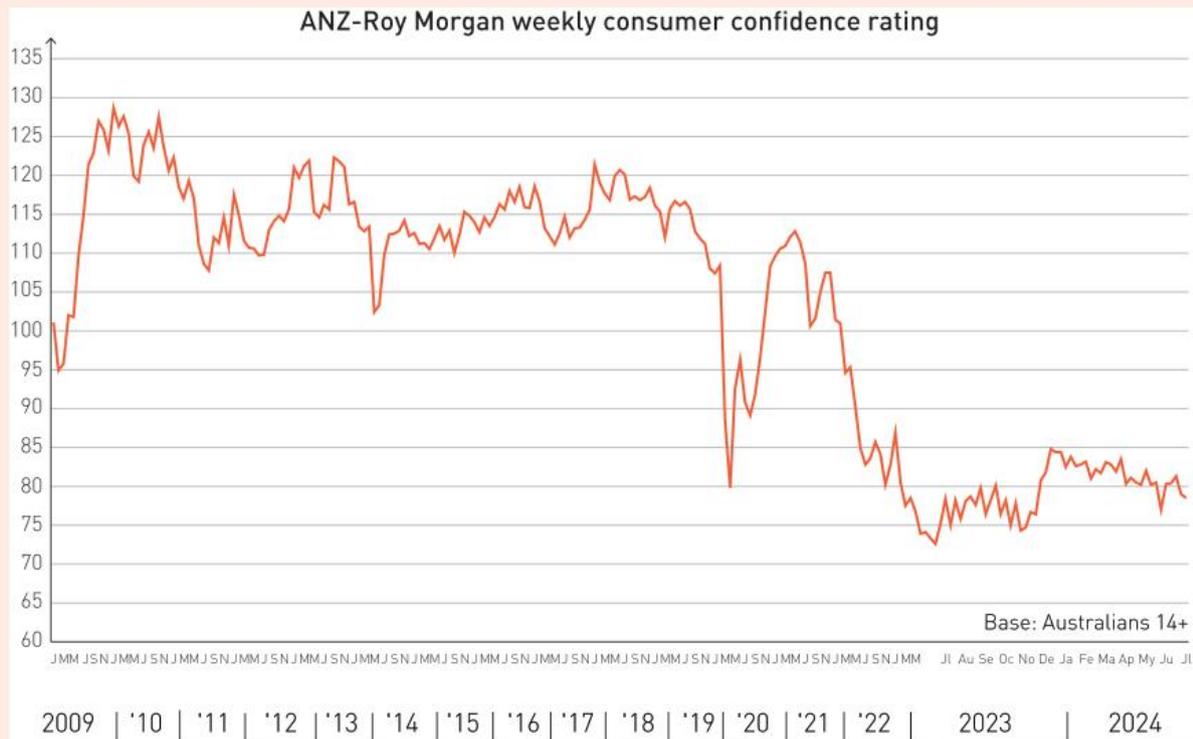


Figure 9.18 Consumer Confidence rating 2009 – 2024.

Adapted from ANZ-Roy Morgan

Where is consumer sentiment at in Australia?

As seen in Figure 9.18, consumer confidence has spent a record period of 76 consecutive weeks below 85, indicating a protracted period of pessimism. Between May and June 2024, the index rose 1.7 per cent to 83.6, but this is well below the 'neutral' level of 100, meaning that pessimists still outweigh optimists by nearly 20 points.

Can we gain insights into the future?

Decisions by the Reserve Bank of Australia (RBA) influence sentiment, with the decision by the RBA Board in August 2024 to leave rates unchanged, after the period of interest rate rises, cited as a reason for improving confidence in the future. Stage 3 tax cuts by the Federal Government that took effect on 1 July 2024 have also eased cost-of-living pressure and may support improved consumer sentiment. That said, some

consumers may choose to save rather than spend any income gains from tax cuts, given prevailing inflation pressures. Continued pessimism could see changes in consumer behaviour around spending patterns, brand choice and decisions to rent in favour of home ownership.

Questions

- 1 **Explain** 'consumer confidence' and how this impacts consumer buying behaviour.
- 2 **Explain** how the Reserve Bank of Australia's (RBA) decisions about interest rates relate to consumer confidence and buying behaviour. In your response, discuss how this relates to the economic cycle.
- 3 **Interpret** the trend evident in Figure 9.18 to draw conclusions about the implications of consumer confidence for businesses.

(Tip: draw a trend line onto the graph to highlight the trend present before you respond to the question.)

Government

Economic policies

Governments at both federal and state levels use economic policy and regulations to influence the decision-making of businesses and consumers and to manage the level of economic activity. The prevailing economic conditions will dictate policies, with fiscal and monetary policies able to expand or contract the level of economic activity. Fiscal policy involves levels of government spending and taxation taken through the federal government's budget. When the economy is experiencing a recession (Figure 9.17), the government may aim to stimulate demand and economic growth through increases in spending and/or cuts in taxation, while attempts to dampen economic activity may see cuts to government spending and/or increases in taxation.

Monetary policy is managed by the RBA, which is Australia's central bank. The RBA uses interest rates to influence the level of spending in the economy and the level of debt that households and businesses are willing to amass. Rising interest rates are intended to decrease consumer spending, while lowering interest rates is intended to stimulate business investment and consumer spending.

Regulation

Governments also influence consumer buying behaviour using regulations, such as by taxing certain products with the aim of reducing consumption and promoting social responsibility. Tobacco and alcohol products attract a tax, known as an excise tax, with the aim of changing consumer behaviour toward products with identified health risks. The tobacco industry is heavily regulated in terms of advertising, packaging and retailing, which controls the display of tobacco products. Regulation has extended to healthy eating with the introduction of front-of-pack ratings of the healthiness of food products.

Watch the 'Health Star Rating animation' on the Australian Department of Health and Aged Care channel on YouTube to learn more about this regulation.



INQUIRY

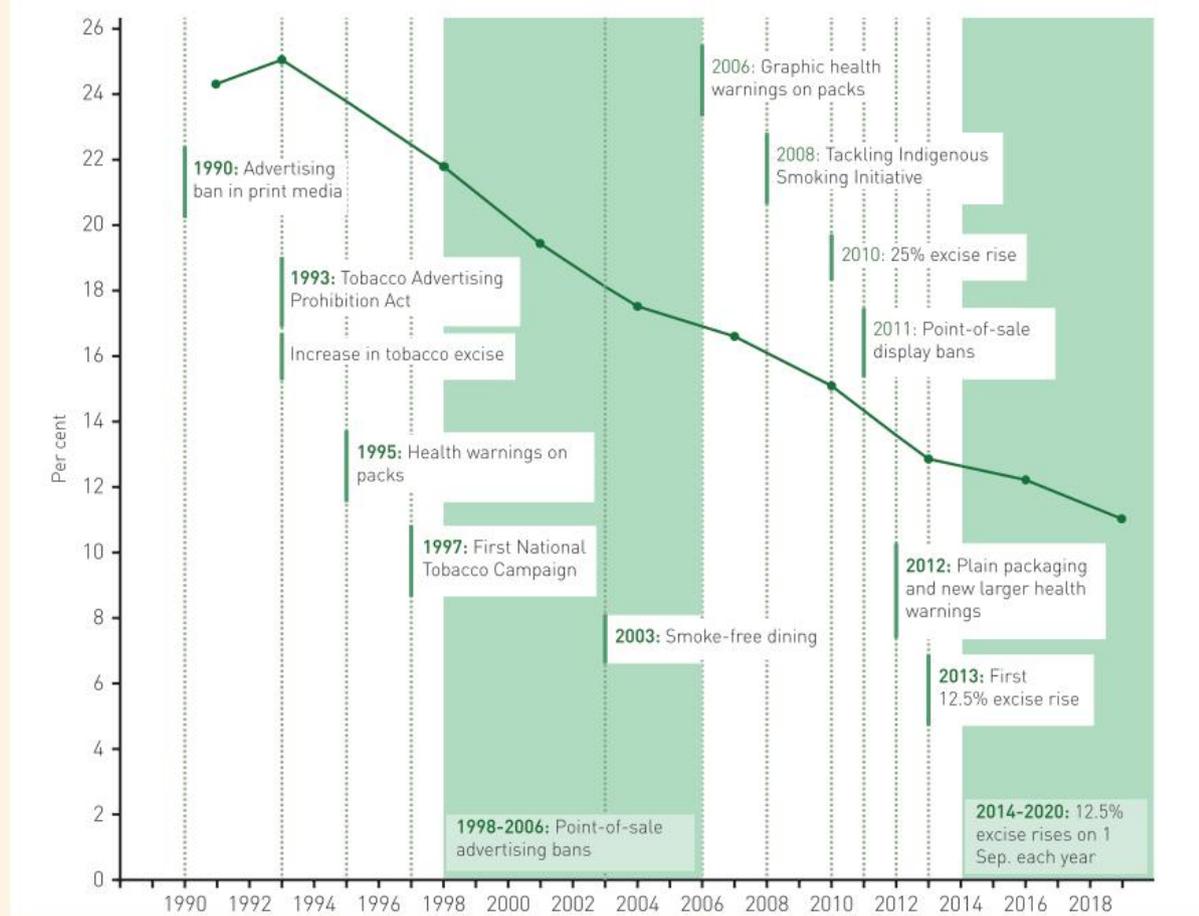


How government influences consumer buying behaviour and responds to changing socio-cultural trends – vaping/e-cigarettes

The vaping industry aims to normalise vaping and is continually evolving its marketing strategies to reach young people via social media, including TikTok and Instagram; it often appears as non-promotional content, but is usually coming from vape retailers. Much like the cigarette industry did prior to strict regulations, vaping promotions target young people, presenting vaping as sexy, funny or cool without (yet) being subject to such regulations. The Australian Government is introducing a range of changes to regulations in response to the situation.

Source 1

Figure TOBACC05: Daily smokers^{ab} aged 14 and over and key tobacco control measures in Australia, 1990 to 2019 (percent)



Australian Institute of Health and Welfare

Figure 9.19 Smoking trends in response to tobacco control measures in Australia over 30 years.

Source 2

<p>Australian teens spend an average of 14.4 hours a week online</p> <p><i>eSafety Commissioner</i></p>	<p>In Australia in 2022, more than half of TikTok's users were aged under 24</p> <p><i>Statista</i></p>	<p>70% of teens (13–17 years) use Instagram</p> <p><i>eSafety Commissioner</i></p>
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How much vaping content is on social media?

The rise of vaping 'influencers'



iStock Signature/iStock.com

18.1 billion+	16.4 million+	18K +	1.6K+
posts with the hashtag #vape on TikTok	posts tagged #VapeLife on Instagram	vaping profiles identified on Instagram	Australian vaping influencers detected on Instagram

Data from VicHealth

Figure 9.20 Vaping and social media.

Source 3

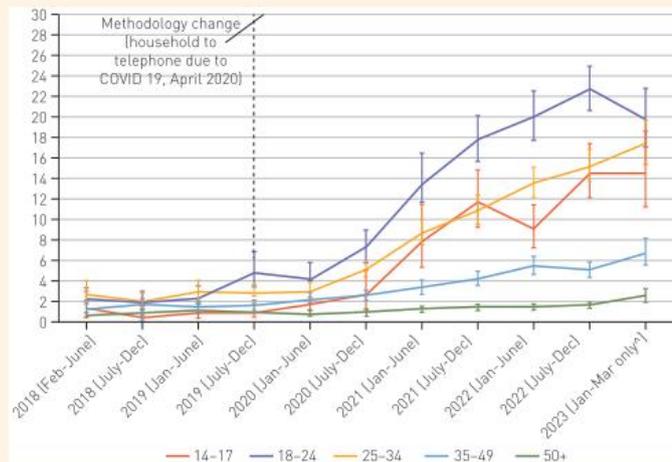
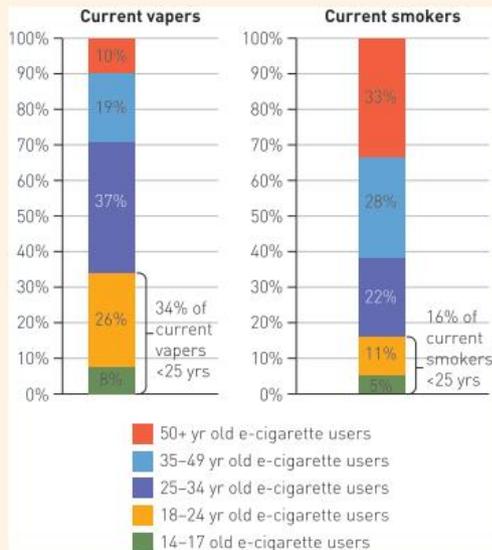


Figure 9.21 Current vapers and current smokers, by age group.



Weblink
ABC News
article

Questions

- 1 Use Source 1 to examine the relationship between government regulation on tobacco marketing and the prevalence of smoking in Australia between 1990 and 2019. Identify the range of initiatives the government used during this period and draw a conclusion about the effectiveness of such initiatives.
- 2 Use Sources 2 and 3, and some additional research, to:
 - **describe** the current business situation as it relates to vaping/e-cigarettes in Australia. Tip: include facts and characteristics in your response
 - identify and **explain** the current strategies being used by both business and government to influence consumer behaviour in relation to vaping/e-cigarettes
 - **analyse** and **interpret** the situation to make meaning on the effects of government involvement on business
 - **evaluate** the strategies used in Source 1, along with those being proposed and/or used by the current government, to reduce the uptake and use of vaping/e-cigarettes to form a judgement about the strategies, using two business criteria. Make decisions and propose recommendations to the Australian Government.

Consumer laws

When entering markets, businesses aim to create consumer awareness of their product or service and generate sales. As a business grows and produces sales and profit, the financial resources may be available for more expansive marketing plans. It is critical that businesses are aware of the legal and regulatory requirements when operating in the Australian market as these provide the framework for consumer protection and a fair competitive environment, while also ensuring ethical standards and responsible communication across all platforms.

The Australian Consumer Law

The Australian Consumer Law (ACL) commenced on 1 January 2011 as Schedule 2 of the *Competition and Consumer Act 2010 (Cth)* and applies nationally, including in all states and territories and to all businesses, regardless of size. The ACL is overseen by the Australian Competition and Consumer Commission (ACCC), which acts as the ‘consumer watchdog’, and the various state and territory consumer protection agencies, including Fair Trading Queensland.

The *Competition and Consumer Act 2010 (Cth)* replaced the *Trade Practices Act 1974 (Cth)* as the national legislation for consumer protection. It covers relationships between key stakeholders in the market, including suppliers, wholesalers, retailers and consumers. Its aim is to promote fair trading and competition, and to provide consumer protections in areas including product safety and labelling, price monitoring and unfair market practices.

See more on the Australian Consumer Law website.



Weblink
Australian
Consumer
Law

Breaching the ACL

Businesses must ensure they are up to date with Australian laws and that they apply them to all marketing strategies and processes. Failure to do so may result in a breach of the *Competition and Consumer Act 2010* (the Act) and proceedings being instigated by the ACCC. The maximum penalty that can be imposed for false or misleading and unconscionable conduct and breaches of product safety provisions is \$50 million for corporations and \$2.5 million for individuals. On top of this, the business will have legal fees associated with the case and may receive considerable media coverage, creating negative public relations. For all businesses, this is a costly experience, both financially and in terms of reputation and consumer confidence, but for one in the growth stage of the business life cycle, it might lead to failure.

For relatively minor contraventions of the Act, the ACCC may issue an infringement notice. This is designed to provide a timely and cost-effective enforcement outcome without the need to take the matter to court. The penalty will vary depending on the nature of the alleged violation, but in most cases, it is fixed at \$18 780 for a corporation (or \$187 800 for a public company) and \$3756 for an individual for each alleged contravention.

While creative and imaginative marketing initiatives are desirable in a competitive market, businesses must ensure they operate within the framework of the ACL and meet the ethical standards expected by society. The following are examples of prohibited practices under the ACL.

Misleading or deceptive conduct

In a competitive business environment, use of creative marketing strategies can provide an edge. However, the difference between being imaginative and being deceptive can be a subtle one. The ACCC will typically look to the consumer's impression of the product or service when determining whether the communication is misleading. In America, Red Bull settled a claim about false advertising for \$US13 million when a class action was brought against the company claiming that its slogan 'Red Bull gives you wings' was misleading. The slogan was meant to assert that the energy drink would increase performance and concentration, as advertised on the company's television, online and marketing campaigns, but it was argued that it was 'deceptive' and not merely **puffery** that could not be expected to be taken seriously or relied on.

In Australia, businesses must ensure all marketing communication is true, accurate and able to be substantiated, or it may be deemed false or misleading. It does not matter whether the business intends to mislead or deceive. The case against Red Bull is a timely warning about the subtle distinction between imaginative advertising, puffery and misleading conduct. Businesses must also be mindful not to create a false impression about products on packaging, as highlighted by the case against manufacturers of pain relief product Voltaren, marketing both Voltaren Osteo Gel and Voltaren Emulgel pain relief products even though both had the same active ingredients noting that the onus is on the business to ensure that consumers are not accidentally misled.

GAINING INSIGHT 9.4



Voltaren

In May 2020, The Federal Court has ordered that the makers of pain relief product Voltaren Osteo Gel pay \$4.5 million in penalties for breaches of the Australian Consumer Law.

'Novartis and GSK's claims, which made Osteo Gel seem more effective than Emulgel, were unacceptable. Novartis and GSK's claims were particularly concerning because they set

recommended retail prices for Osteo Gel above that of Emulgel, by up to 16%, and consumers were potentially misled into paying more for an identical product believing it was more effective,' ACCC Commissioner Sarah Court said.

Source: Australian Competition and Consumer Commission (2020, 28 May). GSK and Novartis to pay \$4.5 million in penalties over Voltaren Osteo Gel claims. <https://www.accc.gov.au/media-release/gsk-and-novartis-to-pay-45-million-in-penalties-over-voltaren-osteo-gel-claims>



Figure 9.22 Both Osteo Gel and Emulgel products contained the same active ingredient, yet were marketed for different ailments and at different price points.

Puffery: wildly exaggerated or vague claims about a product or service that no reasonable person could possibly treat seriously. For example, a cafe claiming they have the 'best coffee on earth'. These types of statements are not considered misleading

GAINING INSIGHT 9.5



MOO Premium Foods gives undertaking after ACCC investigates 'ocean plastic' claims

The ACCC has accepted a court-enforceable undertaking from yoghurt manufacturer MOO Premium Foods Pty Ltd (MOO) following an investigation into MOO's '100% ocean plastic' representations on its yoghurt packaging, website, and social media pages.

Between at least November 2021 and the date of the undertaking, MOO claimed that its yoghurt tubs were made from '100% ocean plastic', which the ACCC was concerned gave the impression they were made from plastic waste collected directly from the ocean, when this was not the case.

While MOO included disclaimers on the top and back of the packaging, the ACCC considered they were insufficient to overcome the headline representation of '100% ocean plastic'.

MOO has admitted in the undertaking it has given the ACCC that the '100% ocean plastic' representations likely contravened the Australian Consumer Law, which prohibits false or misleading representations.

"Our investigation revealed that the plastic resin used in the manufacture of MOO's yoghurt packaging was collected from coastal areas in Malaysia, and not directly from the ocean," ACCC Commissioner Liza Carver said.

"Making false statements about a product's environmental or sustainability qualities can mislead consumers, as well as putting the businesses making genuine claims at a competitive disadvantage."

"It is important that environmental and sustainability claims by businesses are correct as they are a key influence on consumer choices and what people spend their money on," Ms Carver said.

MOO co-operated with the ACCC's investigation to promptly resolve the matter and has undertaken to remove the 'ocean plastic' representations from its yoghurt packaging, social media platforms, and website. MOO has also committed to publishing corrective notices on its website and social media platforms.

In the court-enforceable undertaking provided to the ACCC, MOO has committed to conducting internal audits of the 'ocean bound plastic' resin used in their packaging, as well as implementing an Australian Consumer Law compliance program.

As part of its 2023-24 compliance and enforcement priorities, the ACCC is prioritising consumer, product safety, fair trading and competition concerns in relation to environmental and sustainability claims.

On 14 July 2023, the ACCC released its draft guidance to improve the integrity of environmental claims made by businesses.

"Businesses must ensure any environmental claims made are accurate and truthful, and this includes taking reasonable steps to verify supporting information provided to businesses by suppliers," Ms Carver said.

"This enforcement outcome against MOO is a reminder of the importance for businesses to regularly review any environmental or sustainability claims about their products to ensure they are correct and up to date."

Enerva, K. (2023, 28 November). Moo Premium Foods caught lying over ocean plastic packaging claims. Inside FMCG. <https://insidefmcg.com.au/2023/11/28/moo-premium-foods-caught-lying-over-ocean-plastic-packaging-claims>



Sally Adams

Figure 9.23 Claims of using '100% ocean plastic' on packaging are an example of greenwashing.

Questions

- 1 **Describe** the business situation related to greenwashing and how it is used to influence consumer buying behaviour.
- 2 **Evaluate** the conduct of a company, such as Moo Premium Foods, that engages in greenwashing to make a decision about the merits of the strategy and propose recommendations. (Tip: remember to use business criteria when evaluating.)
- 3 Visit the ACCC website to research another recent case where a business engaged in misleading and deceptive conduct. **Interpret** whether the actions of the business were intentionally misleading and the likely influence on key stakeholders.

Advertising is a powerful promotional avenue that can influence consumer buying behaviour and provide a competitive edge. The *Competition and Consumer Act 2010* details a range of areas that will be deemed misleading and deceptive, as outlined in Table 9.2.

Table 9.2 Examples of false and misleading statement provisions under the *Competition and Consumer Act*.

Example	Explanation
Fine print and qualifications	Businesses cannot rely on disclaimers or small print to excuse a message that is misleading. The 'dominant message' is key to whether a statement is misleading. For example, in 2011 TPG offered 'Unlimited ADSL2+ for \$29.95 per month'. This was only available where consumers bundled the broadband service with a TPG home phone service for a total of \$59.95 per month.
Country of origin	Accuracy in labelling is important, especially for certain food products. Country of origin claims may be made in writing or implied by images such as maps and flags. 'Made in Australia' and 'Product of Australia' have different meanings.
Bait advertising	Promotes a product at 'special' sale prices, when the business has very limited quantities available or no products at all. If using this tactic, a business must be upfront about the fact that the sale item is in short supply and state the very limited quantities.
Premium (or credence) claims	May suggest a product is safer ('non-toxic'), offers a moral/social benefit ('free range eggs') or a nutritional benefit ('fat free'). Includes assertions about 'green' or environmental products, for example 'environmentally safe' or '100% recycled'.
Special offers and 'free'	Consumers generally associate 'free' with an item being absolutely free. Use of 'buy one, get one free' or 'receive an extra 10% free' strategies suggest a saving to the consumer that must be achievable. Special offers that are continuously available may also mislead consumers.

Source: Adapted from 'False or misleading statements', ACCC, www.accc.gov.au © Commonwealth of Australia. CC BY 3.0 Australia licence.

INQUIRY



Country of origin food labelling



All images: Sally Adams

Figure 9.24 Country of origin food labelling reveals to interested consumers the significant differences in the origin of ingredients for products manufactured in Australia. An example is tomato sauce brands showing the percentage of Australian ingredients: Woolworths brand 'at least 17%', MasterFoods 'average 35%', Rosella '98%...with Australian tomatoes', Mon Ozesauce 'at least 99%'.

A Country of Origin Food Labelling Information Standard 2016 (Standard) commenced on 1 July 2016 under the ACL and was phased in over two years. Any labels applied to food products after 30 June 2018 must comply with these country of origin labelling requirements. Businesses must label food and beverage products sold in Australia in accordance with the Australian Government's country of origin food labelling legislation.

Research the changes to labelling laws to determine why they were introduced and draw a conclusion about the likely impact on key stakeholders.

Consumer guarantees

In competitive industries, some businesses aim to enter markets and grow market share by offering enhanced service and extended warranties. In 2014, car manufacturer Kia introduced its 7-7-7 program of a seven-year warranty, seven years of roadside assist and capped-price servicing. Such extended warranties aim to provide a point of difference from the competition. While such initiatives are a strong selling point, these warranties are voluntary and represent a contract between the manufacturer, the retailer and the consumer. As they are contractual, warranties are for a set period of time and are often conditional on the consumer obeying the specific conditions of the contract. A warranty does not change the business's responsibilities under the ACL.

Under the ACL, consumer guarantees automatically apply, regardless of any voluntary or extended warranty given by a seller or manufacturer of goods and services, or if such a warranty has expired. It is an automatic guarantee that products and services will meet reasonable consumer expectations, and this may continue to apply after the time period for the warranty has expired.

A key consideration is that products must be of acceptable quality, meaning they are safe, lasting, with no faults, look acceptable and do all the things someone would reasonably expect. Acceptable quality takes into account what would normally be expected for the type of product and the purchase price – for example, a cheap television would not be expected to last as long as the more expensive market leader.

It is unlawful to make false or misleading representations about the existence, exclusion or effect of any condition, warranty, guarantee right or remedy, including **consumer guarantees**.



Figure 9.25 Warranties, such as Kia's seven-year warranty, are different from consumer guarantees.

Helen Sessions/Alamy Stock Photo

GAINING INSIGHT 9.6



Fitbit – second action against Fitbit for informing customers that refunds for faulty product were limited to 45 days, contravening the Australian Consumer Law



Questions

Visit the ACCC website to complete the following activities.

- 1 **Describe** the legislative factors breached by Fitbit, as depicted on the ACCC website. Draw a conclusion about the impact of such a breach on Fitbit and its advertising strategy.
- 2 The ACCC website clearly says that retailers must provide a refund, replacement or repair for faulty goods. Research the application of such a guarantee and how it applies to businesses and to consumers.



Figure 9.26 Fitbit alleged to be misleading consumers about their consumer guarantee rights for a second time.

Consumer guarantees: a set of rules regarding goods and services purchased by consumers under the ACL that automatically apply, regardless of any voluntary or extended warranty given by a seller or manufacturer of goods and services, or if such a warranty has expired

Advertising standards and ethical considerations

The ACL sets the minimum standards that a business must legally comply with when developing marketing strategies. What constitutes socially acceptable advertising and ethical standards is not clearly defined, and evolves as society changes. To guide business conduct, set ethical standards and aid responsible communication, the advertising industry is self-led by the Australian Association of National Advertisers (AANA), with Ad Standards and the Advertising Standards Board.

In 1997 the AANA launched a self-regulatory system for advertising and marketing communications with the publishing of a Code of Ethics. The Code has been amended to reflect the rapid changes in technology that present opportunities and challenges for the advertising and media industry. The Code aims to ensure all advertising and marketing communications are ‘legal, decent, honest and truthful and that they have been prepared with a sense of obligation to the consumer and society and a sense of fairness and responsibility to competitors’ (AANA Code of Ethics 2018).

Members of the community can make complaints about advertising or marketing to Ad Standards. If a complaint is successful, the advertiser will be requested to remove or amend the offending advertisement in a timely manner. Self-regulation aims to balance the creative freedom of advertisers with community standards and expectations. The Advertising Standards Board is responsible for determining consumer complaints based on prevailing community values and compliance with the codes of ethics.

Coveting controversy: An ethical approach?

Any marketing campaign is designed to generate consumer awareness, attract interest and generate desire. Given the often substantial budgets allocated to advertising, business is looking for a return in the form of sales and profit. For a business seeking to grow its market share, any media attention could be ‘good’ attention. As a result, some organisations have become habitual coveters of controversy, as seen in the results of Ad Standard’s list of the most complained-about advertisements.

Between 2016 and 2022, a series of Ultra Tune Australia advertisements featuring two less-than-mechanically-inclined women were among the most complained about in the nation. However, only one in the series of advertisements was found to have breached Ad Standard’s Code of Conduct, and Ultra Tune discontinued that version. Complaints were based on discrimination, exploitation and degrading imagery. Follow the weblink to see an image of the offending advertisement.

Consumers can lodge complaints with Ad Standards, whose mandate is to consider and assess them based on the Codes of Ethics. They reach a decision by way of a majority. It has been suggested by consumer organisations that the current system of self-regulation is ineffective in upholding ethical standards and meeting community expectations. According to the Ad Standards Blog, released 14 December 2022, of the most complained-about ads, only one complaint, was upheld. Opponents of self-regulation argue that advertising standards should be regulated by the government to ensure advertising reflects the ethical and social standards of the community.

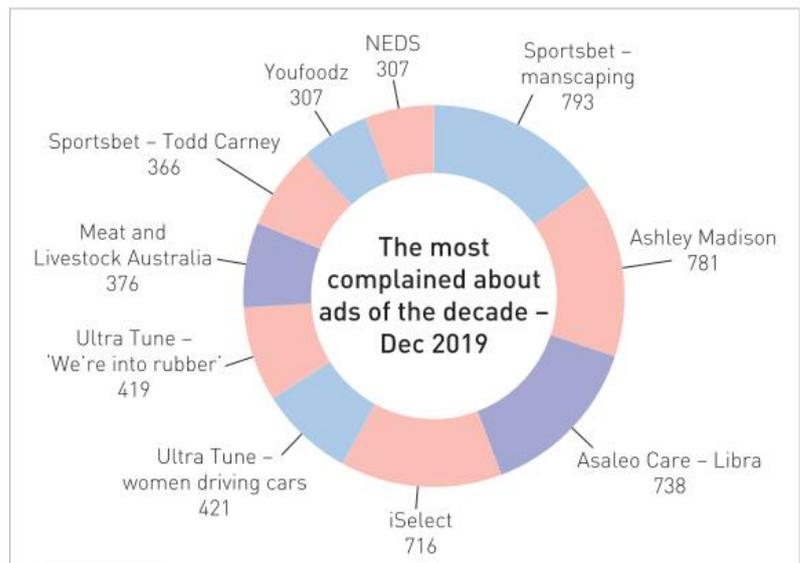


Figure 9.27 The most complained about ads of the decade 2010–2019, noting both Sportsbet and Ultra Tune had two advertisements in the top 10. Of these, only the Sportsbet ‘manscaping’ advertisement complaint was upheld.

Ad Standards

INQUIRY



Ad Standards: necessary regulator or toothless tiger?

You are to create a two-minute presentation arguing either for or against the continuation of self-regulation by Ad Standards.

Tip: when developing an argument, you should research both sides of the topic and then form an opinion. Use persuasive techniques to advocate your finding.

Steps

- 1 Visit the Ad Standards website to select and **analyse** data and information relevant to trends in advertising standards and consumer complaints.
- 2 **Interpret** the information to identify relationships and trends to draw a conclusion about the role of regulation in meeting stakeholder expectations.
- 3 **Evaluate** the role of Ad Standards using the criteria of stakeholder satisfaction.
- 4 **Create** your presentation and be prepared to present your argument to the class.



Knowing the market

Once a business has survived the establishment stage, located suitable suppliers and attracted core customers, it enters the exciting and often fast-moving growth stage of the business life cycle. As sales revenue and profit are growing, there should be surplus funds for a wider range of marketing activities, which will increase customer awareness and sales. The objectives of a business in the growth stage will focus on increasing brand awareness and sales, gaining **market share**, generating brand loyalty and profit. To achieve these objectives, the business must know the market it is operating in, what its **unique selling proposition (USP)** is and the **target market**.

During establishment, not all businesses will operate with a marketing plan, however, as the business grows, it is important to have a strategy in place and to understand the business situation. Without careful analysis and planning, a business may grow too quickly and risk losing control or may miss opportunities and fail to thrive. A **situation analysis** involves market research and the use of a SWOT analysis to know the business and its competitive environment.

SWOT analysis

As seen in Chapter 3, a SWOT analysis identifies the internal strengths and weaknesses of a business, and scans the opportunities and threats present in the external environment. By completing an environmental scan, a business can look for opportunities to exploit and threats to monitor or avoid as it grows.

Key learnings

You will learn about the market through examining:

- market research methods
- marketing objectives in the growth phase of the business life cycle
- segmentation and target marketing.

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

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

Target market: a group of actual and potential customers whose needs and wants a business wishes to satisfy

Situation analysis: an investigation of the factors internal and external to a business that influence planning and strategy

GAINING INSIGHT 9.7



SWOT analysis of IMPI Sportswear

Using the case study business IMPI Sportswear at the start of this chapter, complete a SWOT analysis at this point in business growth that would be used to inform future marketing strategies.

As this is an analytical tool, ensure you include both data and information to closely examine the parts and their relationships in detail. It is critical that you look for connections between the parts of the SWOT – this helps you to identify trends and relationships.

A SWOT analysis template is available for you to download on Nelson MindTap.

Question

- 1 **Create** a detailed paragraph that **analyses** and **interprets** the business situation, using both data and information. Include connections present and how these relate to the likely success of IMPI Sportswear as the business moves through the



Sally Adams/Impi Sportswear

Figure 9.28 IMPI's strong understanding of its target market is a key strength for the business.

growth stage of the business life cycle.
Note: do not just restate the items listed in the table.



Template
SWOT
analysis

Market research

When starting out, a business may have a broad idea of its target market and competitive situation, but this is insufficient to compete and grow in a competitive market. The business could be missing out on opportunities or facing challenges without knowing it. A review of influences on consumer buying behaviour, and knowing what motivates potential customers to make purchase decisions, will help capitalise on opportunities and convert prospective customers into sales.

The role of **market research** is to gather as much data and relevant information as possible about aspects of the market to inform decision-making. Before commencing the research process, a business should have a clear understanding of the purpose of the research and the type of information it is looking for. This will help determine the appropriate data collection method(s) to use and refine the research process. Market research may be used to answer simple questions and to provide feedback for marketing strategies – for example:

- Who is the target market?
- What features/benefits are customers looking for?
- What is the maximum price customers are willing to spend?
- Who are the key competitors in the market?
- What consumer attitude to new products is being developed?
- Would customers prefer to purchase the product instore or online?
- What is the customers' preferred mode of promotional communication?

Data collection methods can be classified into two main types – primary and secondary data. Which method is most suitable will depend on the objectives of the research and the budget available.

Primary data

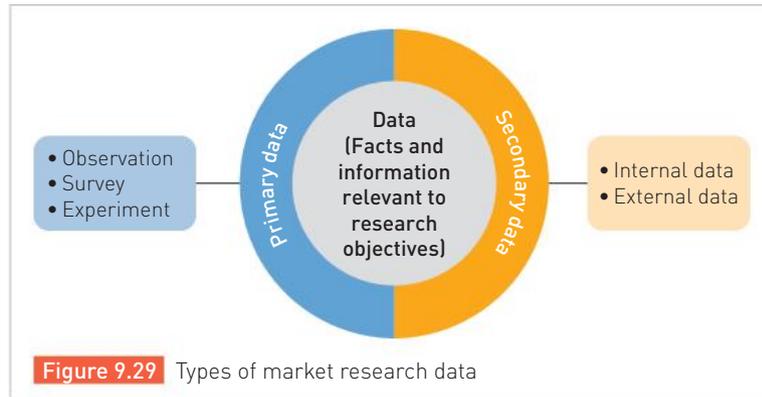
Primary data is new data collected from original sources. It is usually sought for a specific purpose and tailored to the objectives of the research process. This research is often undertaken by the business itself. The process can be time-consuming and expensive, meaning sufficient budget must be available and the data should not be readily accessible through secondary sources.

Market research: the collection, recording, organising, analysis and reporting of data to aid marketing decision-making



Observation

Observation involves collecting data by observing people’s actions in specific situations. For example, management of a shopping centre may observe the types of customers visiting the centre at different times of the day or week, along with stores they enter and purchasing patterns.



Surveys

Surveys are an interactive technique that involves asking questions to gather data about consumer attitudes, preferences and buying behaviour or current product satisfaction. A survey may be conducted face-to-face as an interview, or via electronic methods including telephone, email and internet.

While a survey gathers relevant information for the research process, it can be difficult to achieve a high response rate. To overcome this, some businesses use competitions or incentives to elicit a response (Figure 9.30).

Some companies specialise in market research fieldwork and consumers may be paid to participate in the research process (Figure 9.31).

Figure 9.30 Many businesses entice customers to complete primary research surveys through inducements such as the offer of a discount on their next purchase.

researchconnections

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Research Connections Pty. Ltd.

Figure 9.31 Some companies specialise in market research fieldwork, and consumers can be paid to participate in the research process.

Experiment

Market research experimentation is looking to determine cause and effect or using research to test how people react. For example, a food manufacturer may use an experiment to determine the appropriate level of seasoning or a specific flavour combination for a new range of potato chips. A chosen sample of people may be presented with a number of options to taste and rate in order of preference.

Secondary data and information

Secondary data already exists as it has been collected by other people or organisations. With the rise in database marketing, most businesses have access to an abundance of secondary data. Using secondary data can be more timely and less expensive than primary data, which may assist businesses in the growth stage of the life cycle. A challenge is that some data will already be out of date and may not apply directly to the research objectives or context.

Internal data

Internal data is sourced from within the business itself. It can include customer feedback, existing data from the internal customer database, previous sales data, past research reports and financial statements.

External data

External data comes from sources outside the business, including agencies such as industry bodies, government agencies, libraries and local councils. This information has been collected by other organisations and will sometimes need to be paid for. However, many forms of external data are freely available, such as data from the Australian Bureau of Statistics (ABS).



Analysing and interpreting data to draw conclusions

Regardless of source, raw data must be analysed and interpreted based on the established research objectives. Practical and visually effective ways of processing data include using tables to list or group information, and creating spreadsheets of data that can be graphed. Creation of statistics can also enhance the understanding and application of data. Interpretation of the information will require the business to recognise relationships and trends and to draw conclusions based on the business situation.

QUESTIONS 9.2



- 1 Form small groups to **create** a market research survey for a new product to be available at your school tuckshop. The survey should consider the types of products that students desire and how much they would be willing to pay.
- 2 Once you have conducted the survey, collate the information into a table or spreadsheet and organise the findings in a visually effective way (e.g. graphs).
- 3 **Create** a paragraph that **interprets** your findings and draws a conclusion from the research process.
- 4 Present your research findings to the class.

Marketing objectives in the growth stage

The mission and goals of a business provide the context for developing objectives as these objectives must align with the overall direction and values espoused.

The stage in the business life cycle will also influence objectives as businesses move from the establishment stage, where the primary objective may be to inform consumers about the business and its products, to the growth stage, where a key objective may be to persuade or convert consumers across from other businesses.

Marketing objectives in the growth stage include sales, market share and brand awareness. Some of these may be SMART objectives (see Chapter 3), while others may be more general.

Sales

During the growth stage, a key focus must be increasing sales to maintain momentum and grow the business. This happens as more customers become aware of the business and its product(s) and are willing to try them. Sales objectives are linked to a sales forecast and can be expressed based on time, for example weekly or monthly, and by salesperson. Actual sales can be tracked using a sales report to determine sales revenue for a period of time and for each product. These reports provide financial information to management, linking the marketing and finance functions of a business, as increasing sales will increase sales revenue.

Examples of sales objectives include:

- attracting new customers to increase sales
- expanding sales to existing customers
- increasing unit sales by 10 per cent for the coming period
- achieving sales revenue growth of 8 per cent for the coming period.

Sales forecasting

A sales forecast is an essential tool for managing a business of any size and is critically important during growth to ensure the business has adequate inventory to meet projected demand and to ensure the market potential for a product. It is a month-by-month forecast of the level of sales expected, and most businesses will draw up a sales forecast once a year. The purpose of sales forecasting is to devise information that can be used to plan for growth and make smart business decisions.

For a business in the growth stage of the business life cycle, data comes from internal sales history and market research, while new businesses at start-up make assumptions based on market research and sound judgement. The number of units expected to be sold and the dollar value of sales (sales revenue) can both be forecast. This helps a business set realistic objectives and develop marketing strategies for achieving the targets. Accurate sales forecasting is also a control tool as it allows a business to judge whether targets are being met so that planning and decision-making can be adjusted.

A realistic sales forecast will analyse the market in which the business is competing and prevailing external environmental influences, including economic and socio-cultural influences on buying behaviour. A sales forecast will consider:

- how many new customers are gained each year
- how many customers are lost each year
- what is the average level of sales made to each customer
- are there particular months in which more customers are gained or lost than usual, or is the product or business idea seasonal in nature.

Sales forecasting for an existing business typically involves the following steps:

- 1 Analyse internal sales data based on the number of units that were sold for the previous period, usually the past year.
- 2 Research factors, both internal and external, that will affect future sales.
- 3 Judge the effect of these factors and the market potential for the coming period to estimate the number of sales of a product.

QUESTIONS 9.3



Use the sales forecast, which includes budgeted and actual sales results, to answer the questions that follow.

Sales forecast and report for SunGlassez Pty Ltd

	January		February		March		April	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Sales by Amy								
Ray-Ban	200	240	180	200	160	170		
Oakley	220	240	200	200	180	180		
Persol	150	130	110	100	70	60		
Sales by Sally								
Ray-Ban	200	200	180	160	160	150		
Oakley	220	230	200	170	180	140		
Persol	150	120	110	100	70	40		

- 1 Which salesperson, Amy or Sally, is meeting their sales targets?
- 2 Would you recommend keeping all stocked brands or revising the product range?
- 3 Which brand would you recommend allocating more retail space and advertising budget to? Justify your decision.
- 4 Complete the sales forecast for April and **explain** your projections.
- 5 **Create** SMART objectives for sales in the coming three months for both employees.

Market share

Market share is the proportion of a market that a business retains relative to that of its competitors, often expressed as a percentage. During the growth phase, as sales increase, a business will aim to increase market share to increase overall profitability. Large businesses, in markets where there are few competitors, often enjoy a high market share, while small businesses in a competitive market may have limited market share.

Market share can be calculated using a formula:

$$\text{Market share percentage} = (\text{business's sales} / \text{total sales in the market}) \times 100$$

An increase in market share could be the result of improved sales and brand awareness as a business moves through its life cycle; it can also reflect effective use of marketing strategies so that a business achieves higher sales relative to its competitors. Increasing market share is a key business objective as small increases can translate into substantial profits.

GAINING INSIGHT 9.8



Bakers Delight remains competitive, despite the fresh bread market becoming dominated by supermarkets

Bakers Delight was established in 1980 and with 650 bakeries across Australia, the United States and Canada, is Australia's largest independent specialist baker. Of these bakeries, about 10 per cent are company owned, with the remainder operating under a franchising model. As shown in Figure 9.32, Bakers Delight has a lower customer penetration of fresh bread buyers than the major supermarkets but enjoys a considerably better dollar spend than closest rival Aldi at 9.3 per cent compared to 6.8 per cent. This indicates that the average spend at Bakers Delight on fresh bread is markedly higher than its rivals.

The operating environment in the fresh bread market has become increasingly competitive in recent years, with Coles and Woolworths operating bakeries in many of their stores. The supermarkets have a competitive advantage due to economies of scale and market power. Bakers Delight has attempted to compare the supermarket products to its own with a 'Keep it real' campaign to highlight the 'pre-frozen reheated supermarket loaf' relative to Bakers Delight's product range, positioning the business as high-quality, handcrafted by expert bakers in store each day (Figure 9.33).

In addition to the major supermarkets, bakeries such as Bakers Delight and Brumby's Bakeries compete with factory-based bread producers such as George Weston Foods (Tip Top) and Goodman Fielder (Helgas and Buttercup). The industry also has a large number of small businesses.



Figure 9.33 Bakers Delight bread is baked fresh every day.



Figure 9.32 Australian fresh bread market share (\$) vs. customer penetration

Source: Roy Morgan Single Source Australia, January – December 2022, n=37,288.

Go to the Roy Morgan website and read the press release titled 'Supermarkets dominate the fresh bread market but Bakers Delight captures an out-sized share of the dollars spent' (May 16, 2023). Using the information in this Gaining insight and the weblink data and information, answer the following questions.



Weblinks
Keep it real
campaign

Roy Morgan
press release

Questions

- 1 Research the current situation for the Australian fresh bread market to **describe** the competitive landscape.
- 2 Using Bakers Delight as a case study, identify the marketing objectives of the business and **explain** how it is trying to influence consumer buying behaviour.
- 3 Complete a simple SWOT analysis (i.e. two points per quadrant) to **analyse** Bakers Delight's current situation related to the marketing function. **Interpret** relationships and trends evident in the analysis to draw conclusions about implications for Bakers Delight and its growth prospects in the market.
- 4 **Create** a business report (extract) to **communicate** your findings. (Tip: remember to use headings to organise ideas logically.)

Extension: design and conduct a short primary research survey on consumer buying habits related to fresh bread. For example, where they typically purchase fresh bread from, how much they typically spend per shop and what factors influence buying behaviour. Use the data in your SWOT analysis.

Brand awareness

One of the main ways a business identifies its products is through branding, and a strong **brand** is more than just a name. Branding is a combination of the name, logo, customer service, uniforms, marketing materials and advertising that distinguish a business from its competition. For consumers, branding is a source of information that tells them what to expect in a product. For business it can be a source of competitive advantage, meaning that businesses register their brand name for their exclusive use. Some brand names have become synonymous with the products they represent – for example, a child will ask for a Band-Aid when they really want a sticking plaster (Figure 9.34).

To achieve growth objectives around sales and market share, customers need to be aware of a business, meaning brand awareness is critical to achievement of these objectives. Brand awareness is the degree to which customers associate a brand with a specific product, service or business idea, including its features, price and places to purchase. For a business in the growth stage of the life cycle, developing brand awareness is important for encouraging repeat business and customer loyalty.



Figure 9.34 Band-Aid brand launched in 1920 selling strictly bandages, and has grown to offer a wide variety of products that meet the dynamic needs of today's active families around the globe.

QUESTIONS 9.4



Using the Band-Aid example as a starting point, complete the following.

- 1 Brainstorm a list of other products where the brand name and product are synonymous.
- 2 Select one of these products and research the marketing tactics used by the business to reinforce the brand strength.
- 3 Identify a least one competitor to your selected product and examine tactics employed by this business to try to attract customers away from the entrenched brand.
- 4 **Create** a visual presentation of your findings.

Brand: the name, term, symbol, design or a combination of these that uniquely identifies a product and distinguishes it from the competition

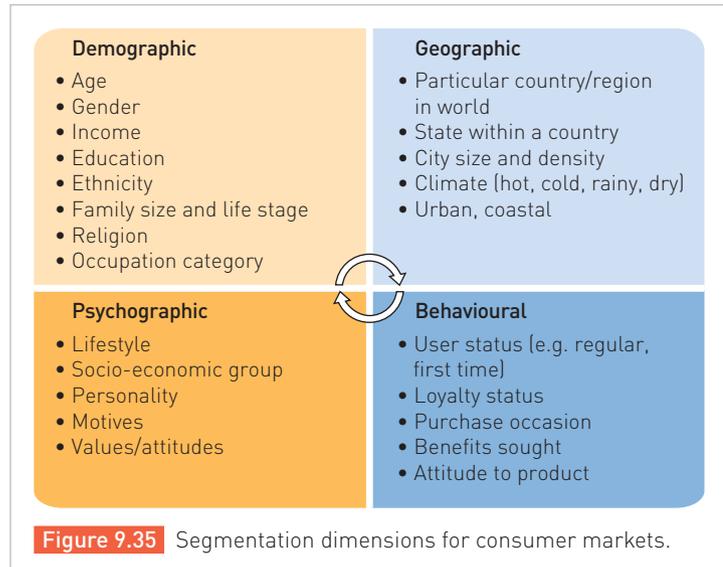
Target marketing and differentiation

Target marketing

‘Everyone’ is not a target market, and a vague idea of who a business is targeting is not sufficient to build a brand and achieve growth. As previously discussed (see page 319 for mass markets – under ‘Types of markets’), undifferentiated marketing or appealing to the mass market is rare when trying to reach today’s more diverse consumer market. It is important to research who the target market is so that marketing strategies can be developed that appeal to a specific audience.

A target market is a group of actual and potential customers whose needs and wants a business wishes to satisfy.

Customers within this group will share similar characteristics such as age, income, lifestyle and location that enable a business to focus its promotional strategies. When segmenting consumer markets, four main dimensions are employed; these are demographic, geographic, psychographic and behavioural (Figure 9.35).



Demographic segmentation

Demographic segmentation uses major population traits to divide the market, with common traits including gender and age. For example, Network Ten television has traditionally targeted a younger demographic than its commercial rivals, focusing on people 18–35 years old, while the Nine Network targets people aged 25–54 and grocery buyers with children. Such targeting allows the networks to tailor their programming to the target audience and appeal to a specific group of advertisers. There are marketing acronyms for different demographic groups, for example:

- DINK(Y) – double income, no kids (yet)
- NILK – no income, lots of kids
- KIPPERS – kids in parents’ pockets eroding retirement savings
- NEET – not in employment, education or training
- GLAM – greying, leisured, affluent, married.

Geographic segmentation

Geographic variables include the areas where potential customers reside (Figure 9.36). Depending on the size of the business, these may be divided by locality within a city (e.g. a suburb of Brisbane), by state (e.g. Queensland), by country (e.g. Australia) or international region (e.g. Asia), and can also feature the density or size of the city. Climate is also a consideration, as for many industries – for example the textiles, clothing and footwear industry – what consumers in a cold climate like Canberra look for is different to those in a hot climate like Cairns.



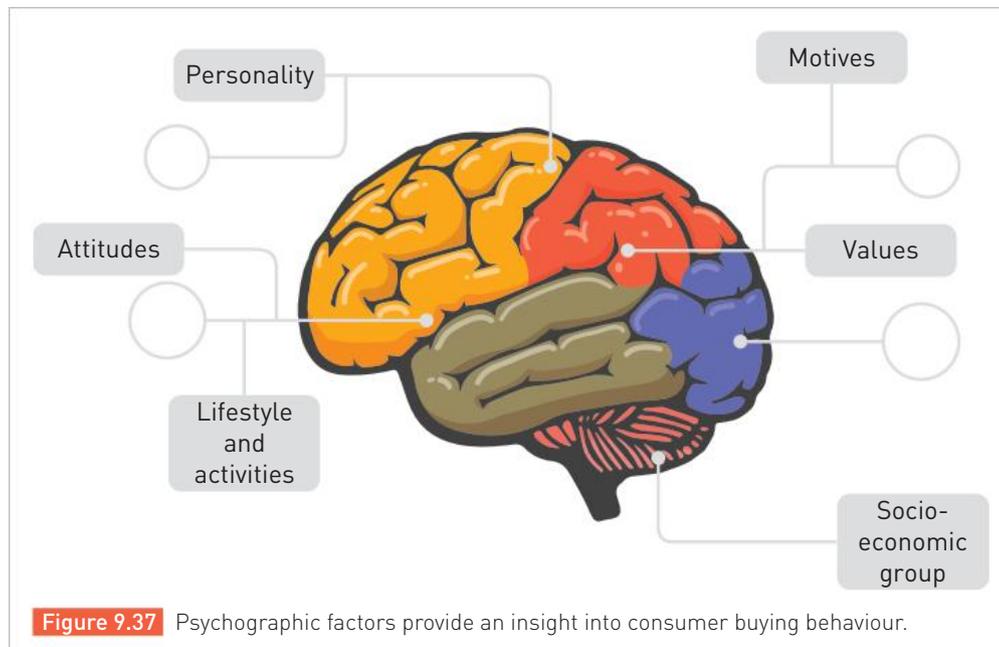
Figure 9.36 Toyota Australia executive director of sales and marketing, Tony Cramb, said the development of the new HiLux variant demonstrates the importance of the Australian market to the Japanese car-maker. ‘This new 4 × 4 HiLux package has been uniquely developed to meet the demands of workers in the harsh and remote conditions experienced in Australia’s mining and exploration industries,’ he said.

Toyota Motor Corporation

For the Australian market, car manufacturers segment primarily based on where customers reside, grouping urban, suburban and rural markets. Research indicates that rural markets prefer larger four-wheel drives, suburban consumers seek SUVs and urban consumers living in high-density areas prefer compact vehicles.

Psychographic segmentation

Psychographic segmentation refers to a consumer's lifestyle and activities, personality, values, hobbies, degree of risk aversion, motives and opinions (Figure 9.37). Demographics explain the 'who' about a potential customer, while psychographics inform us as to 'why' the customer purchases. Consumer behaviour is a strong focus when basing a target market around psychographic factors. While these variables are harder to measure than demographics (research can reveal the number of females aged 18–35 years, for example), they can provide marketers with great insight into preferences in terms of the way consumers think and act. This assists with overall marketing strategy and targeting of promotional avenues.



Behavioural segmentation

People seek varying benefits from products and will use them in different ways. Identifying what customers want from the product, or the benefits they seek, is a key aspect of this dimension.

Benefits may include quality, status, savings or convenience. For customers who travel frequently, membership of the Qantas Club may offer benefits they seek such as faster check-in, extra baggage allowance, accrual of frequent flyer points and use of the Qantas Club lounge for refreshments, business facilities and meeting spaces, along with shower facilities. Qantas also uses customer loyalty tools such as its Frequent Flyer program and Qantas Club to achieve loyalty status as, the more you fly with Qantas, the greater the rewards you accrue (Figure 9.38).



Figure 9.38 The Qantas Club offers benefits to members such as faster check-in, business facilities and use of the Qantas Club lounge.

GAINING INSIGHT 9.9



Southern Cross Austereo: two stations and two target markets

Southern Cross Austereo has two major FM radio stations in Brisbane. Each has a unique profile which outlines the audience delivery and environment. Advertisers of either or both stations aim to target a certain market and deliver their message in an environment and tone which suits their brand, at a time when their target market is most receptive to their message.

Hit105

Hit105 targets under 40s and strongly delivers a female audience 18–39 years. We describe our fans and listeners in two distinct segments; Young and Free and Style Seekers.

- **Young and free:** It's all about feeling great and being up for anything at any time. They seek out fun and are always on which directly fuels their social currency. They are 16–24-year-old females who are tech savvy and feel that films, music and clothing contribute to their personal definition.
- **Style seekers:** The independence that comes with being slightly older means individual well-being is

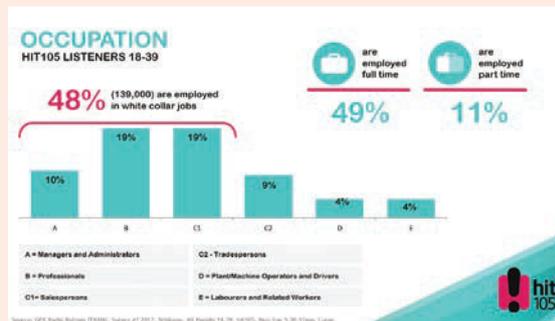
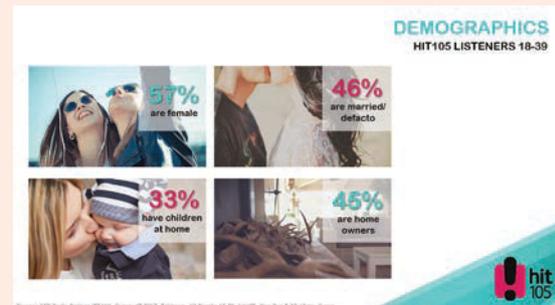
more important than what others think of them. They are 25–34-year-old females who are more certain of themselves. Experiences are the number one thing that defines them along with relationships, family and friends.

- **Total listeners:** 481000 people tune into hit105 across Brisbane each week.

Triple M

The Triple M brand is made up of three main components that drive what is heard on air.

- **Rock:** Triple M is bold, daring and edgy with music that rocks and programming that gets people talking.
- **Sport:** Triple M loves sport. It is proudly Aussie and always ready to go into bat. Coverage of sports is one of Triple M's priorities.
- **Comedy:** Passionate about living life it to the fullest, taking it seriously but having fun along the way.
- **Total listeners:** 378 000 people tune into Triple M across Brisbane each week.



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PERSONALITY

HIT105 LISTENERS 18-39

SUCCESS 71% Success is important to me

QUALITY 83% Quality is more important than price

STYLE 70% Try to look stylish

HEALTH 78% I would like to lose weight

SOCIAL LIFE 35% Like to have a full social life

FITNESS 25% Do as many sports as possible

Source: Roy Morgan Group Survey, June 2014 (Panel 17, Sydney), Brisbane, Adelaide, Perth, Melbourne and Christchurch, Zealand.

TECHNOLOGY HABITS

HIT105 LISTENERS 18-39

29% OF HIT105 LISTENERS 18-39 ARE TECHNOLOGY EARLY ADOPTERS

Technology Early Adopters are the first individuals to purchase and use a new technology. They will go out of their way to keep up to date with innovations and new technology and also spread the knowledge via word of mouth. They are often seen at science fairs and seminars in the technology field. They are avid social media users and tend to engage in a full range of internet activities by mobile phones.

89% Have used social media in the past week

62% Have purchased something online in the past month

43% Have researched a product or service to buy in the past month

Source: Roy Morgan Group Survey, June 2014 (Panel 17, Sydney), Brisbane, Adelaide, Perth, Melbourne and Christchurch, Zealand.

WHEN ARE THEY LISTENING?

HIT105 LISTENERS 18-39

Breakfast peak-listening 86%

Drive peak-listening 24%

Weekend 21%

Source: Roy Morgan Group Survey, June 2014 (Panel 17, Sydney), Brisbane, Adelaide, Perth, Melbourne and Christchurch, Zealand.

THE HIT105 SHOWS

HIT105 LISTENERS 18-39

STAY, ABBY! MART	Monday - Friday 5-6pm	168,000
LOVE, DEBBIE	Monday - Friday 6-7pm	111,000
hannah & andy	Monday - Friday 6-7pm	154,000
andrew & andy	Monday - Friday 6-7pm	48,000

Source: Roy Morgan Group Survey, June 2014 (Panel 17, Sydney), Brisbane, Adelaide, Perth, Melbourne and Christchurch, Zealand.

OUR AUDIENCE

Here's how we define them:

ALIVE AND KICKING
These guys are not dead yet! They are getting a little older but they still have a good life. They are active, and always will be. They are always on the move and they are always on the move!

ON THE PULS
These listeners are progressive and from industry areas. They want to know what's next. They are the ones that make the world go round. They are always on the move and they are always on the move!

THE AUDIENCE AGE ON THE MOVE IS LISTENING
40

64% (241,000) of Triple M listeners are aged 25-54

13% People 18-24
9% People 25-34
64% People 35-44
32% People 45-54
13% People 55+

Source: Roy Morgan Group Survey, June 2014 (Panel 17, Sydney), Brisbane, Adelaide, Perth, Melbourne and Christchurch, Zealand.

DEMOGRAPHICS

OF OUR 25-54 AUDIENCE

56% are male

66% are married or living with a partner

39% have children at home

56% are home owners

57% are on the main job

Source: Roy Morgan Group Survey, June 2014 (Panel 17, Sydney), Brisbane, Adelaide, Perth, Melbourne and Christchurch, Zealand.

HOUSEHOLD INCOME

OF OUR 25-54 AUDIENCE

8% Earn less than \$10,000
2% Earn \$10,000-\$19,999
2% Earn \$20,000-\$29,999
2% Earn \$30,000-\$39,999
13% Earn \$40,000-\$49,999
10% Earn \$50,000-\$59,999
12% Earn \$60,000-\$69,999
12% Earn \$70,000-\$79,999
20% Earn \$80,000+

72% Earn more than \$55,000 pa

59% Earn more than \$75,000 pa

44% Earn more than \$100,000 pa

Source: Roy Morgan Group Survey, June 2014 (Panel 17, Sydney), Brisbane, Adelaide, Perth, Melbourne and Christchurch, Zealand.

OCCUPATION STATUS

OF OUR 25-54 AUDIENCE

68% (165,000) of Triple M listeners are employed full time

68% (165,000) of the Triple M audience are employed in **white** collar jobs

20% (48,000) of the Triple M audience are employed in **blue** collar jobs

47% Managers and Administrators
30% Professionals
12% Technicians and Trades
10% Sales and Services
3% Unemployed
2% Retired
2% Homebased Owners and Drivers
2% Laborers and Related Professions

Source: Roy Morgan Group Survey, June 2014 (Panel 17, Sydney), Brisbane, Adelaide, Perth, Melbourne and Christchurch, Zealand.

THEIR PERSONALITY

OF OUR 25-54 AUDIENCE

94% Are proud of their family

81% Believe quality is more important than price

67% Would like to lose weight

75% Are always on the move

73% See success is important to them

47% Are the 'M' type of car

Source: Roy Morgan Group Survey, June 2014 (Panel 17, Sydney), Brisbane, Adelaide, Perth, Melbourne and Christchurch, Zealand.

SPORTS THEY'RE INTO

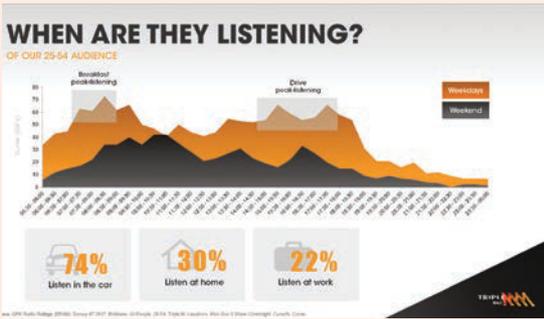
OF OUR 25-54 AUDIENCE

61% Watch NRL
38% Watch AFL
47% Watch cricket
24% Watch Rugby League
46% Watch soccer
14% Watch Basketball

Source: Roy Morgan Group Survey, June 2014 (Panel 17, Sydney), Brisbane, Adelaide, Perth, Melbourne and Christchurch, Zealand.

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Questions

- 1 **Describe** the business environment that Southern Cross Austereo operates in.
- 2 **Explain** the role of market research for a business like Southern Cross Austereo and the ways in which such research may be used.
- 3 Examine the target markets for hit105 and Triple M. Use a T-chart tool to contrast the target audience for each station.

Hit105	Triple M
e.g. 60% are female	e.g. 65% are male

- 4 **Interpret** the data and information for both stations to draw conclusions about the types of businesses, and products or services, that will advertise on each station. Use specific examples to support your findings.

Differentiation

Successful new products are the ones that can differentiate from competitors and verify a USP – a key factor that differentiates one product from another. The distinguishing attributes designed into the product concept aim to influence the purchasing decisions of a target market and differentiate the offering from competitors. Differentiation helps to make the business less sensitive to price competition: if two products are identical in the mind of the consumer, they are likely to choose the cheaper option; if there are distinguishable features, then the consumer may choose on attributes beyond price. Attributes should be meaningful to the customer and, for a product, typically include features, quality and appearance (including packaging and branding). Service differentiation may include free and fast delivery, installation, customer training, and maintenance and repair. The differentiation strategy should reflect the expectations of the target market and support the USP.

Product positioning

Product positioning involves establishing, in the mind of consumers, an identifiable image or identity, including attributes, of a product (or service) in relation to competitor products. It is how consumers perceive a product, and some brand names immediately conjure an image of the product – for example, the Toyota Prado is seen as the king of large off-road wagons or ‘proper’ four-wheel drives, while Kmart has an image of low prices. Positioning is closely related to differentiation strategy, and both are used to create a positioning map.

For a business trying to establish itself or grow in a competitive market, management must clearly determine the desired positioning so that all marketing strategies can be used to build and reinforce the image. This helps achieve the objective of brand awareness, which should lead to sales and market share.

Segmentation, targeting and positioning (STP)

Segmenting, targeting and positioning (STP) is a strategic approach to marketing that helps a business to prioritise communications and deliver relevant messages to consumers. Using an STP map helps a business focus on the audience, rather than on the product or service. As STP maps are based on perceptions from

Product positioning: establishing, in the mind of consumers, the identifiable image and attributes of a product (or service) in relation to competing products

the consumer, they are also called perceptual maps. The STP map shows how consumers perceive competing products in the market, based on key attributes. When viewing an STP map, a business can either position its product to fill an identifiable gap in the market or elect to compete against other businesses with awareness of their relative positioning. Formulating a unique product position helps to protect a product or brand from competitive forces (see page 358 for USP analysis).

GAINING INSIGHT 9.10



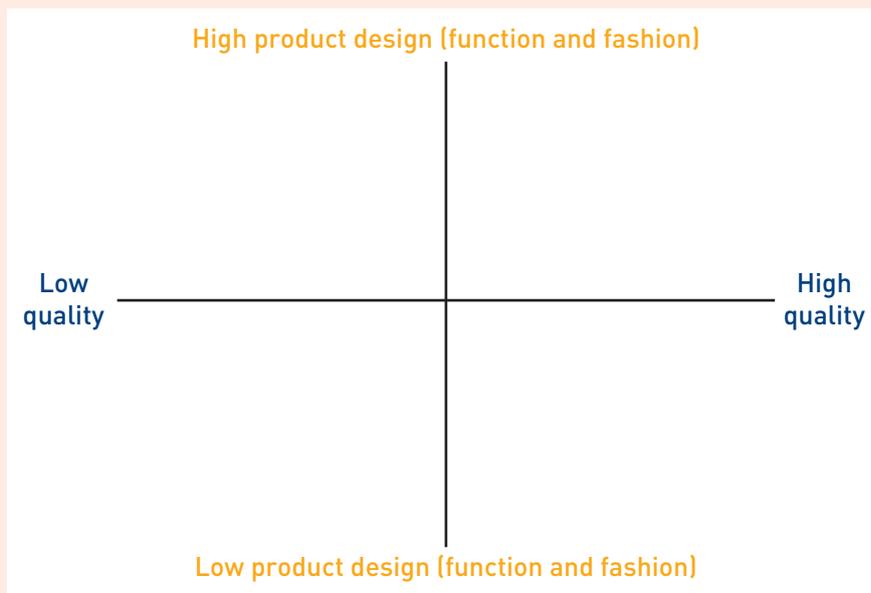
Positioning maps – a visual representation of points of difference

A positioning map is completed after the business has conducted research to segment the market and defined its target market using the segmentation dimensions. While a positioning map may have any number of lines, to keep things clear and simple to interpret, they usually

have an x- and a y-axis only. Any criteria can be used to map perceptions, for example price (affordable versus very expensive), quality, status, reliability, safety, mass versus exclusive market and personalised versus non-personalised service. Steps are as shown in Figure 9.39.



Figure 9.39 Steps in creating a positioning map.



GAINING INSIGHT 9.11



Archies thongs – so comfy you’ll never take them off!

Wearing thongs in summer is a way of life in Australia, yet the ‘typical’ thong brands are flat bedded with loose straps, which cause the toes to claw downwards in an attempt to keep thongs on the feet. Recognising that normal thongs offer no support and seeing a gap in the market for supportive but stylish thongs, Australian physiotherapist Daniel Jones launched Archies Footwear in 2015.

Archies thongs are designed with a tighter strap that allows you to walk naturally, says Jones, and mould to the shape of your feet to increase support and prevent the knees from tilting inwards.

Having started out by selling thongs at markets along the east coast of Australia, today Archies thongs are claimed to be the ‘most sought-after orthotic thong in Australia’ and are stocked in over 3000 retail locations. Archies thongs have also become the choice of summer footwear for many of Australia’s elite athletes, having partnered with some of Australia’s biggest sporting stars including Dustin Martin, with more on the way! Archies are the thongs of choice for many AFL, AFLW, NRL and other pro sporting teams.



Sally Adams

Figure 9.40 Archies thongs have effectively positioned themselves in the market.



Sally Adams

Figure 9.41 Archies thongs mould to your feet and have real arch support.



Weblink
Archies
Footwear

Questions

- 1 Identify the target market for Archies, using the segmentation dimensions.
- 2 **Create** a positioning map for Archies thongs. Remember to select suitable competing businesses (e.g. Havaianas, OOFOS thongs, Roxy, Billabong) and position them on the map based on customer perceptions.
- 3 **Explain** the differentiation strategy being used by Archies and **interpret**, from the positioning map, whether the business has a competitive advantage.

The 4Ps of marketing

An effective marketing strategy combines the four Ps (4Ps) of the marketing mix (Figure 9.42). It is designed to generate sales and achieve the marketing objectives by providing customers with value. The 4Ps of the marketing mix are controllable factors marketers use to establish the product's positioning within its target market(s). To be effective, the 4Ps must operate in harmony. The categories of the 4Ps are:

- *product (or service) offering* – what the business is selling to satisfy customer needs and wants
- *price* – how much the offering will sell for
- *promotion* – how best to communicate with potential and actual customers
- *place* – where, or through what mode, the business is selling.

Key learnings

You will learn the following about product marketing through examining:

- the total product concept
- product portfolios and growth
- branding and the use of trade marks
- packaging.

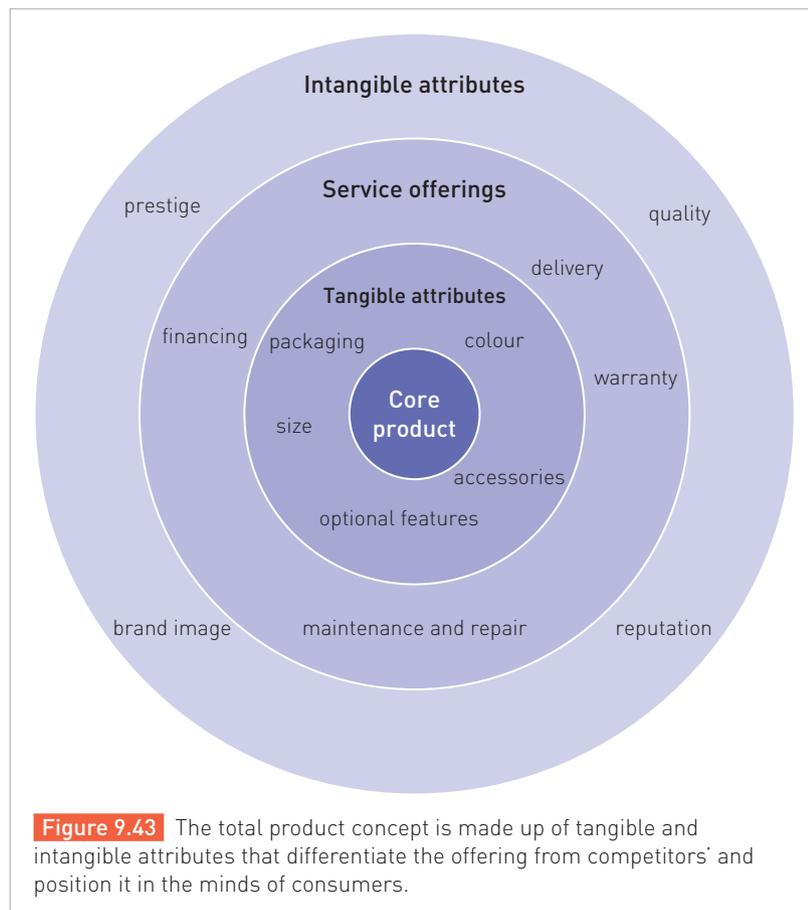
Product: Goods and/or services

A product is a good, service or idea whose combined attributes, both tangible and intangible, satisfy consumer needs or wants. Businesses should adopt a consumer perspective when marketing their products as customers do not buy features, they seek benefits. For example, when someone decides to purchase a motor vehicle and reviews features such as number of airbags and ABS brakes, they are looking to acquire benefits of safety and peace of mind.

A product will have a core function or key benefit that it provides to the consumer to satisfy their unmet need or want, along with other tangible or physical offerings such as packaging, colour and size options, accessories and optional features. It can also consist of service offerings including financing, delivery, maintenance and repair, and warranty. Intangible, but equally important, aspects that impact product positioning include brand image, quality, prestige and reputation. Combined, these elements reflect the **total product concept** (Figure 9.43). The service-based and intangible attributes that come with the physical product can be used to differentiate a business or product from the competition and provide a USP.



Total product concept: when customers purchase products, they are buying both the tangible attributes and intangible benefits that make up the total product. This could include the packaging, branding, warranty and after-sales service.



QUESTIONS 9.5



- 1 Complete the total product concept for the following organisations or products.
 - a Your school
 - b Apple iPhone
 - c Nintendo Switch
 - d Sea World
 - e Beach Club (or another accommodation option) on Hamilton Island
- 2 Refer to the Chapter review case and **explain** the total product concept for Origin Tea.

Product portfolios and growth

A business at the start-up stage of the life cycle will typically have only one or a small number of products. These products are usually in the same **product line**, meaning a group of closely related products, because they are meant for the same end use (for example, cereal products) or are positioned toward the same target market (for example, organic baby food).

As a business evolves into the growth phase, reliance on a single product is unlikely to be sustainable and the business will seek to grow its product line, usually within a common theme (for example, market a range of breakfast cereals). During growth, depth to the product line may increase as different variants of the product are added – for example, new varieties of cereal or packaging sizes.

Product line: a group of products that are closely related because they are intended for the same end use or same target market

Many businesses aim to have a range of complimentary products available to create a product mix, or assortment of product lines. For example, a cereal business may create a new product line of yoghurts or muesli bars. These add together to create the **product portfolio** of a business. The benefit of introducing additional products to an existing product line or creating a new product line entirely is that a business can have products spread across the product life cycle (which operates in much the same way as the business life cycle). A new product introduced into the mix may attract new customers and generate sales growth.

GAINING INSIGHT 9.12



Venroy – from fashion to fragrance

Venroy was founded at Bondi Beach in 2010 by Sean Venturi. The initial product was a European-length swim short, and the company has since evolved into a complete lifestyle offering for men and women. Linen is Venroy's core fabric, while also using organic cotton, silk, terry towelling and Tencel. Venroy's core concept is one of coastal escapism and the new product launch – a fragrance called Paradiso – reflects this concept. Paradiso is described as encapsulating the scent of summer and embodying Venturi's two favourite places, Bondi and Capri.

Venroy is not launching into the 'beauty' industry with its fragrance; rather Venturi asserts that he is launching into 'holiday wellness' with the potential for other products to follow.

Venroy Paradiso, 50ml, available from November 2023 for \$220.

Questions

- 1 **Explain** the total product concept for Venroy, including how it positions itself in the market.
- 2 Using segmentation dimensions, **describe** the target market for Venroy and **explain** how this aligns with the total product concept.
- 3 Using two business criteria, **evaluate** the decision to launch a fragrance into the product portfolio, to make a decision about its suitability. Propose recommendations for the future growth of the business.



Source: Venroy



Figure 9.44 Left: Venroy's new fragrance, Paradiso. Right: Boutique at the base of The Calile Hotel on James Street, Fortitude Valley, Brisbane.

Product portfolio: the total combination of products that a business sells



Branding

Products must be easily identifiable by consumers, which is why branding is an integral part of marketing decision-making – it is one of the major ways that a business will identify its product or service. Defining the brand and how it will be positioned are key considerations before the business grows too much so that a consistent message is presented. A brand is a name, term, symbol, design or a combination of these that uniquely identifies a product (or group of products such as the Coca-Cola range) and distinguishes it from the competition. Branding consists of:

- a *brand name* – that part of a brand that can be voiced (e.g. Nike)
- a *brand mark* – that part of a brand that can be seen but not voiced. It is usually a symbol or design (e.g. the Nike ‘swoosh’; Figure 9.45)
- a *trade mark* – the brand name and/or brand mark that the business has the exclusive legal right to use.

A strong brand is a major asset to a business as it gains repeat sales and builds brand loyalty. This can help a business seeking to grow by introducing new products into its portfolio as the consumer is already familiar with the business and its products. This familiarity removes the risk to the consumer of trying a new product and encourages a change in buying behaviour. There can also be a psychological reward for the consumer from purchasing a brand that symbolises status and prestige (refer to Maslow’s hierarchy of needs in Chapter 5).



360th/Alamy Stock Photo

Figure 9.45 The Nike swoosh was created in 1971 by design student Carolyn Davidson. Nike founder Phil Knight is reported to have said, ‘I don’t love it but maybe it will grow on me’, and paid her \$35 for her time. Davidson was later given Nike shares now worth well over half a million dollars.

GAINING INSIGHT 9.13



The most valuable brands in Australia



Weblink
Brand
Finance

Questions

Visit the Brand Finance website to research the most valuable brands in Australia (Figure 9.46) and complete the following.

- 1 Identify the most valuable brand in Australia for the current year and the previous year. **Explain** why you think this/these brand(s) are the most powerful in the Australian market.
- 2 Review the list for Australia’s 10 most valuable brands to identify any trends between periods.
- 3 Compare at least two major brands in the same market (e.g. banking or supermarkets). Which one enjoys greater brand recognition? Can you **explain** why this is the case?

2024	2023	Logo	Name	Country	2024	2023	2024	2023
1 =	1		Woolworths		\$9,820M	\$10,887M	AAA	AAA
2 =	2		Telstra		\$8,328M	\$8,891M	AAA-	AAA
3 =	3		Commonwealth Bank		\$6,759M	\$7,673M	AA+	AAA
4 =	4		Coles		\$6,289M	\$7,327M	AAA-	AAA
5 ^	6		BHP		\$6,098M	\$5,208M	AAA	AA

Brand Finance

Figure 9.46 Woolworths took top spot in the most valuable brands of 2024, with the brand valued at AU\$9.82 billion. This equates to branding strength and the value of trade marks.

The use of trade marks

By the commencement of the growth stage in the life cycle, it is critical that a business establish strong intellectual property (IP) protection. Businesses are at risk of having marketing strategies copied by competitors if adequate protection is not taken. If a business is trying to grow and has not applied for a trade mark, it is exposing itself to legal and financial risk. Risks include being forced to rebrand the business, the risk of being sued by a competing business for infringing its IP and the risk of ‘copycats’ starting up without the legal avenues to stop them.

In the past, an SME operating in one state could potentially co-exist with a similar-sounding business in another state. However, increasing travel and the power of the internet mean the potential for trade mark conflict is great and risks could present much sooner in the business life cycle. While trade marking is an expense at a time when budgets are tight, protection will help a business preserve its brand and maintain its **market presence**. Trade marks are granted to the first party that applies, so it is prudent to be proactive in protecting a business’s name (see Chapter 6 for more on trade marks).

Packaging

From a marketing viewpoint, the packaging a product is encased in can be almost as important as the product itself. Packaging goes beyond protecting the product to convey an image and reinforce the positioning and branding strategy. Packaging can be used when segmenting the market by offering the same product in different sizes or forms to enhance usage. For example, Chobani yoghurt is packaged in a variety of ways to appeal to different target markets (Figure 9.47).

Appropriately designed packaging should reinforce the positioning strategy adopted by the business and aid differentiation from competitors. As will be seen in Case Study 4 (Chapter 10), Who Gives a Crap individually wraps its products in recyclable paper with vibrant patterns as part of its strategy to ‘stand out amidst the big cheeses’ (Who Gives A Crap blog post (2022, January). Why are our rolls individually wrapped? <https://blog.whogivesacrap.org/home/goodcrafts/why-individually-wrapped>). Packaging also fulfils other roles, including:

- attracting customer attention
- preserving the produce to ensure quality
- containment and protection of contents
- division of the product into smaller units (e.g. multi-packs)
- enabling transportation and storage
- communication of product benefits at the point-of-sale or while displayed instore.

Legal and ethical considerations of packaging

Legal and ethical considerations mean that packaging and labelling should be truthful and meet relevant standards.

As the consumer watchdog, the ACCC investigates claims made on packaging, such as ‘free range’ and ‘organic’, and the use of imagery that suggests environmental credentials, for example ‘dolphin-friendly’ tuna. Consumers are often willing to pay a premium price for such product attributes or choose a product over that of competitors, while not all claims are credible.

According to ShopEthical, Australians consume over 3.4 million tonnes of packaging every year, or about 165 kilograms per person, only 48 per cent of which is recycled. Consumer awareness about the issue of packaging and environmental sustainability has increased and seen a change in consumer buying behaviour.

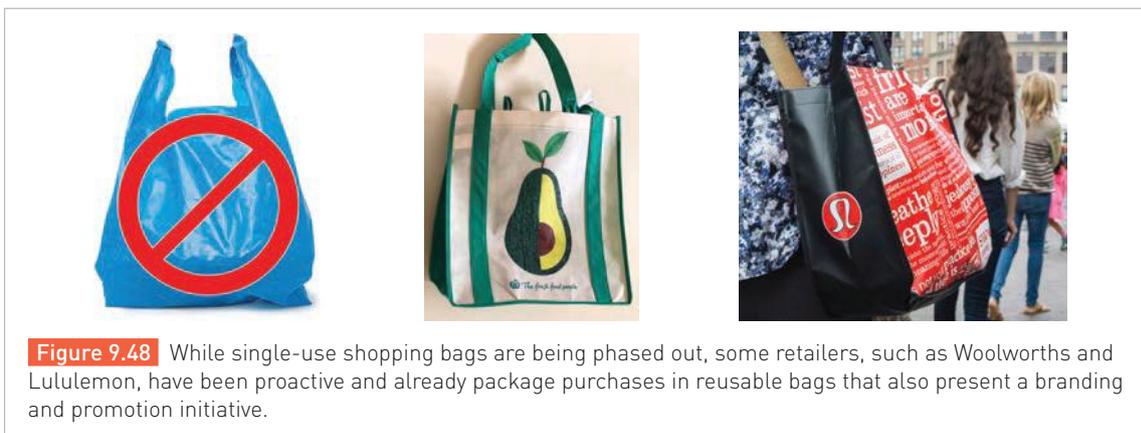


Figure 9.47 Chobani packages yoghurt in a variety of sizes and forms to appeal to different target markets.

Market presence: the message a business communicates to prospective and actual customers. This message should be clear and reflect the key attributes from the total product concept and branding.

This presents both opportunities and threats for business. Some businesses have been established on the basis of this issue – for example, Who Gives a Crap (see Case Study 4, Chapter 10) – while others, notably the supermarkets, continue to grapple with the issue of packaging and shopping bags from an ethical and environmental viewpoint.

Single-use plastic shopping bags have been banned by the Queensland Government as of July 2018, with the aim of reducing landfill and mitigating the threat to land and marine environments. This applies to lightweight bags only and presents a branding opportunity for businesses that use heavier plastic bags or paper/cardboard. Some retailers have already capitalised on this concern and use shopping bags as a form of branding and a promotional opportunity (Figure 9.48).



ANALYTICAL TOOL 9.2



Unique selling proposition

A USP is the reason that one product or service is better than that of the competition – it is the competitive edge. In a world of homogenous competitors, a business must be able to identify what makes it unique and communicate this to consumers. The USP is then used as a foundation for creating marketing strategies.

Conducting a USP analysis requires examination of the business itself, from the perspective of the consumer.

Consider:

- What does your customer really want – why should they do business with you instead of anyone else?
- What can ensure repeat business and make customers ignore competitors?
- What motivates your customers' behaviour and buying decisions (refer to page 322)?

Examples of effective USPs include:

- Lorna Jane – encourages women to live the philosophy of move, nourish, believe
- 2XU Compression – the world's most advanced compression technology
- Haigh's Chocolates – premium chocolate from the raw cocoa bean
- Woolworths – the fresh food people
- Commonwealth Bank of Australia – Australia's leading provider of integrated financial services and the most recognised brand in the Australian financial services industry.

Thorough analysis of the business situation and environment is necessary when determining the USP. This requires selection of data and information, as industry research is necessary for a full picture of the competitive situation. Research and analysis of other businesses' marketing strategies and discernment of their USP will help distinguish one business from competitors.

Steps may include:

- 1 Brainstorm what customers really value about the product or service and that of the competition. Use research to inform this process and identify the criteria customers prioritise when making a purchasing decision.
- 2 Based on your research, identify the key competitors (typically the main two or three competing businesses).
- 3 Create a table to organise your data and information for the business being examined and the key competitors (as per Step 1 and 2). Remember to cite your sources.

- 4 Once you have completed the table, examine each business using the criteria to rank your business and your competitors using a scale of 1–10 (1 being the lowest and 10 the highest).
- 5 Identify the strengths and weaknesses of your business and those of competitors. You can plot this data on a graph to visually identify and communicate the USP.
- 6 Interpret the relationship(s) and trend(s) present to draw a conclusion about the USP of the business and implications for marketing strategies.
- 7 Communicate your USP. This may be using a table and/or a graph, but you must ensure that data and information is included.

A USP analysis template is available for you to download on Nelson MindTap.

Activity

Gaining insight 9.14 gives you an opportunity to create a USP analysis.



Template
USP
analysis

GAINING INSIGHT 9.14



Getting to the bottom of the USP for Who Gives a Crap

Using the data and information in Case Study 4 (Chapter 10) and some additional research, complete the following questions.

Questions

As a marketing manager for Who Gives A Crap, your task is to analyse the USP for the business, compared to two leading competitors, and identify the USP by completing the following.

- 1 Select data and information from Who Gives A Crap and two competing businesses relating to the marketing mix to **analyse** the USP of Who Gives A Crap and its key competitors. A sample table, with criteria, has been started for you, but you must complete this based on research.
- 2 **Interpret** the relationships and/or trends present to draw conclusions about the USP and marketing strategies for Who Gives A Crap.
- 3 **Create** a graph to plot the data from the USP analysis and a paragraph response to **communicate** the findings.

Who Gives A Crap
Sponsored · 🌐

Super comfy 3 ply sheets at a super comfy price, costs up to 28% less than other online brands.

Visit <https://bit.ly/tp-comparison> for more information on our rolls vs other products. Go maths!

Regular toilet rolls are a real bummer

Us	Them
400 sheets per roll	190 sheets per roll
Looks good in your loo	Objectively very boring
Up to 28% cheaper than other online brands	* awkward silence *

au.whogivesacrap.org
Eco TP that costs less Shop now

Like Comment Share

Source: Who Gives A Crap

Figure 9.49 Who Gives A Crap creatively communicates their USP.

Criteria	Who Gives A Crap (Case study company)	Competitor 1	Competitor 2
Criteria 1: Total product concept (incl Packaging)			
Rating / 10			
Add analysis of Cr 1			
Criteria 2: Pricing			
Rating / 10			
Add analysis of Cr 2			
Criteria 3: Add criteria			
Rating / 10			
Add analysis of Cr 3			
Criteria 4: Add criteria			
Rating / 10			
Add analysis of Cr 4			
Criteria 5: Add criteria			
Rating / 10			
Add analysis of Cr 5			

Key learnings

You will learn about price strategies through examining:

- price skimming and penetration pricing
- prestige and premium pricing
- competition-based and cost-based pricing
- loss leader, psychological and dynamic pricing.

Price

Price is the amount of money a consumer is willing to offer in exchange for a product. Of the four elements comprising the marketing mix, price is the sole source of revenue – the other three elements produce a cost. For this reason alone, having the optimal pricing strategy is critical to business success. In the establishment phase of the business life cycle, setting an appropriate price can be the difference between moving to the growth phase and not surviving – setting prices too low could result in cash-flow problems that cause the business to close, and setting them too high may discourage consumers from purchasing the product. Price will influence consumer buying behaviour and must support the other strategies of the business, including positioning and branding.

Factors influencing price strategy include:

- manufacturing or production costs associated with the good or service
- marketing objectives, such as sales volume, market share, profit, image creation
- how much the consumer is willing to pay and how price-sensitive they are
- the competitive environment – the number of competitors and their prices
- whether it is a new or an existing product to the market.

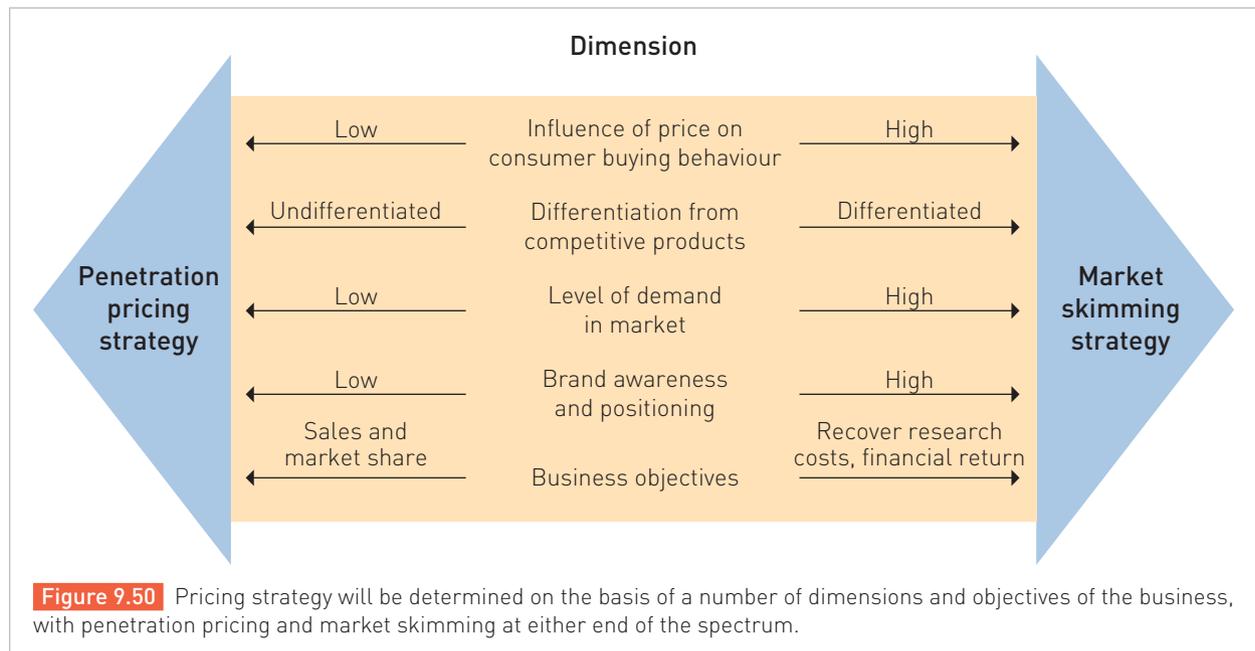
Price strategies

When a business is at start-up or releasing a new product into the life cycle, setting a price to reflect the product offering is important. There is a spectrum of pricing strategies, with market skimming and penetration pricing sitting at either end and a variety of other strategies in the midst.

Market skimming vs. penetration pricing

When introducing a product with strong differentiation and few competitors, **market skimming** can be profitable. Market skimming involves setting the highest possible price, to earn a high profit on each item sold, and gradually decreasing it over the next few weeks or months. This strategy is often employed for innovative products, such as technology, where a business aims to recover the research and development costs by setting a higher price. Market skimming can also support the positioning strategy of a business if it aims to project a high-quality, exclusive or innovative image. Market skimming works on the notion that early adopters – consumers who want to start using a product or technology as soon as it is on the market – are willing and able to pay more.

Penetration pricing is the opposite of skimming (Figure 9.50). A business will decide to charge a very low price to generate high sales volume and meet the sales objective of the business. The aim is to penetrate the market and encourage consumers to try the product or switch from the competition. The aim is to sell a large volume of product during the establishment phase of the life cycle and then gradually raise prices without losing customers. This strategy usually generates minimal profit in the short term, with the business projecting longer-term gains. The greatest challenge is being able to raise prices while maintaining market share.



Prestige and premium pricing

Price strategy must be consistent with the branding and positioning strategy of the business. Price can communicate a strong message to the market about the value of the product: if the aim is to create a prestige brand, setting the price too low or adopting a penetration pricing strategy can undermine this. If a business offers a niche product to a higher income target market, then prestige pricing may apply. This is suitable for high-quality, prestige products that consumers associate with esteem and self-actualisation needs from owning the product.

Premium pricing involves establishing a price higher than those charged by competitors. It is effective for products that have been differentiated such that the ‘total product’ represents a competitive advantage, and for products that are launched first into the market. This strategy aims to maximise sales revenue during the establishment phase of the life cycle.

Market skimming: charging the highest possible price in the short term to earn a high profit on each item sold and gradually decreasing it in the longer term

Penetration pricing: charging a very low price in the short term to generate high sales volume and meet sales objectives of the business



GAINING INSIGHT 9.15



Lighter, brighter, \$100 more: Is it time to swap to new iPhone?

It costs \$100 more, finally has a USB-C port and you can drop it in the family pool without fear (for a little while). But is all that worth an upgrade to the iPhone 15?

Apple has finally caved and given users the ability to charge its mobile devices and AirPods with a USB-C cable, succumbing to EU regulation which required it to insert a USB-C port on devices sold by Autumn 2024. The change will be much welcomed by almost everyone who has a device with a battery as USB-C charging has been the norm for many years and one that is used across the board from laptops, to docks, bicycle lights, power banks and more.

The new range includes the iPhone 15 (Figure 9.51), the 15 Plus, the 15 Pro and the 15 Pro Max, with models in each range priced respectively from \$1499, \$1649, \$1849 and \$2199. This year's devices are at least \$100 more, which appears to be a similar trend with the same jump added to Samsung's S23 range.

At the higher end of the range, with the 15 Pro and Pro Max, there's some pretty deep integration with software and the iPhone's camera which Apple claims is the equivalent of having seven lenses. The 15 Pro has an expansive 3x telephoto camera while Pro Max has the longest optical zoom ever added to an iPhone at 5x at 120mm.

On the 15 Pro and Pro Max, Apple is ditching the sliding mute button in lieu of a what it calls an 'action button' which can be used to do the same thing or be used to control the phone's torch function.

One feature buyers of the 15 Pro and Pro Max will enjoy is the use of a titanium case which has delivered the Pro range's lightest iPhones yet. The devices have contoured edges and the thinnest border yet on an iPhone. All four new phones are splash, water and



r/isoft/Adobe Stock

Figure 9.51 When launching the new iPhone 15, Apple maintained its aspirational pricing strategy.

dust resistant, built to last in a depth of up to 6m for 30 minutes. However, that resistance does shorten over time and Apple has asked users to never try and charge a wet iPhone – liquid damage is not covered by warranty.

Questions

- 1 Identify Apple's iPhone pricing strategy and **explain** the relationship between pricing and the product positioning strategy.
- 2 **Evaluate** Apple's pricing strategy using two criteria, to make a decision and propose recommendations.

Source: *The Australian* (n.d.). Lighter, brighter, \$100 more: is it time to swap to new iPhone? <https://www.theaustralian.com.au/life/gadgets/iphone-15-is-lighter-brighter-and-100-more-is-it-time-to-swap-to-or-not/news-story/d8bff7329e502a3a2760fd8613dac176>

Competition-based pricing

Competition-based pricing is often used when there is a high degree of competition from businesses with similar products. In this situation, consumers may shop around and compare prices. With the increasing use of smartphones, this research is easier than ever. An awareness of competitor prices is important and involves conducting market research to determine who the key competitors are and what they are charging. This could involve checking a website or going instore to determine how the product mix and prices compare. A business that uses this strategy is Dan Murphy's, which employs a 'price change team' to check competitor prices every morning and throughout the day to ensure theirs are always the lowest. Bunnings Warehouse uses a similar approach with a price guarantee (see weblink).



Weblink
Bunnings
Warehouse –
Price policy

Cost-based pricing

Cost-based pricing involves setting prices based on the costs for producing, distributing and selling on a per-unit basis. 'Cost-plus' pricing is typically used by retailers, who use the price they paid to the producer or wholesaler and add a percentage mark-up to create a profit margin. The percentage mark-up is determined by factors such as the type of product and strength of demand.

For example, suppose a retailer purchased a product from a wholesaler for \$20 and used a mark-up of 50 per cent. Then 50 per cent of \$20 is \$10, so the retail price would be \$20 (cost per unit) + \$10 (cost × mark-up percentage) = \$30 (full retail price).

While simple to use, the shortcomings of this approach are that it does not take into consideration the price customers are willing to pay, the competitive situation or positioning strategy (see ‘Analytical tool: Break-even analysis’ in Chapter 7).

Loss leader

A loss leader is a good or service offered at a significant discount, often below cost price. This strategy is linked to sales promotion, notably for retailers aiming to attract customers to a business and stimulate sales. The purpose is to have the customer purchase not only the loss leader, but other products that are not discounted as well. The business can recoup the loss on one item from the sale of other products that are not discounted. The major supermarkets are known to use this strategy to influence where consumers shop. Businesses that undertake this practice need to be mindful of the predatory pricing provisions of the *Competition and Consumer Act 2010 (Cth)*.

Psychological pricing

Psychological pricing has two aspects. The first is the practice of ‘odd-even’ pricing, whereby many products are priced at an odd number of dollars or cents, just below an even number – for example, \$19.99, \$49.95 or \$999.00 rather than \$20, \$50 or \$1000 (Figure 9.52). The belief is that consumers see odd prices as lower than even prices. This pricing tactic remains common across most products and price points.

Customer perception of price, rather than the actual price itself, is also a key psychological consideration. There is a general perception that the higher the price, the better the quality must be. A more expensive item of clothing is likely to be perceived as of higher quality and more stylish than an inexpensive item. This strategy links to prestige pricing, where a high price is directly associated with an image of quality and a low price may actually dissuade consumers due to a negative perception. Market research should be used to determine the optimal price based on consumer perceptions of quality and value.

Dynamic pricing

Dynamic pricing is a strategy in which prices continuously adjust, sometimes in a matter of minutes, in response to real-time supply and demand. The aim is to manage the flow of customer traffic and sales to maximise sales revenue. For example, a coffee shop could raise the price of coffee in the high-demand morning rush between 7.45 and 9.00 am. The coffee shop earns an extra mark-up for each coffee sold during this peak time as the likelihood is high that consumers will pay slightly more before work.

This pricing strategy is already used in certain industries, such as for online booking of airline fares and hotel rooms and by sharing-economy businesses Uber and Airbnb. Prices fluctuate based on demand and supply, meaning one day there is a great deal and the next you pay a bit extra. Uber uses a price surge algorithm to identify spikes in demand, and increases its charges accordingly. Dynamic pricing for business models like Uber’s relies on the prevalence of smartphones and the widespread use of apps.

The screenshot shows a product page for a trampoline named 'Thunder'. At the top, a yellow banner offers 'FREE SHADE COVER + DELIVERY' with a countdown timer showing 01 Day, 12 Hours, 33 Minutes, and 24 Seconds. Below the banner is a 'GOOD DESIGN' award logo and a 3D image of the trampoline. To the right, the product name 'Thunder' is displayed with the tagline 'Discover your freedom.' Below this are buttons for 'Watch Video' and 'Available now!'. The price is listed as '\$999.00 Delivered or \$20 / week*'. There are icons for 'FREE Shade Cover' and 'FREE Delivery'. At the bottom, there are size options (S, M, L, XL) and a 'Buy' button. A 'Low stock level!' warning is also present.

Figure 9.52 Businesses, such as Vuly, often use psychological pricing to influence customer perception and stimulate sales.

GAINING INSIGHT 9.16



BYD Seal electric sports sedan priced from under \$50K

Chinese brand's Tesla Model 3 rival on sale now in three grades priced from \$49,888.

The 2023 BYD Seal has been officially launched in Australia, where a starting price of under \$50 000 makes the all-new mid-size electric sedan something of a performance EV bargain (Figure 9.53). On sale now both online and via a growing array of outlet and experience centres across the country, BYD (Build Your Dreams) Australia has confirmed a three-variant model range for its all-new Tesla Model 3 and Polestar 2 fighter, ranging in price from \$49 888 to \$68 798 plus on-road costs for the 390kW all-wheel drive flagship.

The sharp pricing means the BYD Seal undercuts its closest rivals – the Chinese-built Tesla Model 3 (from \$61 900) and Polestar 2 (from \$67 400) – by at least \$12 000, as well as the Korean-made Hyundai IONIQ 6 sedan (from \$74 000) by over \$24K.

Marketed as a proper sports sedan with rear-wheel drive at base level, the battery-electric BYD Seal is also \$10 000 more affordable than smaller, performance-focused EVs like the Cupra Born hatch (from \$59 990). But the Seal is also at least \$10 000 more expensive than the cheapest Chinese electric hatchbacks including BYD's own new Dolphin (from \$38 890), the MG4 (from \$38 990) and GWM Ora (from \$39 990).

Three model grades are now available, including the entry-level 150kW/310Nm rear-mounted single-motor Seal Dynamic Standard Range that houses a 61.44kWh battery good for around 460km of range (WLTP), is claimed to hit 100km/h in 7.5 seconds and rides on 18-inch alloy wheels.

For reference, almost all of those numbers fall short of the base Tesla Model 3 Rear-Wheel Drive, which has a 60kWh battery but is claimed to produce 194kW, hit 100km/h in 6.1sec and offer a 513km WLTP range.

The top-spec Seal Performance AWD (\$68 798 plus ORCs) brings a 390kW/670Nm dual-motor all-wheel drive powertrain (160kW front, 230kW rear motors) and uses the same battery as the Premium, so the extra weight shortens its range to 520km. The range-topping Seal is said to hit 100km/h from standstill in just 3.8sec, clipping more than half a second off the claimed 4.4sec time of the dual-motor Tesla Model 3 Long Range (\$71 900) but falling short of its 331kW and 629km range.

Pricing for the Seal was announced to media at the BYD Megastore in Alexandria (Sydney) by Luke Todd, the CEO of BYD's Australian importer EVDirect, who this week touted the event as 'possibly the biggest moment in Australian automotive history' in a post on LinkedIn and



Bloomberg/Getty Images

Figure 9.53 The BYD Seal is priced from \$49 888 plus on-road costs, to market itself as under \$50 000.

tonight said all of the brand's models would 'easily' sell for double their price tags.

The Seal becomes the third vehicle in BYD Australia's expanding (currently all-electric) model portfolio alongside the Atto 3 small SUV that went on sale last year and is currently Australia's third most popular EV behind the Tesla Model Y and Model 3, and the Dolphin hatch that recently pinched the title of Australia's cheapest EV from the MG4 by just \$100.

The BYD Seal is backed by a six-year, 150,000km vehicle warranty and an eight-year, 160 000km battery warranty. Servicing intervals are 12 months or 20 000km and the first eight services are priced at \$189, \$370, \$189, \$447, \$189, \$370, \$189 and \$447, respectively.

Source: Lawrence, A. (2023, 17 October). BYD Seal electric sports sedan priced from under \$50K. Car Sales.com. https://www.carsales.com.au/editorial/details/byd-seal-electric-sports-sedan-priced-from-under-50k-142947/?_source=editorialarticle&driver_crosssell=editorial.in.article.link

Questions

- 1 Identify and **explain** the pricing strategy used by BYD since its launch into the Australian market during 2022.
- 2 Complete a USP analysis for BYD, using the article and some additional research. Draw conclusions about the implications for BYD's marketing strategies and growth.
- 3 Using two business criteria, **evaluate** the current pricing strategy being used by BYD to make a decision about the suitability of this strategy. Propose recommendations for the business as it seeks to become a 'top five brand in Australia'.

Key learnings

You will learn about promotion through examining:

- traditional promotion avenues
- digital and emerging promotion avenues.

Promotion

Promotion involves communicating with actual and potential customers to inform, persuade and create sales. During the start-up and early growth stages of the business life cycle, it is vital that promotional strategies inform potential customers about the arrival of a new product into the market and persuade consumers to try the product. Once this has been achieved, key objectives include increasing sales by raising consumer awareness of a product, attracting new customers and encouraging repeat purchases by existing customers. Effective promotion will also create brand image and awareness and reinforce the positioning strategy.

While advertising is often the most easily identifiable form of promotion, there are a variety of promotional avenues that make up the promotion mix. The promotion mix will vary based on the marketing objectives, target audience, positioning strategy, size of the business and budget available. Promotional avenues include:

- traditional avenues, including radio and television advertising, public relations, sales promotion, personal selling and word-of-mouth
- digital avenues, such as electronic direct mail (EDM), search engine optimisation (SEO), social media, use of influencers and content marketing
- emerging platforms, for example, video and live streaming, and augmented reality and use of AI-powered chatbots and virtual assistants.

Advertising

Advertising is the most prevalent form of promotion: all consumers are exposed to varying forms of advertising across their day. Advertising is any form of paid, non-personal communication, by an identified sponsor, through a mass medium. Advertising is persuasive communication; it is not neutral and it is not free from bias.

This area of the promotion mix has evolved considerably in recent years, with a vast array of traditional and digital media available and technology acting as a constant source of disruption to bring with it ever-emerging platforms. There are now thousands of ways to communicate a message to the consumer. However, the core purpose of advertising – to inform, persuade and remind – remains unchanged and advertisers must still select the appropriate medium to suit the audience and purpose. Advertising media include:

- *broadcast advertising* – a mass-market communication medium, with commercials aired on television and/or radio. Until recently, this medium dominated advertising, however technological change has shifted the mix. Broadcast ads are now typically released online too, for example using YouTube, to overcome ad skipping technology and increase awareness
- *print advertising* – can be a mass marketing medium using newspapers and magazines or a direct marketing tool by using direct mail, newsletters, brochures and letterbox drops. While the future of print advertising in magazines is being challenged by changes in technology, well-executed direct mail has the potential to reach consumers and influence buying behaviour
- *outdoor advertising* – typically in the form of billboards, bus shelter posters and digital boards, such as those featured in Times Square (Figures 9.54 and 9.55). Transit advertising on buses, trams and rail is used in major urban localities to target commuters and residents. Outdoor modes can be geographically focused and relatively permanent for a set period.

Promotion: use of advertising, sales promotion, publicity, personal selling, digital, social and emerging platforms to communicate with consumers and create sales

Advertising: any form of paid, non-personal communication, by an identified sponsor, through a mass medium



Michele Jackson/Getty Images



Figure 9.54 Traditional and digital billboards are used nationally, often as part of a multi-media mix.

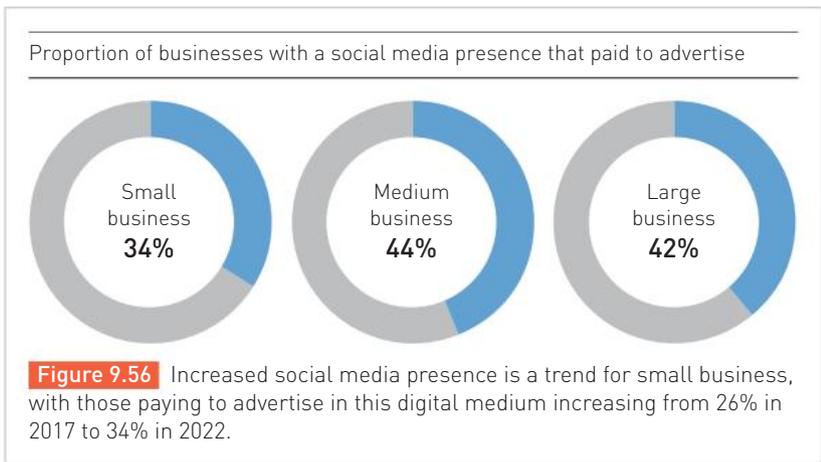


Hit1912/Shutterstock.com

Figure 9.55 Times Square in New York City is one of the most valuable and visible advertising displays in the world. It combines outdoor advertising with the digital medium via live-streaming and interactive capabilities.

Digital advertising

Digital advertising technology exists on the internet, on smartphones and handheld media devices, as well as digital billboards. With 56 per cent of Australians using the internet more than 10 times a day and 27 per cent doing so in excess of 20 times a day, this medium has reach and frequency of contact with consumers. Businesses of all sizes are embracing digital advertising (Figure 9.56): 90 per cent of small businesses have a social media presence and 37 per cent of these pay to advertise with social media. The proportion of businesses advertising with social media increases in line with business size. According to Yellow, Facebook (83%) is the most popular platform to use for advertising, beating out Instagram (22%), LinkedIn (16%) and X (formerly Twitter) (12%), with 80 per cent of SMEs agreeing that social media is an effective advertising tool. Only 5 per cent of these businesses paid social influencers to promote their business with 60 per cent of these saying it was a successful tactic.



Adapted from Sensis Social Media Report 2017, www.sensis.com.au/socialmediareport

Publicity and public relations

Publicity is a form of mass marketing; however, it differs from advertising as it is not directly paid for by the business. While this avenue is free, its timing and content cannot be directly controlled by the business. Publicity is achieved by generating news stories in the mass media that create positive attitudes and behaviours towards a business and help stimulate sales and therefore profit.

SMEs with limited promotion budgets may find publicity a more cost-effective avenue than extensive advertising. Publicity can have the advantage of being perceived as an unbiased endorsement of a product or service, which can make it appear more credible. This avenue can build brand awareness and supplement other aspects of the promotion mix.

Publicity can take many forms, including:

- public relations, which includes promotional activities focused on building positive relations with the community. A key strategy is editorial mentions, which involve being the subject of reviews or news items
- sponsorship of events and people, with the aim of enhancing the profile of a product or business and giving it a favourable image or association. It is focused on building brand awareness
- use of brand influencers to create interest in a product or brand (see page 371).

GAINING INSIGHT 9.17



Productive partnerships enhance brand awareness in the competitive bottled water industry

There has been considerable change in the bottled water industry in recent years. In June 2022 Coca-Cola Europacific Partners (CCEP) divested what was Australia's leading water brand, Mount Franklin, to Coca-Cola South Pacific (CCSP) giving them 37.5 per cent market share. CCEP retained brands Pump and Glaceau Vitamin Water with 12.4 per cent market share; while Asahi has 13.5 per cent with Voss and Frantelle.

Strong branding is vital in the competitive bottled water market as products are difficult to differentiate.

Nu-Pure was established in 2005 and is a Queensland based, family-owned business, sourcing its water from Australian springs. Nu-Pure ranks fourth, against much larger rivals, with 4 per cent market share. Sponsoring sporting events such as the Gold Coast Marathon since 2009, and Cricket Australia since 2021, has enhanced brand exposure and aligns with sports where healthy hydration options are important. Favourable association with sporting events is a key part of their positioning strategy in the highly competitive bottled water market.



AAP Image



Nu Pure

Figure 9.57 Nu-Pure Beverages proudly sponsors a range of sporting events and teams including Cricket Australia and the annual Gold Coast Marathon to build brand awareness and generate positive associations.

Sales promotion

Sales promotion aims to stimulate consumer purchasing through incentives and activities such as:

- free samples, which may be distributed instore or by direct mail. They are a good way to introduce a new product to consumers
- games and competitions
- pricing deals, for example 'buy one, get one half price' and temporary price reductions
- point-of-sale displays, which include special signs and displays, for example in supermarkets at the end of aisles
- money-off coupons that are redeemable by the customer for a fixed period of time
- loyalty-reward programs.

Sales promotion focuses on the marketing objectives of sales and market share. For a business seeking to progress from start-up to the growth stage of the business life cycle, sales promotion can be a valuable avenue. Strategies are directed at the consumer and aim to attract new customers to try the product, increase sales to existing customers and stimulate repeat purchase behaviours. This can also help establish market presence and entice consumers away from competitors.

QUESTIONS 9.6



- 1 Match each of the examples of sales promotions provided with the business using it in Figure 9.58.
- 2 **Explain** the key objective of each sales promotion and how the promotions are communicated to the potential customers.



PJF Military Collection/Alamy Stock Photo



wowmommy/Shutterstock.com

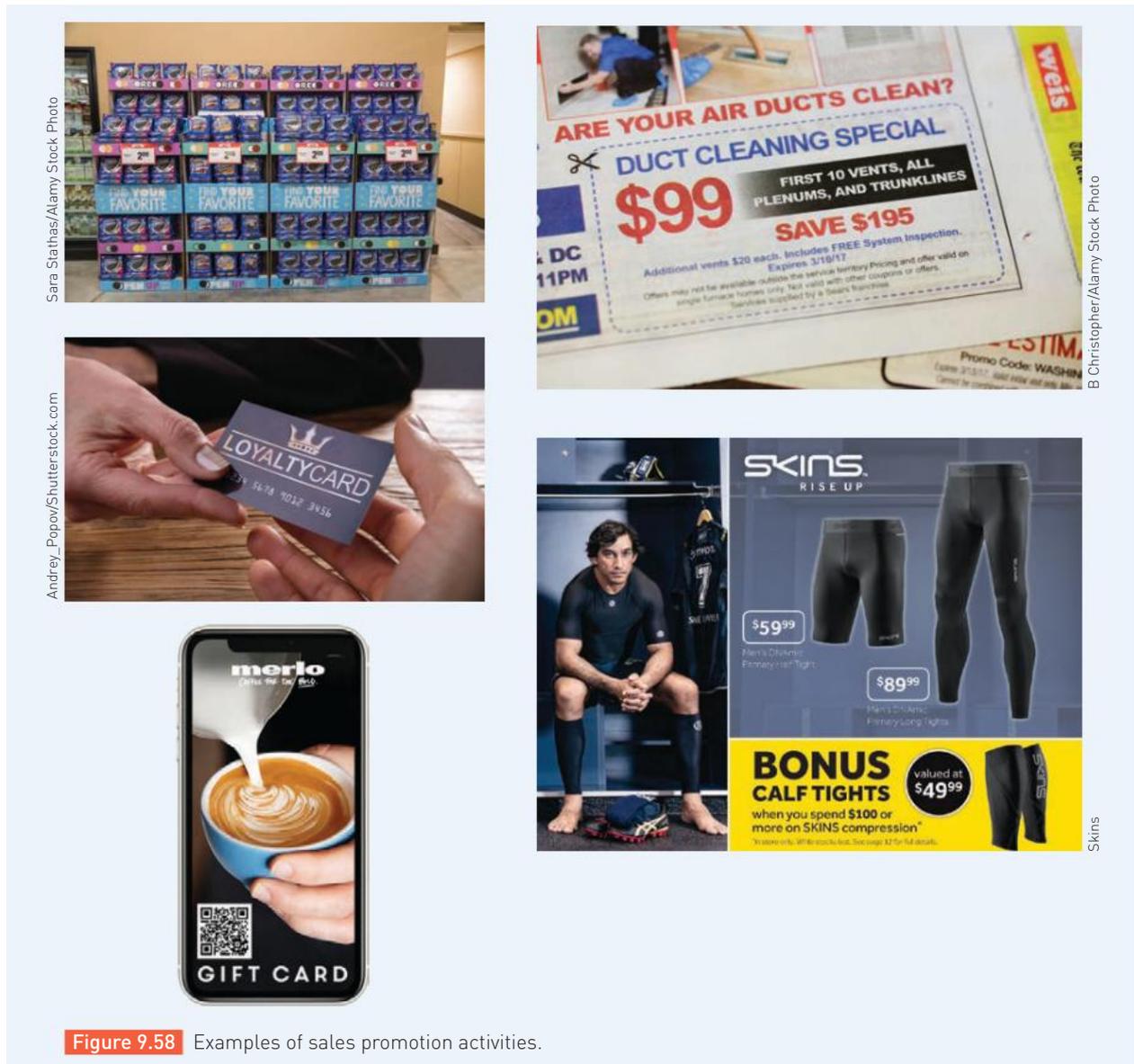


Figure 9.58 Examples of sales promotion activities.

Personal selling

Personal selling is a two-way communication process where, unlike advertising, the message can be tailored to the individual customer. This is the interpersonal aspect of promotion and its greatest strengths are the ability to immediately give feedback to consumers and the opportunity to build lasting relationships that can lead to repeat sales. As a result, this is a precise and targeted form of promotion and can have a greater persuasive impact.

SMEs can harness this avenue to promote and sell their goods and services through personalised interactions, with a key objective being to make sales. Larger businesses can undertake personal selling by hiring sales representatives who visit customers or by contacting customers by telephone. A key consideration is the human resources aspect of the business: a well-trained sales team – one that can help a small business build long-term customer relationships without using ‘hard-sell tactics’ – is essential.

Personal selling in the retail sector

As retailing is direct to the final consumer, most retail employees are involved in personal selling. While other promotional avenues, such as advertising, may attract consumers to the business, personal selling aims to prevent shoppers from leaving without making a purchase. Lack of properly trained staff is an obstacle for many SMEs; larger businesses, such as department store David Jones (Figure 9.59), are more likely to train staff in customer service and selling skills.

The nature of the product or service and the positioning strategy of the business should be used to determine the type and level of sales staff. Factors include:

- store characteristics, including location and size
- type of product or service offered, as the more technical a product is, the greater the need for knowledgeable sales staff
- price image of the store, as customers expect greater attention from a business positioned as high-quality and prestige (e.g. David Jones) than from a discount retailer (e.g. Kmart)
- the sales and customer service offered by competing businesses
- the cost of providing the service.

These factors help to determine the level of personal selling that will retain existing customers, entice new customers and reflect the positioning of the business. A full-service department store, such as David Jones, prides itself on customer service, with sales people carefully recruited and trained for product knowledge and suggestion selling, designed to persuade customers to purchase related and additional items. Personal selling is a point of difference for premium retailers as compared to discount stores, where the level of customer service may be limited.

Word-of-mouth

Word-of-mouth occurs when satisfied customers communicate to potential customers the merits of a product or service. As this is unpaid and independent communication, it is usually seen as unbiased, highly reliable and influential. While word-of-mouth is not directly controllable by a business, ensuring that a customer receives a quality product or service experience is key. Where a quality experience is not received, being able to remedy the situation in a timely and positive manner is critical. In a service environment, this is called service recovery, and it aims to return the dissatisfied customer to a position of satisfaction.

Businesses are increasingly using digital platforms to communicate word-of-mouth. Such platforms include the business website and social media platforms. Some businesses are also monitoring review websites, such as TripAdvisor, for negative feedback and engaging service recovery strategies to rectify negative word-of-mouth.



Figure 9.59 David Jones has a recruitment process that enables it to find the best candidate for the position, with a focus on personal selling.

Fairfax Syndication/Jay Cronan



Figure 9.60 Word-of-mouth remains a strong influence on consumer buying behaviour. The digital world amplifies the capacity of consumers to communicate positive or negative feedback.

iConcept/Shutterstock.com

Digital avenues

People are engaging with digital devices at increasing rates, with nearly all Australians aged 18–40 years using a smartphone and the majority of people in all age groups owning a laptop. The uptake of technology varies based on demographic factors such as age and income, and presents opportunities and challenges when designing the promotion mix. There has been a shift from traditional to digital promotion, including the digitalisation of traditional avenues.

Digital marketing is any kind of marketing delivered electronically, with promotion including digital advertising (see page 366) and other avenues that occur in the digital space. Those currently used include:

- internet banner advertisements and pay-per-click (PPC) advertising
- websites and SEO content
- blogs
- online video content (e.g. YouTube)
- email marketing
- social media marketing (e.g. Facebook, Instagram)
- mobile marketing (e.g. SMS, MMS).

For a business in the growth stage of the business life cycle, digital promotion can be more cost-effective than traditional avenues, so long as the target market is receptive. Having a web presence and engaging with customers via social media and email marketing are lower-cost alternatives to traditional broadcast and print options. Digital avenues are accessible by businesses of any size, meaning a smaller business at start-up, and while in growth, can access similar digital avenues to mature companies with large budgets. That said, the challenge remains to establish awareness, create appeal and build traffic to digital avenues. Simply having an online presence will not be enough to stimulate buying behaviour.

Social media

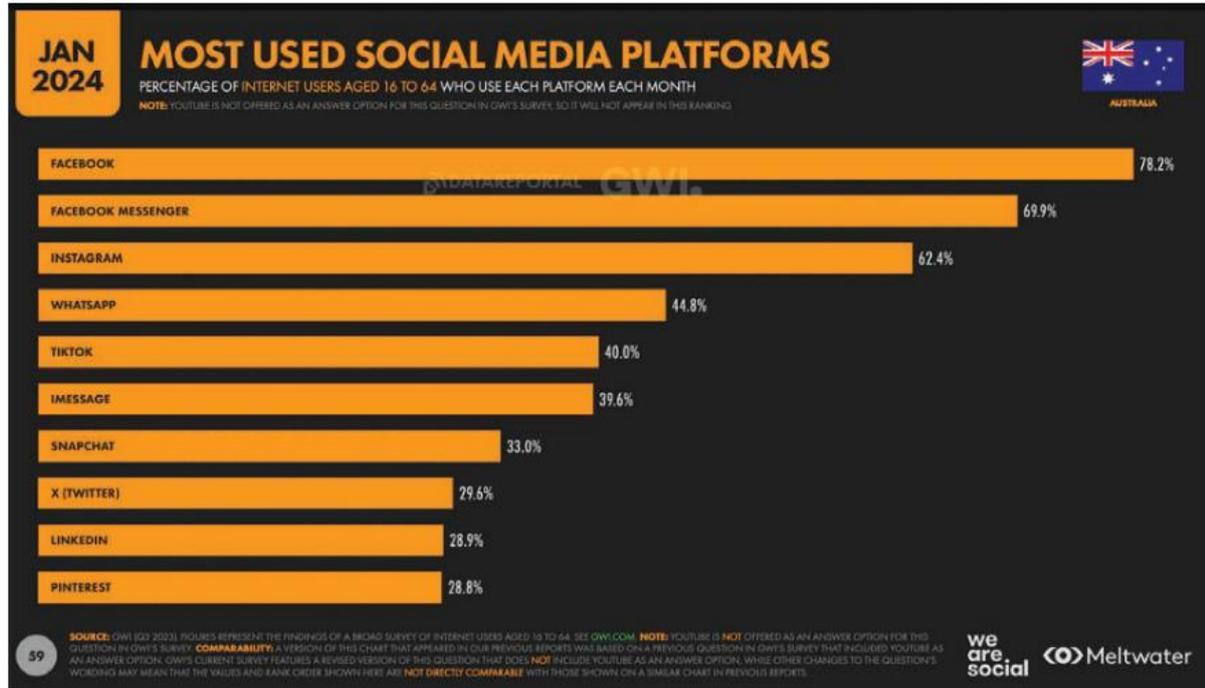
Trends in digital promotion include substantial use of social media such as TikTok, Instagram, Snapchat, Facebook and YouTube. For retailers, Instagram continues to be lucrative as it allows businesses to highlight products, use celebrity endorsements and grow brand awareness. While consumers were initially unhappy with advertising on these platforms, attitudes toward advertising using social media have improved in line with its prevalence.

While some businesses aim to use social media for purposes of increasing sales and supplying information, research indicates that brand awareness and relationship marketing are better suited to this medium. Lorna Jane is one of the top retail brands in Australia for social media performance, with the company aiming to engage with consumers, rather than taking a sales focus. This is evident in their posts that ask consumers to ‘hit *like* if you agree’, post feedback and tag friends. Tagging friends and leaving feedback are great examples of online word-of-mouth that cost a business nothing. Lorna Jane uses four hashtags per post to ensure brand messages are communicated widely. With over one million followers on Instagram and high levels of customer engagement, Lorna Jane embodies its philosophy of ‘move, nourish, believe’ across its social media.

Social ‘influencers’

Traditional word-of-mouth has been amplified with digital platforms, the use of smartphones and the rise of social media. Social influencing is a trend that generates its own platform, with savvy Snapchatters and YouTubers creating digital content around products and brands. An ‘influencer’ is someone who has a substantial number of followers (typically over 3000) on at least one platform, including Facebook, Instagram or X (formerly Twitter), who has the capacity to promote and sell products or services and have an effect on the character of a brand. Influencers may be:

- celebrities
- industry experts and thought leaders (e.g. journalists)
- bloggers and content creators
- micro influencers.



Social networking sites used this year



Figure 9.61 The most used social media sites used in 2017 and 2024.

Bloggers often build up followers in specific industries or sectors, which enables businesses to reach a definable target audience. As bloggers typically have the respect of their readers, they can influence consumer buying behaviour by favourably mentioning a product in a post.

Influencer marketing can help develop brand identity, reach audiences and build customer connections; meaning it is great for a growing business looking to achieve objectives including increasing sales and building brand awareness. However, the choice of influencer can make or break a campaign and potentially a brand. When working with an influencer, a business is essentially giving some brand control to someone external to the organisation. This can make it a high-risk strategy if the influencer’s actions do not align with the values of the brand.

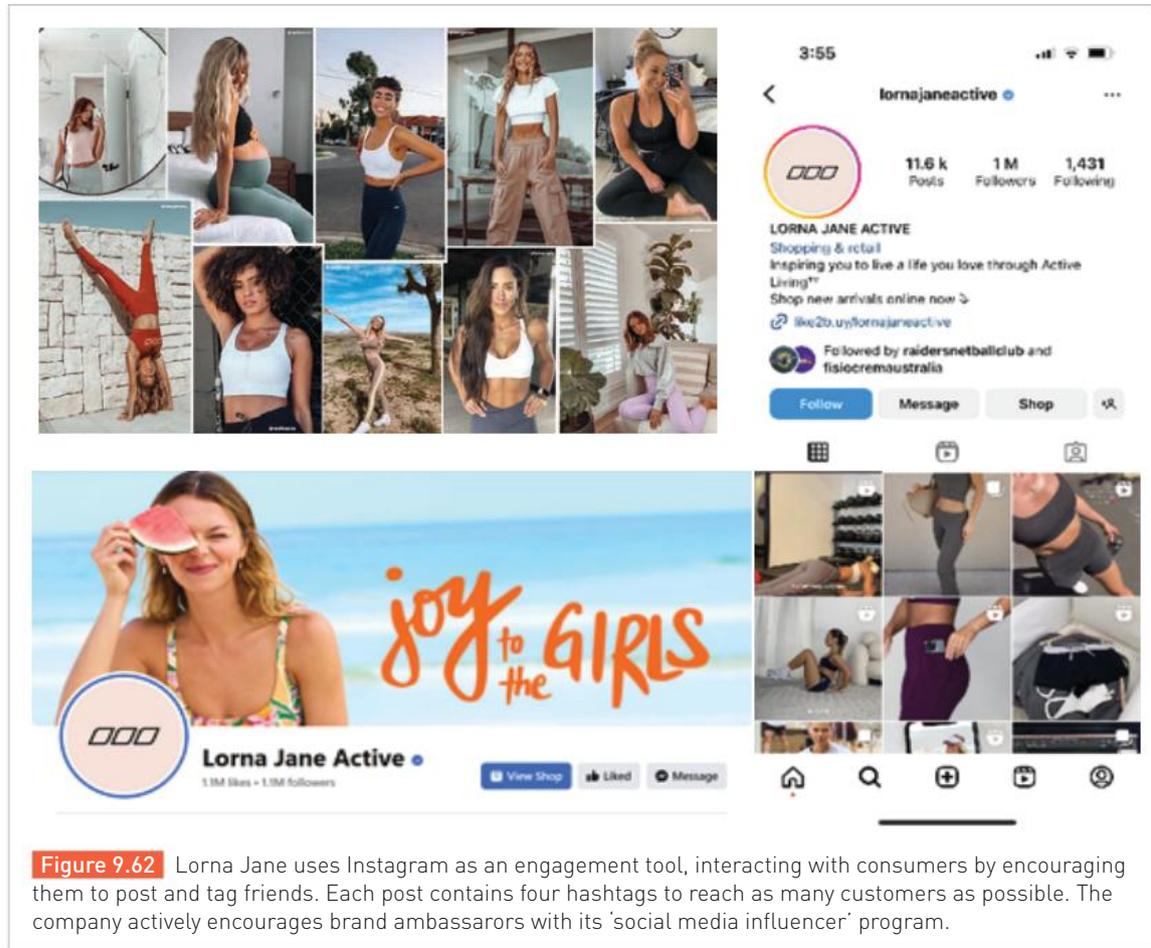


Figure 9.62 Lorna Jane uses Instagram as an engagement tool, interacting with consumers by encouraging them to post and tag friends. Each post contains four hashtags to reach as many customers as possible. The company actively encourages brand ambassadors with its 'social media influencer' program.

GAINING INSIGHT 9.18



Authenticity of influencer posts

In Australia, the ACCC is currently exploring the issue of authenticity around influencer posts with concerns about misleading and deceptive conduct. Both influencers and businesses must ensure they comply with the Australian Consumer Law. A recent ACCC review of 118 social media influencers found that 81 per cent were making posts that could amount to misleading advertising. Further, a study of online reviews found

that 37 per cent of 137 businesses reviewed were manipulating online reviews.

Question

- 1 Using two business criteria, **evaluate** the use of social media influencers as part of a promotion mix to make a decision and propose recommendations around regulations for the industry.



Weblinks
ACCC

ABC News
article

Mumbrella
article

Websites and SEO

A challenge for businesses is to stand out from the millions of other websites. An effective way of doing this is through search engine optimisation (SEO), which uses keywords within online content. The correct use of keywords will rank a website higher on a search page than others, increasing the chance that the site is selected. The aim is to maximise the number of visitors to a website.

PPC advertising can be a cost-effective option for SMEs as the outlay is based on the number of visitors. PPC advertising is based on ads being run and shown in search engines, with advertisers able to pay for visitors on a cost-per-click basis. As digital ads go live immediately, this can also be a timely option. Linked to PPC is banner advertising, which provides a business with a graphical ad, and can include pop-ups and buttons.

These options create traffic to a website and rely on online content, including web-page design, to engage the consumer. A web page must reflect the branding and positioning strategies of the business and be maintained with current information.

Benefits and challenges of digital promotion

Promotion using the latest digital avenues can offer benefits to businesses looking to grow; however, as with the traditional avenues, there are challenges, as shown in Table 9.3.

Table 9.3 Benefits and challenges of using digital promotion avenues.

Benefits	Challenges
Uptake of technology and use of social networking sites means reaching a target audience has never been quicker.	Generating traffic to digital avenues so that consumers are aware of and engage with the site. There is a lot of competition in the online space – how do you get noticed?
Can be more cost-effective than traditional promotional avenues. Enables businesses to segment the market and target a particular audience with a tailored message.	Lack of skill or expertise in establishing and maintaining a digital presence. While large companies may employ a team of experts to create and monitor social media, SMEs may not have the skills, time or budget.
Enables real-time communication with consumers. Communication can be interactive, overcoming the limitation of advertising being one-way communication.	Managing digital avenues, such as websites, which should be dynamic. This is a time investment many SMEs don't have as consumers expect up-to-date and changing content. Not responding to consumer questions in a timely manner can represent lost opportunity.
Use content to connect with and engage consumers. Social media engagement can build brand loyalty and spread positive word-of-mouth. Social media engagement can be measured through visits, likes, shares and comments.	Identifying the right technology for purpose. It is not necessary or feasible for most businesses to employ all digital avenues.
Enables personalisation and use of customer relationship marketing practices. Offers can be made to customers based on their purchasing history and preferences. Sales promotion tools can be used in the digital space to stimulate sales. Emailing regularly with special, personalised offers may help to maintain the relationship.	Online reputation and brand management in an era where online reviews and forums are the norm. This is especially true for service-based businesses with online review sites (for example, Yelp and TripAdvisor). Negative feedback in a social medium makes the feedback public. The 2020 Yellow social media report showed 68% of respondents read online reviews or blogs before making a purchase decision, up 22% from 2017.
Convenience – caters to more mobile consumers who can browse digital promotion anytime, anywhere, and place orders when it is convenient for them.	There are concerns with security and privacy of information. Social media should not be the only promotion platform used to reach a target market.

INQUIRY



Social media uptake and its impact on promotion

Key findings on media consumption in the Digital 2023 Australia report include a shift in internet usage patterns, with a decrease in total time spent on the internet, yet an increase in social media usage. Social media is now a key avenue for consumers and brands to interact, with platforms appealing to different target markets.

Research the current trends in social media usage and its impact on promotion to complete the following activities.

- **Describe** the business environment for digital promotion, social media usage and business communication.
- **Explain** the relationship between target marketing, promotion avenues and marketing objectives for a business in the growth stage of the business life cycle.
- Select and **analyse** business data and information to identify relationships and trends. **Interpret** how this impacts on businesses and consumers.
- Draw a conclusion about the impact of digital promotion, including social media usage, on consumer buying behaviour and business objectives.



Weblink
Digital 2024
Australia

Emerging platforms

Digital disruption to traditional promotional avenues is no longer emerging; rather, it is an entrenched change. Digital delivery options and emerging platforms can change monthly as technology and socio-cultural trends change so quickly. What was emerging last month may be entrenched, or obsolete, the next. Many emerging platforms are simply traditional avenues with a digital upgrade, while some are yet to be imagined.

Video and live streaming

Faster internet access and the pervasiveness of mobile devices mean live video has become a trend, with more apps and platforms creating live-streaming functionality. As an emerging promotion platform, it will be increasingly used by brands and individuals, including ‘influencers’. This will include video on YouTube and social media and video testimonials from customers (video word-of-mouth).

Augmented reality

The key aspects of the augmented reality platform are the capacity to engage consumers by entertaining them and to generate impact not possible in many other platforms. While this technology is now being employed by large corporations in their marketing campaigns, augmented reality is becoming more accessible for all businesses.

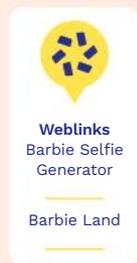
Generative AI

Marketers are embracing generative AI to enable far greater personalisation of content to the individual consumer, with more customised and frequent contact through various mediums, including email and social media. Generative AI is being used to create content, including text, audio and video to personalise customer experiences. While this can lead to efficiencies, there are considerable risks at this point in time, including accuracy of content, bias in data and overreliance on stereotyping and potential copyright and privacy issues.

GAINING INSIGHT 9.19



Emerging platforms allow the customer to be part of the promotion



For the 2023 release of the Barbie movie, Warner Bros Pictures promotion mix included traditional, digital and emerging avenues. Immersive generative AI was used to allow fans to create their own Barbie-inspired avatars and to become a Barbie doll box cover (Figure 9.63).



Pictorial Press Ltd/Alamy Stock Photo

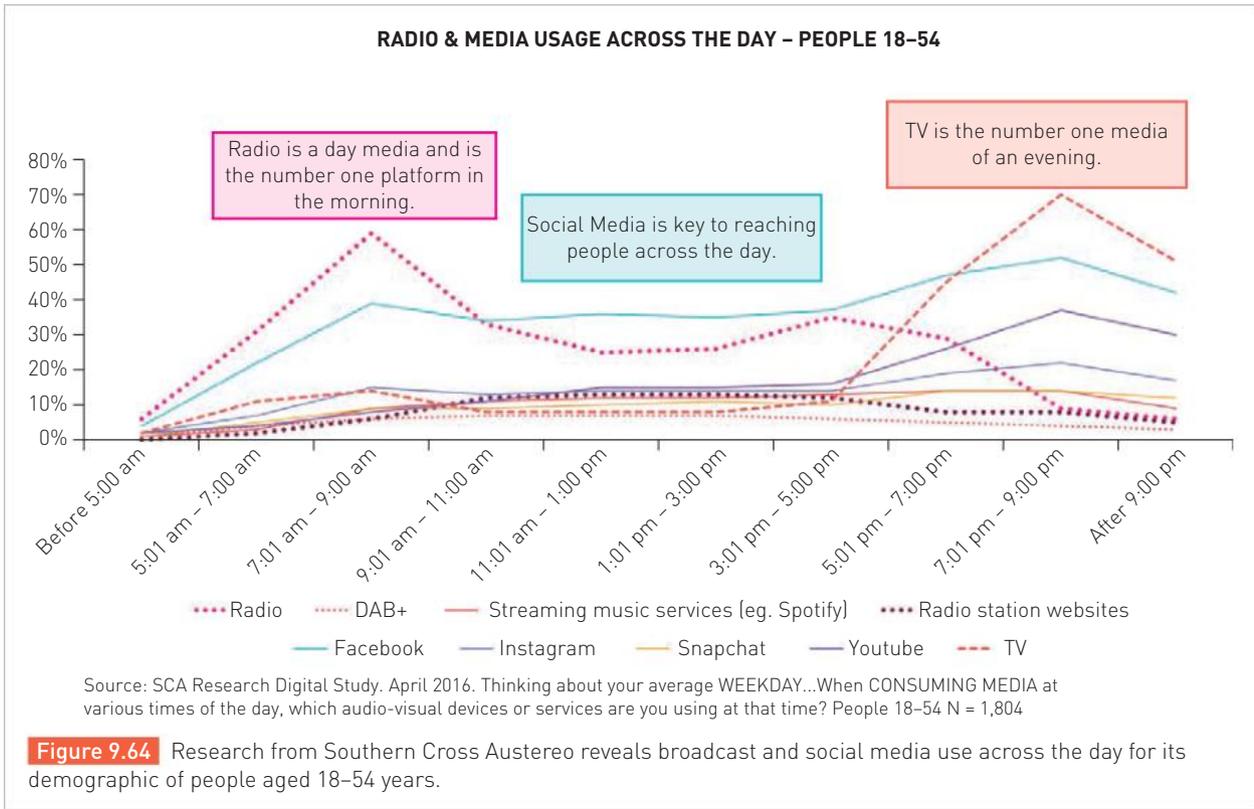


Source: Warner Bros. Entertainment Inc.

Figure 9.63 Personalised selfies, using generative AI, were a marketing hit with social media using the hashtag #TheBarbieMovie.

Creating a promotion mix

Businesses entering the growth stage of the business life cycle may have a limited budget compared to mature companies. This can necessitate cost-effective promotion avenues, noting that more expensive media are not always more fruitful. Creating the optimum mix requires a marketer to consider the target market and positioning strategy, along with the objectives of the promotion. It also requires an understanding of how people engage with different media to maximise each platform effectively. Figure 9.64 reveals the broadcast and social media usage of people aged 18–54 years, advocating the placement of advertising in different media platforms to reach consumers at different times of the day. Other factors to consider include cost, the type of message being communicated, links to the other elements of the marketing mix and legal requirements, such as the timing of alcohol advertising and restrictions placed on tobacco and gambling.



Southern Cross Media Group Limited

INQUIRY



How effective are emerging promotion platforms?

Context

The promotion landscape has changed dramatically in the past 20 years. Facebook was launched in February 2004 and Instagram in late 2010. The nature of broadcast media, notably television, has also evolved with the arrival of catch-up TV and live streaming. While traditional avenues alone are no longer enough, businesses are seeing varying results from emerging platforms. A challenge is to determine the optimal promotion mix of traditional, digital and emerging platforms that reaches the target market and achieves marketing objectives.



BigTunaOnline/Shutterstock.com

Task

Investigate the emerging and digital advertising media available today, compared with traditional media employed 20 years ago, to:

- **describe** the promotion environment now, compared to 20 years ago, including facts and characteristics
- **explain** the emerging platforms available to SMEs in the growth stage of the business life cycle to achieve marketing objectives and competitive advantage
- select and **analyse** business data and information about emerging platforms to identify relationships and trends in promotion avenues employed
- **evaluate** the emerging platforms to form a judgement about the application of these platforms in the promotion mix of an SME. Use criteria of competitiveness and stakeholder satisfaction to make a recommendation as to the uptake of emerging platforms. Ensure you relate the use of such strategies to the branding and positioning strategies of the business
- **create** a paragraph response to **communicate** findings.

Key learnings

You will learn about place strategy through examining:

- distribution channels
- place and technology.

Place

Place is the means of getting a product into the hands of the customer. This involves distribution from where the product is made to the customers' preferred place of purchase. In a global business environment, this movement could be through a combination of intermediaries such as distributors, wholesalers and retailers. The increased use of technology also means electronic channels are widely used.

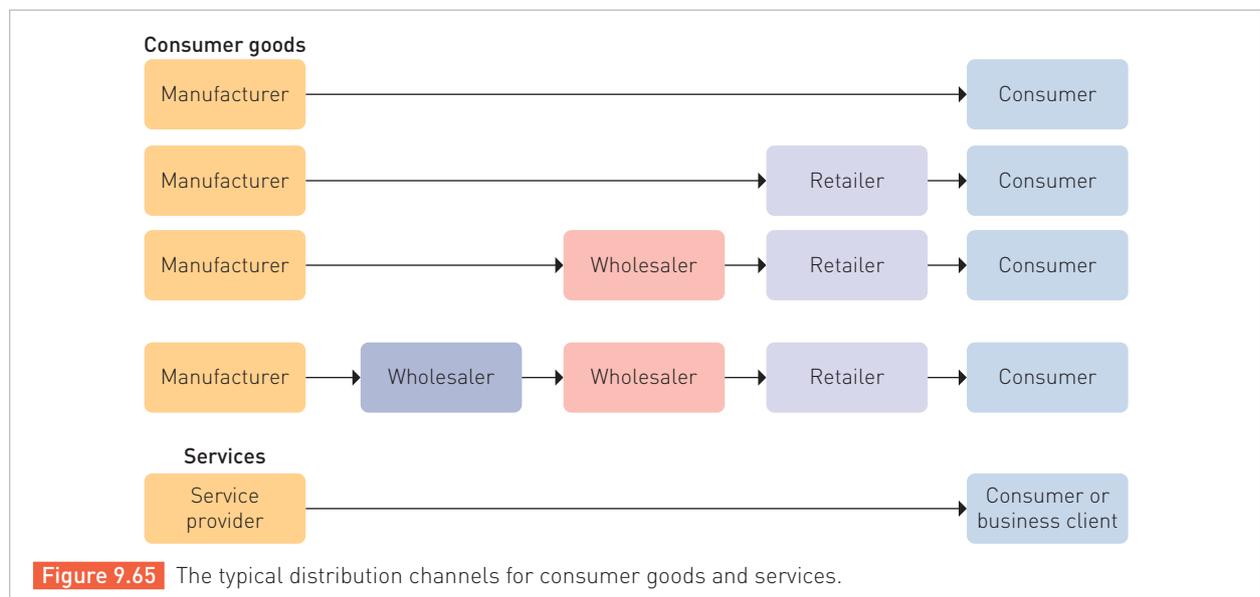
Suitable placement is vital to ensure a business reaches its target audience and maximises its positioning strategy. This includes where the business is located, where the target market is situated and how best to connect the two. Deciding on the channel of distribution, or path, that a product passes through to reach the final consumer should include consideration of:

- whether the product should be sold directly to consumers or through retailers
- where consumers are likely to seek to purchase the product
- if it is a physical store, whether it should be a generalist or specialist store
- whether consumers prefer traditional or non-store (online) retailing for the product
- how long the channel should be (how many intermediaries)
- what key competitors are doing and whether it is best practice
- how the distribution channel will uphold other aspects of the marketing mix.

The channel must reflect the marketing mix. For example, if the product is for a niche market and promotes a high-quality prestige image, distributing through a generalist store such as a supermarket or budget department store such as Kmart will undermine the strategy. If the aim is to achieve mass market appeal and high sales volume, then a supermarket or department store may be ideal. The distribution channel must support the marketing objectives and other elements of the marketing mix.

Distribution channels

Distribution channels can be either direct to the consumer (producer–consumer) or indirect, as a product passes through intermediaries, as seen in Figure 9.65. Direct distribution involves the manufacturer selling the product to the consumer. This has increased in popularity with the rise of online shopping, and some businesses operate purely through this model. During the establishment phase of the business life cycle, manufacturers may choose to operate using this model as it keeps costs contained and the business maintains control over the product.



Indirect distribution sees a business using at least one intermediary to sell a product to the consumer. The business may sell through a number of retailers or to a wholesaler, who further distributes to retail outlets. This will raise product costs since each intermediary will add their mark-up percentage to the product. The indirect channel is often necessary for large producers and mature businesses operating nationally and internationally.

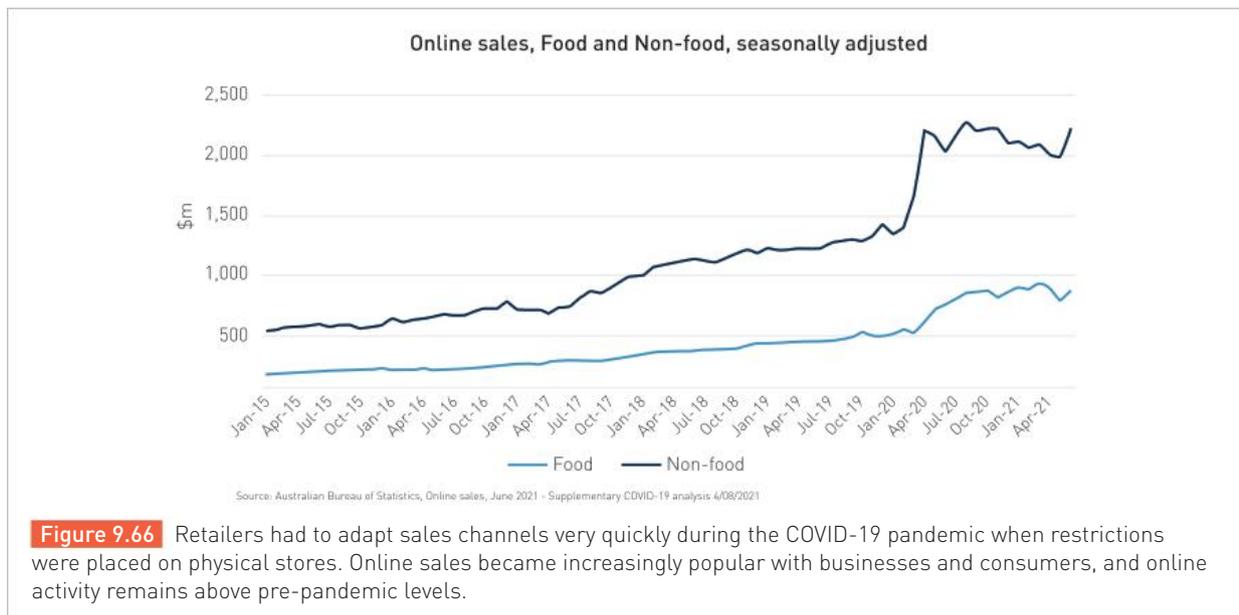
The most effective distribution strategy depends on the type of business and its objectives. Supermarkets Coles and Woolworths function as their own wholesalers, with a central warehouse system to supply their network of stores and achieve high sales turnover. In a geographically large country like Australia, many businesses need to operate using two intermediaries to deliver goods to the final consumer. This is especially true if the products were manufactured overseas, as many electrical goods are, for example.

Businesses are increasingly using a variety of distribution channels to enhance customer reach and achieve a market presence. For example, Lorna Jane boasts 140 physical stores in Australia, as well as a robust online sales platform, while recently opting to also retail through sporting superstore Rebel Sport.

Place and technology

While non-store retailing has always existed, with methods such as door-to-door selling, party plans and mail-order catalogues, the rapid uptake of technology has changed the nature of retail. Online shopping offers benefits to consumers such as ‘24/7’ accessibility, speed and ease of transactions, a wider variety of products not accessible nearby instore and the potential to research for the most favourable price.

During 2020, the COVID-19 pandemic accelerated the transition to eCommerce as during nation-wide lockdowns and pandemic-related restrictions, online became the main non-grocery retail channel (Figure 9.66). With consumers embracing online channels more than ever, it has become necessary for retailers to provide omnichannel experiences. Factors such as social distancing, sustained online engagement and the trend of working from home have sustained these online shopping behaviours. According to Australia Post, the events of 2020 created a permanent shift in buyer behaviour, with shopping habits having permanently changed as consumers are more willing to purchase across a range of channels.



Retailers with physical stores and an online presence, or ‘bricks and clicks’ who have developing their digital experience and integrating their online and offline channels have enjoyed the most success in recent years. With shoppers now back in physical stores, businesses that maintained both are being rewarded as customers today are choosing to shop using both methods and they also browse offerings on multiple platforms.

GAINING INSIGHT 9.20



Australia Post – Inside Australian Online Shopping 2023

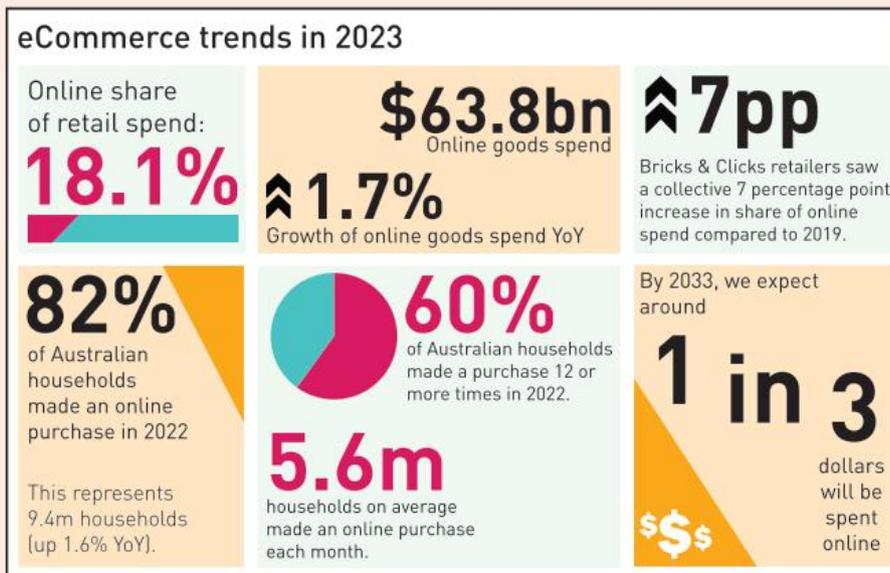
'In 2022, we saw a period of stabilisation in eCommerce activity after a number of years of significant growth. Without lockdowns and restrictions, Australians returned to physical stores in strong numbers, however, it's clear that the fundamental shifts in the way we live, work and shop that occurred during the pandemic are here to stay.'

Paul Graham, Group CEO and
Managing Director, Australia Post

Questions

- 1 **Describe** the business environment as it relates to the marketing mix element 'place'.
- 2 Using an example, **explain** the concept of omnichannel experiences and how this relates to retailing in Australia.
- 3 **Evaluate** the strategy of being a 'brick and click' retailer for a SME, using the criteria. Make a decision about the suitability of this strategy and propose recommendations.

Source: https://auspost.com.au/content/dam/auspost_corp/media/documents/ecommerce-industry-report-2023.pdf



Weblinks:

- Paramount (p.326)
- Health star rating animation (p.329)
- ABC News article (p.331)
- Australian Consumer Law (p.332)
- ACCC – Environmental and sustainability claims (p.334)
- ACCC – Fitbit (p.336)
- Ultra Tune (p.337)
- Ad Standards (p.338)
- Australian Bureau of Statistics (p.341)
- Keep it real campaign (p.344)
- Roy Morgan press release (p.344)
- Archies Footwear (p.352)
- Brand Finance (p.356)

- Bunnings Warehouse – Price policy (p.362)
- ACCC (p.373)
- ABC News article (p.373)
- Mumbrella article (p.373)
- Digital 2024 Australia (p.374)
- Barbie Selfie Generator (p.375)
- Barbie Land (p.375)

Templates:

- SWOT analysis (p.339)
- USP analysis (p.359)

Chapter summary:

- Chapter 9 Marketing - influences and strategies (p.380)

Chapter 9 review



Summary
Chapter 9
Marketing -
influences
and
strategies

You can demonstrate an understanding of this chapter content by successfully responding to the following questions.

9.1 Short responses

- 1 **Explain** the influences on consumer buying behaviour and identify which factor you believe to be most influential.
- 2 Distinguish between a market segment and a niche market.
- 3 Using an example, differentiate between creative marketing strategies and misleading or deceptive conduct.
- 4 List three key marketing objectives for a business in the growth stage of the business life cycle and **explain** how they interrelate.
- 5 **Explain** the concept of a product portfolio and its relationship to business growth.
- 6 Distinguish between price skimming and penetration pricing and how this relates to positioning strategy.
- 7 Use an attribute table to **explain** the traditional, digital and emerging promotion avenues available to a business.
- 8 **Explain** the role of intermediaries in place strategy.
- 9 **Explain** the relationship between market segmentation and the marketing mix.

9.2 Extended response

Using the inquiry process and the stimulus below, answer the following questions by referring to the topic.

- 1 **Describe** the business situation for Origin Tea.
- 2 **Describe** key business environment factors and how they have impacted the marketing function at Origin Tea.
- 3 Using the stimulus and some additional research, select data and information to **analyse** the business situation of Origin Tea using a SWOT analysis. **Interpret** the SWOT analysis to examine relationships and/or trends to draw conclusions about the implications on marketing for the business.
- 4 **Evaluate** a key marketing strategy used by Origin Tea to make a decision and propose recommendations.
- 5 **Create** a business report to the management of Origin Tea to **communicate** your findings.

Origin Tea: Making tea cool again

SOURCE 1: About Origin Tea

The idea for Origin Tea came to co-founder Chris Seaton during a university project at QUT, and he and his brother Lawrence started the business from the family garage. Having been raised around the family's tea plantations in Sri Lanka, an opportunity was identified to build on family connections and produce single-origin tea, which provides unique characteristics and flavours and a point of difference to teas blended from multiple sources. Today, this family-owned business has grown to have 20 employees, with annual revenue around \$5 million and distribution through supermarkets and cafes across Australia.



Origin Tea

Figure 9.67 Origin Tea founders Chris and Lawrence Seaton

SOURCE 2: Q&A with CEO Chris Seaton on growing a sustainable business and making tea cool**Q: What have been some of the key challenges in growing your business?**

When we started out, we had a clear vision for our business, to transform tea from boring to cool – that vision hasn't changed. We thought we could just take on the big brands such as Lipton and other household names, but quickly discovered these companies have huge marketing budgets – they spend millions a year – and we could not compete with that. An added challenge was that many tea drinkers are brand loyal, so converting them was harder than we thought and after two years we realised we needed to change our strategy.

An early challenge was importing a whole container of tea – hundreds of boxes of tea bags – which we couldn't sell. At one point we were down at the local markets trying to sell packets of tea for \$1.50 or \$2 with a hundred in a box. The experience cost us \$200,000 – vital cash flow in the early stages of the business – but we learned some valuable lessons and now have a much clearer strategic direction and focus on brand building.

Q: Can you share any marketing objectives in relation to growth?

Developing a clear brand strategy and creating brand awareness is really important. We communicate our brand as being single-origin, straight from our plantations in Sri Lanka with a focus on traceability, ethical conduct and sustainability. We also want to make tea cool again!

Q: How has Origin Tea sought to establish a market presence in a competitive industry?

Identifying a trend in the market that we could capitalise on – the popularity of single-origin coffee – and applying this to our concept was a real opportunity to create a point of difference for our brand. We partnered with coffee roasters and started building brand recognition in cafes. We also got onto the kombucha boom of 2016–17 with a partnership with Remedy kombucha during its initial growth phase.

While tea is often viewed as a stagnant category, we are making tea cool again! We are exploring market trends and changing consumer taste profiles to create innovative products that set us apart from competitors – our Sticky Chai is an example. While there's been a decline in traditional tea, the interest in unique and interesting tea-based products is growing. Another recent innovation is Origin Tea's Iced Tea Syrup range for the cafe market, making it quick and easy for a cafe to produce delicious iced tea drinks.

Q: It sounds like you market to cafes and also the end consumer?

Yes, Origin Tea is available in around 5000 cafes across Australia where they use our loose tea and our Iced Tea Syrup range. It has been a real strength of the business. However, the global pandemic, which shut down cafes nationally, resulted in our sales dropping about 70 per cent, meaning we needed to think creatively. While this distribution avenue still accounts for around 60 per cent of sales, we had to diversify our revenue streams.



Origin Tea



Origin Tea

Figure 9.68 Product innovations such as the Iced Tea Syrup range and Sparkling Iced Tea create a competitive edge for the business.

We have developed a range for the consumer market. Our sparkling iced tea range was developed as a healthy alternative to soft drinks, much like kombucha, which is the perfect drink for hot Australian summers. Our goal is to make ready-to-drink cans available in 7000 stores nationally, in retail, petrol and convenience stores.

Q: Can you tell us what being 'single origin' means from a marketing and operations perspective?

Single-origin for us means Sri Lanka; it is the country of origin. Most major supermarket brands are a blend of teas from Sri Lanka, India, Kenya and Indonesia. Operationally, we primarily source from 7,500 hectares of family owned and operated plantations in Sri Lanka which is managed by our father; this gives us the advantage of having our own tea estates to source from. This also enables traceability, consistency and the mindset of quality without compromise. While many tea companies source from a wide variety of countries and plantations to create tea blends based largely on price, we focus on quality of ingredients and superior taste.

From a marketing perspective, single origin is a key point of difference for our brand and allows us to compete on factors other than price. Back when we started, there was a trend of boutique coffee roasters opening in Australia who promoted single-origin coffee; they were telling people where their coffee came from and really promoting this. Sri Lanka is recognised as producing the best black tea in the world so we saw the chance to leverage the popularity of single-origin coffee into the tea market.

Q: Your business operates with a social conscience. Can you tell us a bit about this?

Origin Tea believe passionately in social change so much that we developed a program called T4Change. This program identified the key aspects of our growers' lives to improve the quality of life – aspects such as housing developments, schools and free health care are the initiatives that we have embarked on so far, in the hopes of making a brighter future for our workers and families.

Origin Tea's initiative Plantation2U is our in-house version of Fair Trade. While Fair Trade claims to be about the farmers, the exploitation that goes on based on consumerism and corporate companies focusing on profits leaves many growers and smaller companies out of pocket; it's not something we want to be a part of. Origin Tea continues to source its tea from the family's farms and other nearby affiliated plantations in Sri Lanka. This significantly shortens lead times through the supply chain so that tea leaves come straight from the plantation to you, delivering them as fresh as they can be. The real flavour and strength of the brew is reflected by its freshness. Our imports of fresh tea have doubled in the past few years to 400 000kg at the end of 2023, all while supporting our local tea growers.

Q: What's next in the Origin Tea growth journey?

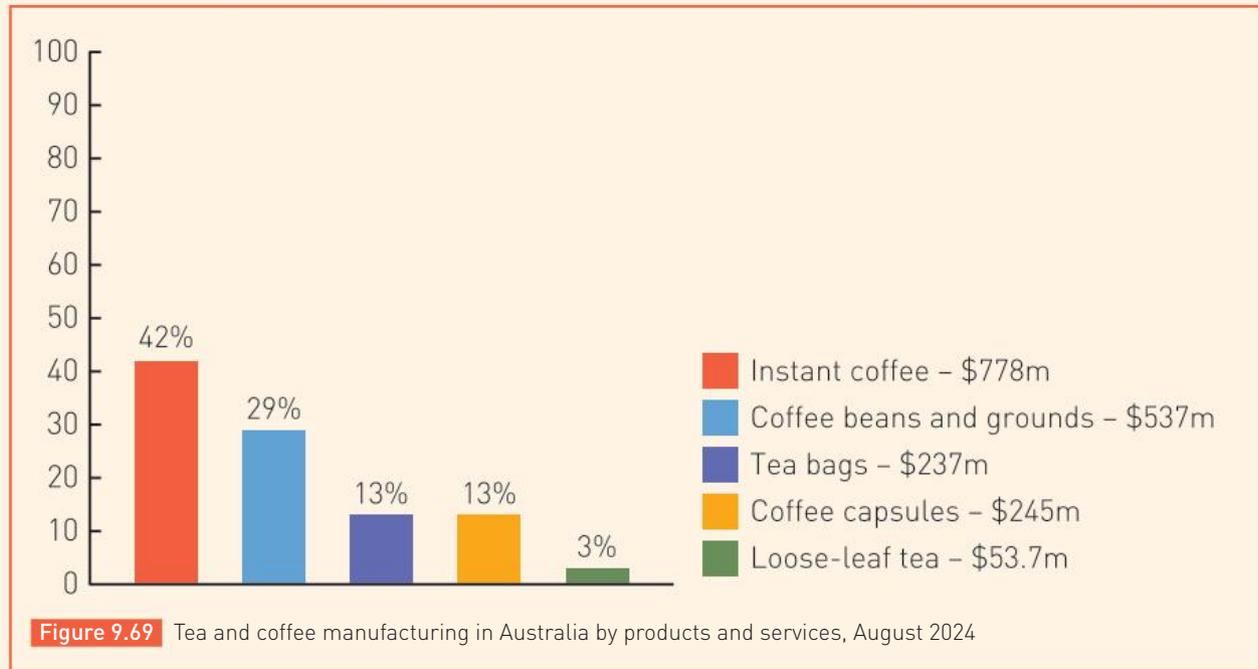
The goal is definitely to make tea cool! We see a real opportunity for growth, partly due to rising global coffee prices pushing up the cost of a cup of coffee, and also aligning with tea-based products such as bubble tea, iced tea, kombucha and seltzer tea. We have our own in-house tea masters based in Sri Lanka. When engaging in new product development, they work out the perfect loose-leaf tea to go in the blend. For example, developing the iced tea flavours Tropical Kiss and Sneaky Peach took about six months and involved brewing Ceylon leaves to create a syrup that was tasty to drink. Quality and the right flavour balance is a process. We are working on new products all the time! As part of making tea cool, we are appealing to younger consumers who will play a role in the growth of the business. We have just launched a digital marketing campaign on TikTok, positioning Origin Tea in this market with the campaign to #spillthetea.

We are also partnering with Amazon to build our direct to consumer model, so there's quite a few things happening at Origin Tea!

SOURCE 3: Tea vs coffee – what is the state of play in Australia?

Australia has developed a strong coffee culture, with coffee becoming an integral part of daily life for many Australians. A recent study by McCrindle reveals almost one in four Australians (24%) says they cannot survive their morning without coffee, with it becoming an essential component of their daily routine. While 78 per cent of people make their coffee at home, almost one in three (32%) purchase it from a cafe. A vibrant cafe scene supports this coffee culture, but also paves the way for innovative tea-based businesses given some consumers are trying to cut back on their coffee habit due to rising coffee prices and cost-of-living pressures.

Instant coffee has remained the industry's largest product segment as entrenched brands innovate their product lines, such as single-serve cappuccino sachets, to compete with consumer demand for capsules and fresh beans, both of which have grown by 1 per cent and 1.5 per cent respectively in the past 12 months. Market share for tea bags fell 1.5 per cent over 12 months, in response to growing popularity and changing consumer preferences for loose-leaf and niche, flavoured tea varieties.



10

OPERATIONAL PROCESSES AND SYSTEMS

What you will learn

Operations is concerned with the function of transforming inputs into outputs, or producing the goods or services that consumers want. This is related to the marketing function as it is the job of marketing to identify a target market and determine, through market research, what consumer needs and wants are. The marketing team relies on the operations team to produce a quality product in a timely and cost-effective manner – without operations, there would be no product to sell. This demonstrates the interdependence between these functions. In a large company, the operations function may be departmentalised around inventory management, manufacturing, quality and maintenance, while a service-based business may focus on customer service and capacity management. In an SME, these roles may be undertaken by a core team and the actual manufacturing process may be outsourced.

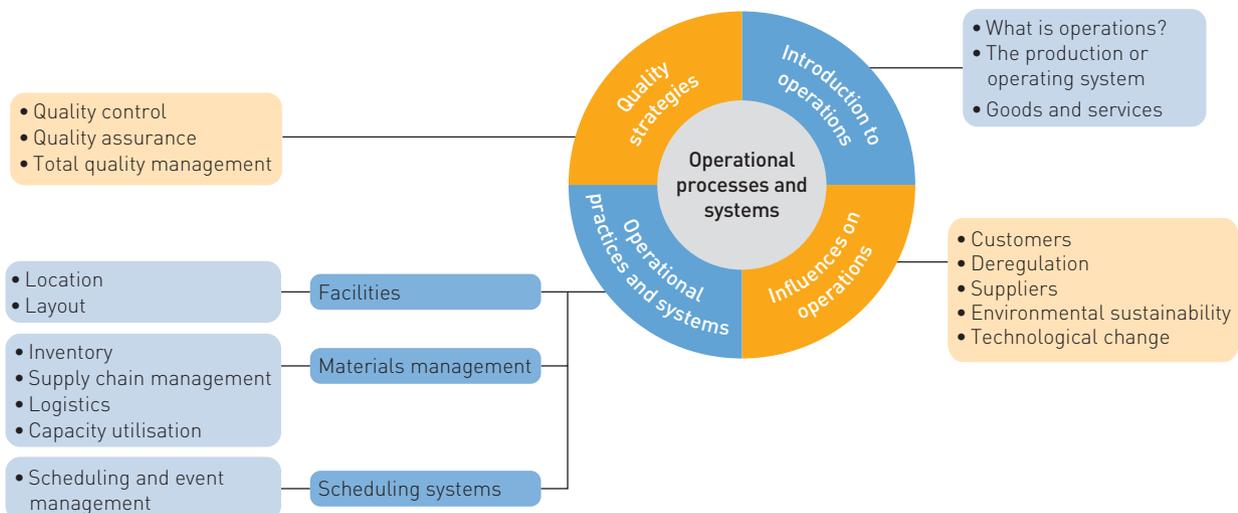
This chapter will provide you with the opportunity to:

- **describe** operating environmental factors influencing market entry and growth, including stakeholders such as customers, the community and suppliers; deregulation; and environmental sustainability
- **explain** operational processes and systems relating to facilities, inventory, supply chain management, logistics, capacity utilisation, customer service and quality
- **explain** production scheduling
- **select** data and information relating to operational practices using a SWOT analysis to interpret relationships and/or trends in the SWOT analysis to draw conclusions about the implications of operational practices used in the business
- **evaluate** operational strategies used by businesses in the growth stage to **make decisions** and **recommendations** using criteria
- **create** responses to **communicate** market entry strategies to a range of audiences, including diagrams, infographics, online posts and a business report.

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The analytical tools used in this chapter are:

- SWOT analysis
- USP analysis.



GAINING INSIGHT 10.1



Fixx Nutrition – Formulating success

FOCUS QUESTION: How does a small to medium-sized business achieve operational efficiency while manufacturing ‘in-house’ in a developing market?

Innovating and ideating

Fixx Nutrition provides a natural, healthy alternative to sugar-laden energy drinks for people to rehydrate and fuel during exercise. The idea was triggered in 2016 when founders and keen athletes Michelle and Jan Buchegger (Figure 10.1) tried to procure some pickle juice from a leading sports scientist for athletes in their care. Detecting an opportunity, they began testing a specially formulated, all-natural pickle juice concoction on a team of professional rugby union players with the aim of lengthening their on-field performance by eliminating muscle cramps. After almost two years of testing and tweaking, the all-natural CrampFix® was launched for professional athletes in 2017.

What is CrampFix?

CrampFix® is a no-mix, liquid formula that provides an almost immediate effect to get rid of cramps that most commonly appear during endurance activities.



Figure 10.1 Jan and Michelle Buchegger founded Fixx in 2017.

It is specially developed to help high-performing athletes achieve their performance goals. While other cramp relief products on the market, such as magnesium supplements, quinine and sodium, may assist in preventing cramps, these are useless at time of cramping due to the required time to digest and provide relief. CrampFix® works within 30 seconds to 2 minutes, and is 100 per cent natural, gluten-free and vegan, and made in Australia to hazard analysis and critical control points (HACCP) quality standards. This highly effective formula is Informed Sport accredited, meaning every batch is tested for banned substances for athletes’ assurance (Figure 10.2).

Growing in sales and product range

The company has experienced rapid growth since the beginning of 2020. A key milestone was an Australia-wide distribution deal with Woolworths, generating a retail presence in 1000+ stores across Australia, while a global presence is building, including the United States, Europe and Asia, based on its signature CrampFix® product.

Sales continued with 2021–2022 calendar year growth of 33 per cent as the local market increased distribution through sports retailers and online



Figure 10.2 CrampFix® works within 30 seconds to 2 minutes to alleviate cramps, while its compact packaging makes it highly portable. The product range has recently expanded to include Fuel X and Gel X Pro.

sales. '2022 was certainly an incredible year for us on many levels and we are grateful that our nutritional supplements are the number one choice for athletes from world-class sporting teams such as the Wallabies, UK Cricket & Football, and the Springboks, to local grassroots teams and athletes alike,' Fixx Nutrition co-founder Jan Buchegger said. 'We attribute our success to only using nature's finest ingredients to fuel our customers and we are proud that the world's top athletes entrust us to power their sporting and recovery efforts on and off the field,' Ms Buchegger adds.

Facilities to scale production

With strong sales and the launch of new products (Figure 10.3), Fixx Nutrition quickly became capacity constrained in previous facilities. In August 2023 they moved into a new facility located in the heart of Burleigh Heads, on the Gold Coast, enabling the business to double production volumes of its CrampFix®, Fuel X and Energy Gel product lines by a factor of more than 100 per cent. Increasing manufacturing capacity will allow the business to increase their production batch sizes and thereby produce more efficiently.

The new facility enables the business to build market share due to increased production capacities while still being able to produce their all-natural product range themselves. Additional space allows for more storage of raw materials, packaging and finished goods. It also supports improved warehousing and logistics for the online sales division, which is also managed in-house.

Ms Buchegger explains that production is where the business starts, meaning they focus on output and rely upon machinery to produce the required volumes to meet demand and business goals. They have developed



Fixx Nutrition Pty Ltd

Figure 10.3 Sales growth and the launch of new products, including Fixx Cold Brew Coffee Shot and Fuel X Endurance Fuel, meant Fixx Nutrition needed to upgrade operational facilities and systems.

processes for each of the product lines, which are powder and liquid, starting with mixing raw ingredients, moving to machine filling and packing individual units through to packing outer/shipping cartons (Figure 10.4). Processes are governed by the HACCP accreditation, for which Fixx are audited every 12 months. The factory is also accredited allowing thorough batch testing for banned substances for professional athletes. Ms Buchegger affirms that 'efficient operations allow us to remain competitive as an Australian-based manufacturing business and are crucial for future growth.'

In addition to the new facilities and increased space, Fixx Nutrition procured new machinery during 2023. This enables them to broaden their packaging options along with improving existing packaging for the CrampFix range; being able to open and consume products quickly, while on the go, is important for sports nutrition! 'We're super proud to offer an Australian Made brand that is not made by subcontractors like most other nutrition products. We have complete control over ingredients, quality and processing, eliminating contamination risks and allowing flexibility,' Ms Buchegger says.

Sustainable practices and systems for the future

Fixx focus on continuously improving operations across all business functions including production, customer service, data entry and accounting, e-commerce order processing, and warehouse functions. All functions need to improve together as they are all interlinked. Sales operations have been improved with the installation of a customer relationship management (CRM) system, which integrates with production inventory, customer management and accounting processes. Dispatch and shipping systems also integrate with the CRM to ensure



Fixx Nutrition Pty Ltd

Figure 10.4 Packaging of CrampFix for distribution to retailers.

all orders, both e-commerce and wholesale, are produced and packed on time with tracking data. This is vital to ensure accurate order processing and stock control. To combat rising labour costs, the business incorporates technology in its systems wherever feasible.

Partnerships with major marathons, including the Gold Coast Marathon, Canberra Marathon and Sydney Marathon, exposes thousands of potential customers to the product range, with Fixx Nutrition being a big part of Australia's distance running scene. The iconic Sydney Marathon alone boasts 40 000 participants from more than 66 countries, making this is a powerful way to achieve brand awareness and sales. Engaging with professional cyclists, triathletes, local sporting codes such as the AFL and NRL, and international teams from cricket, football and rugby union, shows the range of sports embracing the product range and the scope for further growth. With a core focus on using natural ingredients to create world-leading sports and dietary supplements, the future for Fixx Nutrition is strong.

Sources: *Asia Food Journal* (2022, 13 December), 'Queensland headquartered wellness company experiences significant global growth by nutritionally supercharging amateur and professional athletes alike'. <https://asiafoodjournal.com/fixx-nutrition-significant-growth-athlete-nutrition>; AuManufacturing (2022, 14 December), 'Fixx Nutrition boosts distribution, manufacturing capabilities'. <https://www.aumanufacturing.com.au/fixx-nutrition-boosts-distribution-manufacturing-capabilities>

Questions

- 1 **Describe** business facts and characteristics related to Fixx Nutrition's situation and its business environment.
- 2 **Explain** why upgrading to a new facility has been a key strategy for Fixx in its growth journey.
- 3 **Explain** how the introduction of CRM technology is both an operations and a marketing system and identify the costs and benefits of adopting the system.
- 4 Visit the HACCP website and **explain** how this accreditation supports the production system and growth objectives for Fixx Nutrition.



What is operations?

Key learnings

You will learn the following about operations systems through examining:

- production systems
- production of goods and services.

Operations is the business function responsible for overseeing the process of creating goods or services. In the past it has been known as 'production management' and centred on manufacturing industries. However, manufacturing has decreased in importance to the Australian economy, as illustrated by the closure of car manufacturing in late 2017. The Australian economy has shifted its focus to service-based industries. Production management has evolved to reflect the new economy and has become known as **operations management**. Operations now encompasses the primary, secondary (manufacturing) and tertiary (services) industries. Strong operations management is key to achieving objectives across all business functions.

Operations management involves planning, organising, leading and controlling all the activities necessary to combine inputs (or resources) into outputs (goods and services). It involves managing people, equipment, technology, information, and all the other resources needed in the production of goods or services. This makes operations a core activity of all businesses. Operational decision-making should focus on optimising operational efficiency and effectiveness to produce goods or services at the lowest price possible. This aligns with business objectives of competitiveness in the market and the core objective of profitability.

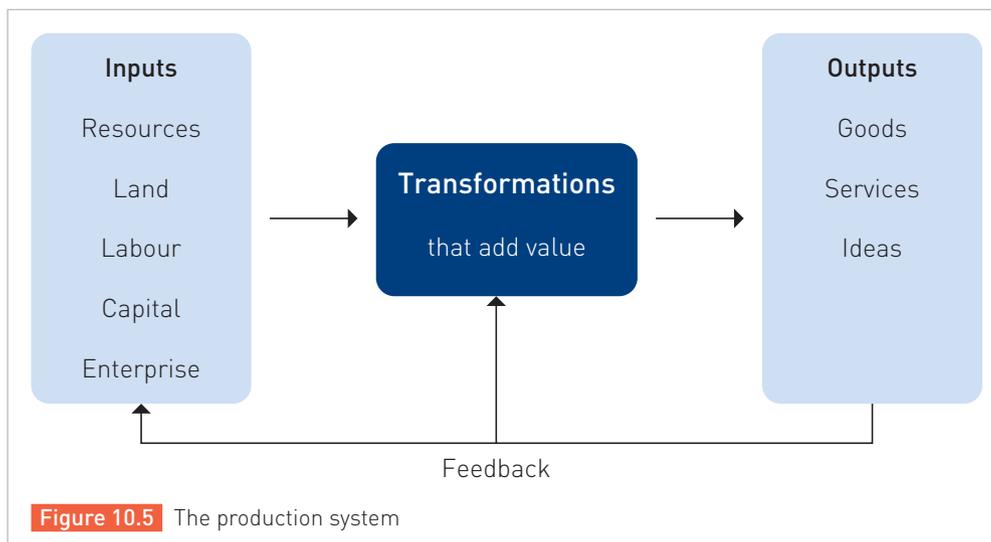
Operations management: involves planning, organising, leading and controlling all the resources needed to produce a business's goods and services



The production or operating system

All businesses operate using a **production system** – a set of activities that convert or transform the inputs of the business into outputs. The key elements, as seen in Figure 10.5, are:

- *inputs* – including tangible things such as resources and raw materials (e.g. water, timber, minerals, electricity), land, human resources in the form of labour or effort, capital in the form of facilities, machinery and technology, as well as the intangible aspect of enterprise, or ideas and risk taking
- *transformations* (also known as processing) – the processes, including transportation, that transform or convert the inputs into value-added outputs. While transforming, they are known as ‘work-in-progress’. The transformation stage is where value is added to inputs and where productivity gains may be made through efficiencies in processes
- *outputs* – the goods (either for final use or as inputs for another business in the supply chain), services or business ideas. To ensure competitiveness, an output must reflect market needs and consumer preferences. The secondary outputs or by-products of one production system can be sold as the inputs of another system, as seen in the sugarcane example in Figure 10.13 on page 394. This can reduce waste and improve the profitability, efficiency and sustainability of business practices in the production system.



Left to right: Design Pics/Alamy Stock Photo; Bill Bachman/Alamy Stock Photo; Phoebe Everill: Trio of blackwood, huon pine, and New Zealand beech stools



Figure 10.6 Land, labour and final product

Production system: the set of activities that convert or transform the inputs of a business into outputs

GAINING INSIGHT 10.2



Cobram Estate is an overnight success, 25 years in the making

Rob McGavin and Paul Riordan planted the first olive tree on their outback Queensland property in 1998 and have worked hard to grow the brand and their groves. By 2004, they were producing a quarter of the country's oil with only 2.5 per cent of the trees. 'Olive trees are actually easy to grow, but hard to make fruit consistently,' Mr McGavin said, identifying this as a key challenge as they tried to grow the business. Accessing funding to plant more trees to give them the scale needed to be profitable was another challenge, along with the industry challenges from droughts to floods and cheaper imitation oils posing as extra-virgin olive oils. Today, they are Australia's largest olive farmer with over 2.4 million trees planted on more than 6 500 hectares of pristine farmland.

The production process

The nursery: Tiny cuttings from the best quality trees are sent to the plant nursery in Lara, Victoria, where they take 12 weeks to grow roots, ready to be potted in shade houses. It takes 18 months for the cuttings to become plants; those that thrive are transported to olive groves for planting.

Olive groves: Through each season, the trees get exactly what they need to be ready for harvest. From frost prevention in winter, to feeding and pruning in spring and watering in summer. In November each year the trees will produce flowers. Over the coming months 1–2 per cent of the flowers will turn into fruit.

Harvesting: The harvest period sees the team work 24 hours a day on the olive groves to harvest olives when they are at their best. Innovative harvesting machines (Figure 10.7), the 'Colossus' and 'Optimus', gently shake the olives from the trees and deliver them to our tractors for loading into trucks to be transported quickly to the onsite mill.



Figure 10.7 Harvesting machines gently shake the olives from the trees

Production: Once harvested, the fruit is quickly transported to the onsite mill to be cold pressed. This involves crushing the olives into a paste, stirring and then spinning in a centrifuge to extract water, the oil and the pomace (Figure 10.8). This delivers freshness fast, resulting in a premium quality extra virgin olive oil. To ensure the oil is extra virgin grade, the oil undergoes laboratory testing and taste testing. The oil is tasted to understand bitterness, fruitiness and pungency – this allows creation of premium quality blends. To lock in freshness and taste, the oil is stored in specially developed, temperature-controlled tanks before being transported to bottling facilities in Lara, Victoria. There is no heat, chemicals or solvents used in the process to extract oil from the fruit. This is an important differentiator for refined olive oil.

Bottling: The oil is pumped from delivery trucks through a matrix of pipes to the tank farm, where it gets allocated to the bottling line. Bottles are filled, capped with the signature pop up pourer, labelled



Paolo Galasso/Alamy Stock Photo

Figure 10.8 A lead time of, on average, four hours from picking to processing ensures high levels of quality and freshness – this is a key point of difference for Cobram Estate.

and printed with the batch code, best before date and year of harvest. The line can produce up to 13 000 bottles per hour (Figure 10.9). Carton packaging is the final step in this process before being delivered to customers.

Continuing to grow

Cobram Estate now produces 70 per cent of Australia's olive oil from its own groves, which are predominantly in Victoria and South Australia. The company was listed



Figure 10.9 The bottling process sees the oil packaged into bottles with a signature pop up pourer ready for cooking and serving with salads

on the Australian Securities Exchange in 2021 and has continued to expand both at home and into the USA. 'It's a hugely exciting market, it's 10 times the size of Australia [and] we can do it really well,' Mr McGavin said. Mr Riordan says, 'You plant a vineyard for your children and an olive grove for your grandchildren – it takes a long time and we have made a lot of mistakes but we are really delighted with how it is going now and thrilled with the support'. This overnight success has been decades in the making.

Source: Elly Bradfield and Arlie Felton-Taylor (2023, 26 October), 'How Cobram Estate's Rob McGavin went from outback boy to Australian olive oil baron', *ABC News*. www.abc.net.au/news/2023-10-26/rob-mcgavin-from-cobram-estate-outback-boy-to-olive-oil-baron/103002476 and from Cobram Estate 'Our Process' webpage: <https://cobramestate.com.au/pages/our-process>

Questions

- 1 **Describe** the business situation and key environmental influences that impact operations at Cobram Estate.
- 2 **Explain** the key challenges faced by Cobram Estate in the growth stage of its business life cycle.
- 3 **Create** a diagram to visually illustrate the production system at Cobram Estate. **Explain** the production system and how it has influenced business outcomes.

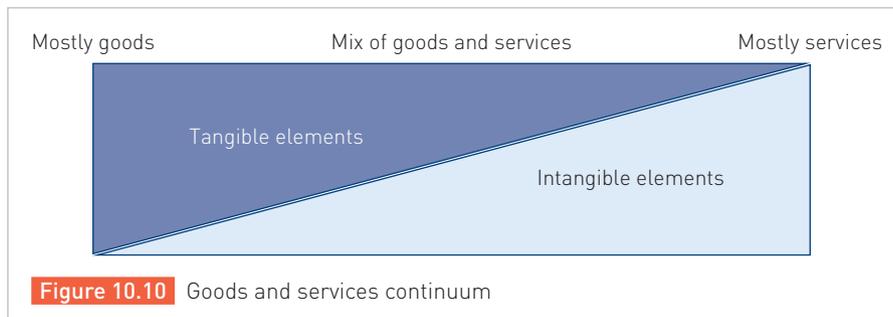
Goods and services

Manufacturers of goods and service-based businesses have very different operational requirements. Manufacturing outputs are physical, or tangible, in nature – they can be touched and felt. Examples include motor vehicles, food and televisions. Services, in contrast, are intangible and cannot be touched. Examples include legal advice, health care and education.

Table 10.1 identifies the key differences in operational processes between producing a pure good, such as a motor vehicle, and a pure service, such as education. In reality, most production systems provide an output that is a combination of 'good' and 'service' elements. For example, when you purchase a motor vehicle, you not only receive the vehicle, but also after-sales service, a warranty and, possibly, financial services. When employing the services of an accountant, you will receive his or her expertise and financial documentation. This combination of goods and services can be represented on a continuum, ranging from pure goods to pure services, as shown in Figure 10.10.

Table 10.1 The differences between the production of goods and provision of services

Goods	Services
Tangible or physical	Intangible or non-physical
Customer is rarely, if ever, an input	Customer is often a key input
Capital-intensive production processes	Labour-intensive production processes
Production and consumption occur separately, in terms of location and time	Production and consumption often occur simultaneously, for example air travel
Can be stored for varying lengths of time	Cannot be stored or placed in inventory like most goods
Products are often standardised, meaning they can be mass-produced	Many services are unique to the individual customer – the service is customised
Little to no customer contact is warranted	Customer contact is often high



It is important for an operations manager to be aware of both the goods and services aspects that make up the total product concept and to understand what influences consumer buying behaviour. Employees involved in the services side of operations will have higher customer contact than those working in production, meaning training in customer service will be vital.

Customer service

In the growth stage of the business life cycle, a business should be constantly gaining new customers and trying to convert them into loyal customers. A challenge during this stage is managing the competing demands of trying to grow sales and revenue, while providing a quality customer-service experience. The production system of inputs, transformations and outputs must be aimed at meeting or exceeding customer expectations – this is the essence of **customer service**. Customer service is an essential output of a service-based business.

The main objective of customer service is a satisfied customer. The degree to which this objective can be achieved will depend on the effectiveness with which the business communicates information, provides service and responds to customer inquiries. In a digital environment, this will also include the timeliness of communication. Exceeding customer expectations is key to developing a long-term relationship, which translates to a competitive edge.

A quality customer-service system is a feature of relationship marketing that can remove price as a key purchase consideration – customers are often willing to pay more for good customer service. If a business can supply a quality product and strong customer service, this is a point of difference. While competing with larger companies based on price is not always viable, SMEs can harness the power of quality customer service to grow their business and build lasting relationships.

Customer service can be measured based on the number of customer complaints or the average time it takes to respond to a customer enquiry. Quality customer service is central to business growth, as is service recovery when the experience is not satisfactory.

See the Australian Government Business website for advice on good customer service.



Customer service: the intangible output of how well a business meets and exceeds the expectations of customers in all aspects of its operations



Service recovery

The primary factor that causes service failure is the nature of services themselves – their intangibility, variability and customisation. Each of these increases the possibilities of errors or service failures and the need for recovery. Add to this the increasing reliance on technology by businesses operating an online platform, and the potential for service failure is high.

It is reported that a dissatisfied customer will tell between nine and 15 people about their negative experience, with the possibility that the customer has posted to social media to share dissatisfaction before they exit the business. Service recovery is critical for turning a negative situation into a positive one. Steps in a service recovery process are shown in Figure 10.11.

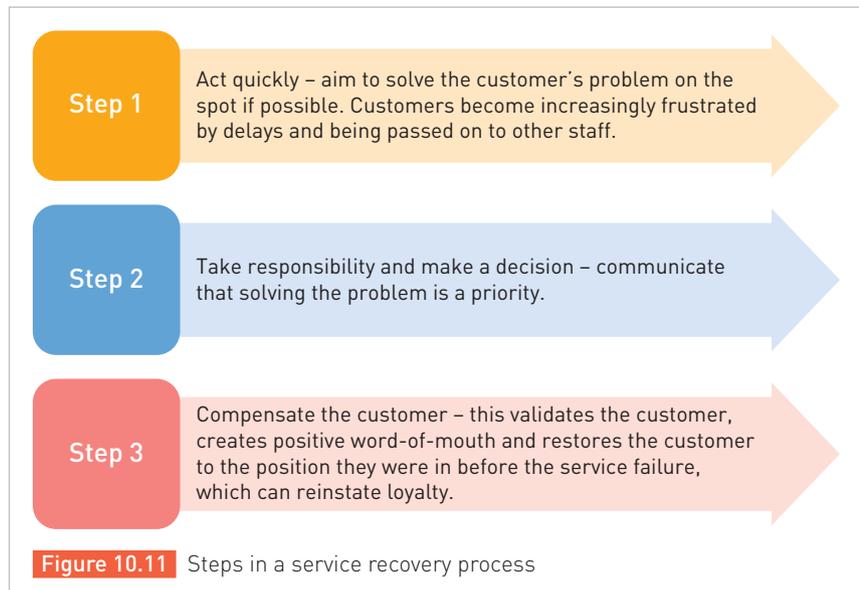


Figure 10.11 Steps in a service recovery process

QUESTIONS 10.1



- Create** a diagram to illustrate the production system for each of the following businesses:
 - a fine-dining restaurant
 - a tinned-fruit factory
 - a hotel
 - a blueberry farm
 - your school.
- List all the goods and services you have purchased in the last month. Classify each of these goods or services, using the goods and services continuum in Figure 10.10.
- For each tangible product you identified in Question 2, **explain** how important the service element was in your purchase decision.
- Using your knowledge of marketing and operations, **explain** why many modern businesses combine the good and service elements.
- Brainstorm a list of customer service skills necessary for the following jobs:
 - flight attendant
 - accountant
 - tour guide
 - hairstylist
 - schoolteacher
 - electrician
 - pilot
 - doctor.
- Select three of the jobs from Question 5 and rate them (from high to low) based on the degree of customer contact they involve, in terms of quality of contact and quantity of contact with customers. **Interpret** the effects of quality and quantity of contact with customers to draw a conclusion about the importance of customer service skills.

Influences on operations

Key learnings

You will learn about the influences on operations through examining:

- productivity
- stakeholders such as customers, the community and suppliers
- environmental sustainability
- technological change
- the impact of deregulation on market entry.

For any business looking to compete, a key operational consideration is the design and management of production systems that increase **productivity**. Making improvements in productivity is key to competitiveness. Productivity is a measure of efficiency and is expressed as the ratio of output per unit value of input. For example:

- tonnes of wheat yielded per hectare
- number of cars manufactured per worker per day
- dollar sales generated per retail employee.

Productivity must not be confused with ‘production’, which is an absolute measure of the quantity of output of a business over a given period of time. Productivity is a relative measure and refers to how efficiently inputs are converted into outputs. Greater efficiency can be achieved via strategies such as:

- improving employee skill levels through training and development (note the link to human resources strategies)
- improving the motivation of employees
- updating equipment with the latest technology
- effective management of all inputs in the production system.

A recent trend has been toward improving efficiency by employing fewer but better-skilled employees and by replacing labour with capital equipment. Improvements in productivity can reduce the cost per unit of production, which can provide a competitive advantage and ensure a sustainable business.

A shortcoming of using only an efficiency objective such as productivity is that it takes no account of the value of the output produced – for example, whether the final product is what consumers demand. Nor does it account for the value of inputs, such as impact on the environment or labour. The criterion of effectiveness must also be considered – this is the degree to which a business achieves its stated objectives (Figure 10.12). Effectiveness is viewed as ‘doing the right thing’ and includes meeting the expectations of key stakeholders, including the wider community, who expect businesses to operate in an ethical and sustainable manner. Efficient and effective operations should lead to satisfied customers, higher sales and achievement of business objectives such as market share and profitability.

As a business enters the growth stage of the life cycle, it should be attracting customers and seeing an increase in sales. This places increased focus on ensuring the operational aspects of the business can keep up. It also means managing operating expenses and surveying the business environment. The operating and macro environment is a significant influence on a business during market entry, when looking to grow and when trying to maintain sales in a competitive landscape. The influence of customer preferences, other businesses in the supply chain and community expectations must be monitored, along with external factors.



Figure 10.12 Operations managers are tasked with monitoring productivity to ensure business objectives are being met.

Productivity: a measure of how efficiently goods and services are produced. It is expressed as the value of output per unit value of input



Customers

Given the synergy between the marketing and operations functions, a customer focus is imperative to successful operations. Customers are increasingly looking for more than just low-cost products, they are also supportive of businesses that:

- embrace sustainable practices and minimise their impact on the environment
- use resources in an efficient way to reduce waste and operate a lean production system
- reflect fair value for any labour used in processes
- innovate to meet the changing needs of consumers
- support the local community
- operate in an ethical and socially responsible manner.

Suppliers

The term ‘supply chain’ refers to the range of suppliers a business has as a product passes through the production system to the consumer. Supply chain management is an increasingly complex process in a globalised market where the trends are to outsource and manufacture offshore. Large companies, such as Coles and Woolworths, have optimised their supply chains to achieve efficiency objectives, while being scrutinised in the media for their treatment of suppliers – notably, suppliers of fresh produce and dairy.

For a business seeking market entry, securing a reliable supplier is a critical step and can pose a barrier to entry in some industries. For established businesses, maintaining a quality working relationship with suppliers, including visits to production facilities, can be beneficial.

Considerations when choosing and working with a supplier include:

- ensuring the quality and reliability of supply
- managing the cost of inputs from the supplier
- fair and ethical dealing with suppliers, including prompt payment
- sourcing inputs from ethical suppliers, noting this can be considerably challenging with the trend to manufacturing offshore
- using environmentally sustainable inputs.

As shown in Figure 10.13, in the production system the outputs of one business can represent the inputs for another business. What is waste or **by-product** for one business can be a valuable input for another. Working closely with suppliers can improve efficiencies and create a competitive advantage for both businesses.



Clockwise from top left: Johan Larson/Shutterstock.com; electrical/Shutterstock.com; iPrech Studio/Shutterstock.com; Sean Heatley/Shutterstock.com; Novikov Alex/Shutterstock.com; MOAimage/Shutterstock.com

By-product: a secondary or resultant product created as part of a production system. This incidental output by one business can be a key input for another

Technological change

A noteworthy external influence on business operations is technological change. This includes the use of equipment, machinery and systems to support more efficient and effective transformation of inputs into outputs and the technological knowledge to improve and sometimes disrupt the way a business performs functions or makes products. Uptake of new technology has significantly changed the operations of both manufacturing and service businesses. For SMEs looking to enter a market, extend their product line or grow their market share, investment in technology will be necessary. The business will need to appraise the high initial costs relative to benefits such as productivity gains and increased sales. While high initial financial outlay in acquiring or updating technology can be cost prohibitive, without this a business may struggle to be competitive.

The COVID-19 pandemic accelerated the uptake of technology for many SMEs in response to the impact of shutdown orders and social distancing regulations. This saw businesses of all sizes and life cycle stages hasten to adopt technologies that enable employees to work from home and for customers to shop online instead of instore. Examples of businesses who embraced technological change during this time included:

- real estate agents staging virtual tours in lieu of traditional open homes
- tele-consultations by healthcare providers and professional services such as accounting and legal firms
- live streaming of classes, both educational and for activities including gyms and pilates
- restaurants offering online ordering and home delivery services when dining in was not available.

For many businesses, technological changes made during the pandemic have been retained in some way, for example medical providers may offer both face-to-face appointments and telehealth sessions. The continued focus on e-commerce and preferences for flexible work practices, including the option to work from home, indicate that maintaining new operating models and capabilities can help a business remain competitive and grow.

GAINING INSIGHT 10.3



'It seems counterintuitive': Why self-service checkouts still divide Australians

No topic remains quite as divisive among Australians as the presence of self-service checkouts in stores. This year saw the use of the facilities – implemented nearly a decade ago by stores at home and abroad in the hope of speeding up lines and cutting labour costs – reconsidered by a handful of global supermarket chains, following complaints that both service and human interaction was lacking. 'Our customers have told us this over time – that the self-scan machines that we've got in our stores ... can be slow, they can be unreliable [and] they're obviously impersonal,' Booths managing director Nigel Murray told the BBC.

The British retailer announced in November it would remove the kiosks from all but two of its 28 grocery stores. The technology could also be 'problematic' for customers, Mr Murray said, when it came to identifying and weighing specific fruit or vegetable varieties. 'Some customers don't know one different apple versus another, for example,' he explained.

Despite similar criticism being levelled at Australia's Coles and Woolworths, neither intend to follow suit. Representatives for both grocery giants previously told news.com.au that staffed registers and self-checkout hold equal merit – a sentiment echoed by Queensland University of Technology (QUT) Business School Associate Professor, Paula Dootson.

'Consumers have different preferences when it comes to shopping, and if consumers are given a choice – self-checkout or staffed checkout – then they can choose what they prefer,' Professor Dootson, a cross-disciplinary researcher in consumer behaviour and digital transformation, told news.com.au. What frustrates shoppers, she explained, is 'when they either do not get the choice, or they find themselves waiting in line and there are empty checkouts that they think they could be using rather than waiting in line, causing anger ... with how the store is allocating their resources'.

In a November update, Woolworths Group CEO Brad Banducci insisted there are now 'more jobs at Woolies, not less' to cater to rapid grocery delivery, the traditional in-store experience and other options like Direct to Boot. Compared to five years ago, Coles has also 'recruited an additional 22 000 Team Members', a spokesperson said.



Drazen Zigic/Shutterstock.com

Figure 10.14 Self-service checkouts remain a divisive concept for many Australian consumers.

'If technology fails (power outage, technical malfunction), having staff present to help the customer with the service failure is critical to manage customer satisfaction and patronage of the store in the future,' Prof Dootson added. 'Staffed checkouts also create a more inclusive store experience for people who are unable to use the self-checkouts.'

Source: Extract from by Natalie Brown (2023, 25 December), "'It seems counterintuitive": why self-service checkouts still divide Australians'. news.com.au. <https://www.news.com.au/lifestyle/real-life/news-life/it-seems-counterintuitive-why-selfservice-checkouts-still-divide-australians/news-story/7d19ee4e54ce27c6e430e32bfa7fbd3b>

Questions

- 1 **Describe** the business situation from the perspective of major retailers Woolworths and Coles.
- 2 **Explain** the influence of technology in the operations of many large retail stores, including Woolworths and Coles.
- 3 **Create** a double-bubble map to compare the viewpoints of customers and retailers on the uptake of self-checkout services in retailers. Using the double-bubble, create a paragraph response to **explain** how technological change impacts customer service and operational practices and systems.
- 4 **Evaluate** the decision by some retailers to further utilise technology, in lieu of employees, in customer service settings. Make a decision about the suitability of this strategy and propose recommendations.

Environmental sustainability

There has been an increasing push for businesses and governments to adopt more environmentally sustainable practices. Environmental (or ecological) sustainability refers to the development of production practices that allow resources to be used today without depleting them for future generations. This is a significant issue for operations managers with the increased awareness of climate change and long-term sustainable use of resources.

While large companies, such as Ikea, have corporate policies devoted to sustainability, SMEs entering a market can establish their environmental credentials by choosing suppliers on factors beyond the best price, to include ethical and sustainability practices, and using green energy options. They can also purchase recycled inputs, such as packaging materials, and use energy-efficient equipment.

GAINING INSIGHT 10.4



Australian seaweed company named finalist in Prince William's prestigious Earthshot Prize

- In short: A Tasmanian seaweed business has been shortlisted for the Earthshot Prize, which 'searches for extraordinary solutions to the world's greatest environmental challenges'.
- The company, Sea Forest, cultivates asparagopsis (Figure 10.17) in one of the largest marine leases in the Southern Hemisphere, in order to develop feed which prevents methane production in sheep and cattle.
- The company wants to produce enough seaweed to feed two million head of cattle.
- What's next? The winners of the Earthshot Prize will be announced in Singapore in November and receive around \$1.9 million to aid their work.

Source: Extract from Laurissa Smith and Sabra Lane (2023, 20 September), 'Australian seaweed company named finalist in Prince William's prestigious Earthshot Prize', *ABC Rural*. <https://www.abc.net.au/news/2023-09-20/sam-elsom-sea-forest-prince-william-earthshot-prize/102870114>



Figure 10.15 Sea Forest's asparagopsis supplement contains bioactive compounds which prevent methane production in sheep and cattle.



Figure 10.16 Seaweed supplements work by inhibiting methane production in a cow's digestive system.



Figure 10.17 Asparagopsis is native to Tasmanian waters.



Weblink
Sea Forest

Deregulation

Deregulation is the process of removing or reducing restrictions and controls on an industry. Restrictions may be about prices, outputs, product standards or market entry conditions. An aim of deregulation is to improve the ease of entering a market to achieve greater competition and improve productivity. Australia has experienced decades of deregulation, for example the deregulation of domestic aviation, telecommunication and electricity. You can read the ACCC speech titled 'Australia's experience driving economic growth through competition policy reforms' for more examples and a detailed account of productivity gains from deregulating markets.



Weblink
ACCC speech

Deregulation: the process of removing or reducing restrictions and controls on an industry in order to improve the ease of entering a market and achieve greater competition



GAINING INSIGHT 10.5



Maleny Dairies and the operating environment

About Maleny Dairies

Maleny Dairies is a premium milk company, we are local and family-owned in Maleny on the Sunshine Coast hinterland, Queensland, Australia. Great grandfather Hopper purchased the land in 1948 and we began as a cream only farm. In 2000 the milk industry was deregulated forcing thousands of farmers around Australia to close their farms. We too faced an uncertain future but decided to fight back by building our own processing and bottling plant. As we expanded, we began purchasing milk from other local farmers on the

Sunshine Coast. The flexibility and control afforded us by managing our own plant has facilitated the opportunity for us to pay our farmers at a much higher rate per litre of milk, enabling each farmer to keep their herds healthy and their farms viable ... Today we have another eight farms in the region; we are proud to process their milk into Maleny Dairies products.

Source: Our story | Maleny Dairies (n.d.). Maleny Dairies. <https://www.malenydairies.com/our-story>



Weblink
Maleny
Dairies



Maleny Dairies

Supermarket milk boycott means more for Maleny Dairies

A Maleny Dairies truck had just left Coles at Maroochydore on Friday after making a delivery when owner Ross Hopper's phone rang. The shop was already running out and needed more.

The consumer boycott of cheap supermarket milk in support of dairy farmers has boosted sales of local milk. Branded milks like Maleny Dairies are selling out while consumers shun plain brand '\$1 a litre' milks in protest at a supermarket milk price war and poor prices paid by dairy giants Murray Goulburn and Fonterra to farmers.

Mr Hopper said demand for Maleny Dairies milk was up by about 10% and the pressure was on to bottle more milk for the business's retail customers. 'Some of the shops have doubled their orders and we're going flat out but we're keeping up with the orders,' he said. Unable to ask the hinterland's cows to work harder, Mr Hopper said he was working with Maleny Cheese to ensure the business has enough raw milk to keep up with the increasing demand. 'We work in with Maleny Cheese. We've got extra milk,' he said.



Lachie Millard Photography/NewsPix

Figure 10.18 Maleny Dairies milk sales are up 10 per cent.

Mr Hopper said the consumer action, even if it weakened, was likely to convert to a permanent increase in business for Maleny Dairies and its suppliers. 'In the past, the spikes we've had have added an increase in our sales. There's always a bit of a spike and then it will level out but we definitely see a future in it.'

Even local farmers who do not supply Maleny Dairies are happy for the consumer action to continue ... Elke Watson, of Conondale, whose farm supplies Norco, said consumer action was exactly what was needed to break the \$1 a litre prices introduced by Coles. 'I'm very much of the view that \$1 a litre milk has to stop. It takes money out of the whole supply chain,' Mrs Watson said. She

said milk sales overall would not decrease while consumers boycotted the cheaper brands.

'People will continue to drink the same amount of milk. If they don't buy the Coles milk, they'll be buying the more expensive milk and the money will be going back to farmers.'

Source: *Sunshine Coast Daily*, 30 May 2016, www.sunshinecoastdaily.com.au

Maleny Dairies ✓
October 29 at 3:59pm · 🌐

Like Page ...

BUSINESS UPDATE

Dear Facebook Family,

How quickly 2017 has flown by! Our family business has had a very busy year. Like all small businesses we have had big struggles with rising costs. Being a branded label dairy producer we are also experiencing significant declining sales. It is not the most pleasant combination to deal with but as one W. Churchill is famous for saying, 'we shall never give up'. Our farmers have had it rough as well with at least two terrible years in a row. The 300 mm to 400 mm of rain we received up here in Maleny in October is fantastic and has set the farmers up for a positive outlook. La Nina is in positive territory so hopefully we get lots of good rain right through to next autumn.

We are very proud of all our customers. Because of you we are still currently supporting nine other farming families with our business (outside of our own farm) ... With our sales decreasing we are not in any position to take

on new farms, but we are ever optimistic that Queenslanders will buy more of our products.

We are not sitting back with this less than ideal economic environment! Between now and March 2018 (our 'down' period) we will spend time working with some new equipment that is designed to bring our operating costs down. We will also spend this time looking to refresh some of our product lines, particularly yoghurt and flavoured milks. We are also planning a marketing campaign to begin in April 2018. Our shops are very supportive and we are working with all of them around stock numbers so that customers don't find our items sold out ...

Maleny Dairies will always want to increase sales; we can take on more farms, we can employ more quality people and we can provide more people with quality, healthful food ... Thank you very much for being loyal customers ... The first thing you can do to help is to share this with your friends and family to encourage them to think of their local farmers when they are next in the dairy aisle.

2.9K Reactions 351 Comments 1K Shares

Like Comment Share

Maleny Dairies

Questions

Visit the Maleny Dairies YouTube channel to view the dairy in full operation, and then answer the following questions.

- 1 Describe the business situation and operating environmental



- factors that have impacted operations for Maleny Dairies. Ensure you include business facts and characteristics present.
- 2 Draw the production system for Maleny Dairies, with examples of inputs, transformation processes and the outputs.



Template
USP analysis



Maleny Dairies

Figure 10.19 Onsite at Maleny Dairies' processing plant.

- 3 **Explain** how the supply chain situation for branded label dairy products is different to that of home-brand supermarket milk. Can you **explain** why the retail price is different for these products?
- 4 Conduct a USP analysis to examine Maleny Dairies' operational situation and environment.
- 5 **Interpret** relationships and trends in the business situation to determine the effects on the business. Draw a conclusion about the implications of market entry in this industry.
- 6 **Evaluate** the operations practices of Maleny Dairies as it remains viable in a highly competitive market.
- 7 **Create** a graph of the USP analysis and write a short report to the owners of Maleny Dairies to **communicate** the business's operational edge.

Operational processes and systems

Key learnings

You will learn the following about operational processes and systems:

- facilities
 - location
 - layout
- materials management
 - inventory management
 - supply chain management
 - logistics
 - capacity utilisation.

At start-up, a key challenge for many businesses is securing reliable suppliers or locating contract manufacturers who are willing to take them on. Quite often the production run (quantity being ordered) during the establishment phase of the business life cycle is quite low, as sales are slow and need to be developed through marketing. If sales grow rapidly, the business faces another challenge – being able to supply the market with stock and grow the operations of the business in a sustainable manner. Developing a business model at establishment that is scalable in terms of operating processes is important to business survival.

Remedy Kombucha has recognised the importance of having scalable facilities, having outgrown previous facilities. Today they operate out of a fermentary the size of a football field, which has the capacity for them to grow internationally.

Facilities

Facilities involves the location and layout of the plant (factories and office buildings) and equipment needed to conduct operations. All businesses need some plant and equipment to operate, regardless of size or type of business. Having facilities established for the launch of a business is vital, as is having facilities that can grow with the business. Facilities decisions include location, plant design and layout.

Location

For a business entering the market, where to situate the facility geographically may be a key consideration, while for other businesses, such as Maleny Dairies, the location is predetermined. Location considerations include:

- where facilities should be geographically – in which country, state or city
- the zoning of land use and other local laws and restrictions impacting the placement of facility and its size
- proximity to inputs and markets
- proximity of competitors
- the impact of globalisation, including reduction of trade barriers and reducing costs by going overseas
- sensitivity to the natural environment and its impact on operations.

Each of these considerations will be influenced by the type of business and the preferences of the owner. For example, a small retail business might consider proximity to its target market a key consideration, while a restaurant may perceive benefits in being proximate to competitors in a restaurant strip that attracts customer traffic. A manufacturer might seek out a location for facilities in a country with access to cheaper labour and raw material inputs to achieve economies of scale.

Layout

Layout involves the arrangement of facilities (i.e. machinery and technology) in a way that optimises efficiency. Typically, layout is determined by the type of product or service being produced. In manufacturing, this is based around three core layout types – product, process and fixed-position – from which others have been modified. Service-based layouts include office and retail layouts. When a business is new and establishing its facilities, it should focus on optimising use of space to reduce unnecessary materials handling, help to keep costs low and maintain product flow through the facility. For any business, the following layout considerations apply:

- material handling equipment
- capacity and space requirements
- environment and aesthetics
- flows of materials and information
- cost of moving between various work spaces.

Product layout

A product layout arranges equipment for a single, specific purpose and is set out along a product flow line. The aim is to achieve high volumes of product or a smooth, yet rapid flow of customers through a system. A product layout is most suited to a standardised offering and mass production. An example is an assembly-line process, which suits large businesses such as car manufacturing and bottling of beverages (Figure 10.20). In the service industry, a standardised cafeteria where the food is on display and customers are pushed through the process uses aspects of the product layout. This arrangement has a high establishment cost due to the capital required, but relies less on labour and produces high volumes of output.

Process layout

Also known as a functional layout, this is process-oriented and groups together machines and workstations that perform the same function (i.e. the task they carry out). A process layout suits businesses with a variety of products or variations on a product. As each job is different, it can be more efficient to group similar pieces of equipment together. For example, hospitals (Figure 10.21) usually employ a process



Figure 10.20 Bundaberg Brewing Company, product assembly line



Figure 10.21 Hospitals such as Nepean Hospital in New South Wales use a process layout to group similar functions and services.

layout where maternity is in one area, cardiac care in another and so on. Many SMEs employ this process as it lends itself to producing in smaller quantities than product layout does and allows greater flexibility in use. An SME that makes customised furniture to order would use this layout, as would a service-based business such as a day spa.

Fixed-position layouts

This layout suits heavy or bulky projects such as aircraft manufacture or building construction. As the product stays fixed, all inputs are brought to it. This layout is only used when it is not feasible to move the product. An example of this is ship building, as seen in Figure 10.22.



Image supplied by Austral

Figure 10.22 Ship builder Austral uses a fixed-position layout in the manufacture of its ships. Here, a Cape Class patrol boat is under construction for the Australian Border Force.

GAINING INSIGHT 10.6



Remedy Kombucha

Husband and wife team Emmet and Sarah Condon founded Remedy Kombucha in 2012 because of their passion for the product and having foreseen the growth potential. The couple wanted to offer a real, wholesome drink to the market – a healthy, organic, guilt-free alternative to sugary soft drinks and fruit juices. Today the local kombucha market is estimated at \$300 million, with growth forecast based on trends to reduce both sugar and alcohol intake.

Producing Remedy Kombucha

The first batch of Remedy Kombucha was made in Sarah and Emmet's kitchen and involved testing and sampling to create their renowned, much-loved kombucha flavours (Figure 10.23). Initially, they were hand-filling bottles and putting the labels on them. Very quickly they realised the market potential and opportunity to scale their product to reach the masses, which required updating processes (Figure 10.24). The Condons spent about \$50 000 during

the start-up phase, with their initial growth being self-funded, along with assistance from family.

Remedy has developed to be the leading kombucha producer in the country. Having moved from the home kitchen, they were producing in small batches in its Melbourne fermentary, using the same original mother culture and impeccably maintaining the quality and integrity of the kombucha. Such was the success of their product, they continue to outgrow their facilities. In 2022 the company opened a new \$25 million facility in Dandenong, Melbourne, which is about the size of a football field at 18 286 square metres (Figure 10.25). While the facilities are larger and the equipment updated, the process for making the kombucha remains the same, with the original 'mother' scoby, which is more than 50 years old. The new bottling facility is highly efficient and, at top speed, can fill 20 000 of Remedy's brown glass bottles each hour.



Image courtesy of Remedy Kombucha

Figure 10.23 Kombucha reflects the wellness trend in food and beverages.

THE REMEDY PROCESS

1.

BREW A VERY, VERY BIG POT OF TEA
Hand crafted at our Melbourne fermentary, we are committed to sourcing the highest quality, organic tea leaves that have a superior taste.
2.

ADD MOTHER CULTURE
ALSO LOVINGLY KNOWN AS SCOBY:
SYMBIOTIC COMMUNITY OF BACTERIA AND YEAST.
Our kombucha is handcrafted the old-fashioned way, just the way you would in your own kitchen. The Remedy Kombucha 'mother' has been brewing kombucha in Australian homes for the past 40 years. Signs of a very healthy culture indeed!
3.

WAIT 30 DAYS,
MAKING SURE THE BREWING ROOM REMAINS WARM AND CALM.
There's no rushing around here. We let nature take its course, and enjoy watching the incredible transformation of our tea brew into a living, healing tonic.
4.

ADD SOME EXTRA FLAVOUR
We carefully select and add seasonal organic fruits, roots and spices to make our flavoured varieties.
5.

GET IT TO YOU
We bottle, refrigerate and send out quick-smart to our team of amazing stockists.

Image courtesy of Remedy Kombucha

Figure 10.24 The Remedy process in action



Cagkan Sayim/Alamy Stock Photo

Figure 10.25 In 2022 Remedy Drinks opened a new fermentary in Dandenong South after outgrowing its previous facility.

In 2018 Lion Nathan bought a 49 per cent share of the business and this has bolstered its continued

growth in terms of facilities and product lines. With the international market now accounting for 30 per cent of sales, the new fermentary will support Remedy's growth focus into the USA, UK, Canada and Asia. Without this facility, Remedy would have once again run out of manufacturing capacity. Having reported revenue of \$88 million and a profit of \$2.6 million in 2021, Remedy's growth continues to inspire.

Questions

- 1 **Describe** the business situation for Remedy Kombucha that led to the opening of its new facilities.
- 2 Identify the type of layout used by Remedy Kombucha and **explain** why this is a suitable strategy in this business situation.
- 3 **Evaluate** the opening of the new \$25 million facility in Dandenong to make a decision about its suitability using business criteria.

Office environments

In an office environment, layout refers to the organisation of workstations, or the positioning of people. A trend inspired by generation Y and millennials, and facilitated by technological advancements, is flexibility in terms of desk 'ownership' and how work spaces are configured. As more people use flexible work practices and work from home, the office is becoming a place where employees come to collaborate and connect. The cubicles and corner offices of the past are giving way to flexible spaces that enable collaboration and reflect the culture of the business, as shown in Figure 10.26.



Westend61/Getty Images

Figure 10.26 An example of a flexible, collaborative office layout

The post-pandemic office layout may need reimagining and reconfiguring in many offices as:

- fewer people are onsite at any time, with flexible work practices continuing. Australian software giant Atlassian has a ‘team anywhere’ policy, which does not require employees to return to the office on a weekly basis. This means more space, with fewer desks in some offices
- more employees work in a hybrid model of working remotely and in the office, meaning activity-based workspaces that are shared, rather than being assigned. This is known as hot-desking and means no personal items are left in workspaces as people sit at a different desk each day. This can free up space and reduce costs of larger offices
- more open spaces are created for collaboration and communal zones for team meetings and social interactions when employees are in the office
- people remain conscious of social distancing. Practices such as hand-sanitation stations in high-traffic areas have become the norm, along with the use of partitions between desks where spacing cannot be achieved.

Businesses are needing to rethink how they lure employees back into the office, with layout a key factor. A balance will need to be reached between creation of open-plan offices for collaboration and socialising, with the introduction of quiet zones for focused, uninterrupted work.

Retail layout

A well-designed retail layout aims to maximise sales for each square metre of the selling space, while creating an inviting instore customer experience that reflects the positioning strategy of the business. The specific layout will depend on the types of goods or services being sold and the budget available to ‘fit out’ the store. Creating an appealing customer experience can be achieved by factors such as:

- ambient conditions – the background features, such as sound, lighting, aroma and temperature
- spatial layout and functionality – aisle characteristics (height and style), product groupings, use of a path through the store or products grouped in pods
- signs, symbols and objects that reflect the branding strategy.

Retailers needing to direct high volumes of customers, such as supermarkets and pharmacies, often adopt a grid layout as seen in Figure 10.27. This makes efficient use of floor and wall space, while the grid makes it easier for customers to navigate. The objective of such retailers is to maximise profitability per square metre of floor space, and time spent instore – to encourage impulse buying behaviour.

Deciding the optimal layout and production method

The importance of layout varies for different businesses according to their size and the product or service offered. Key aspects to be considered include:

- type of good or service
- size of the market
- the amount of capital available
- human resources needs – skill and number required
- health and safety requirements
- flexibility of use
- ease of future expansion or change.

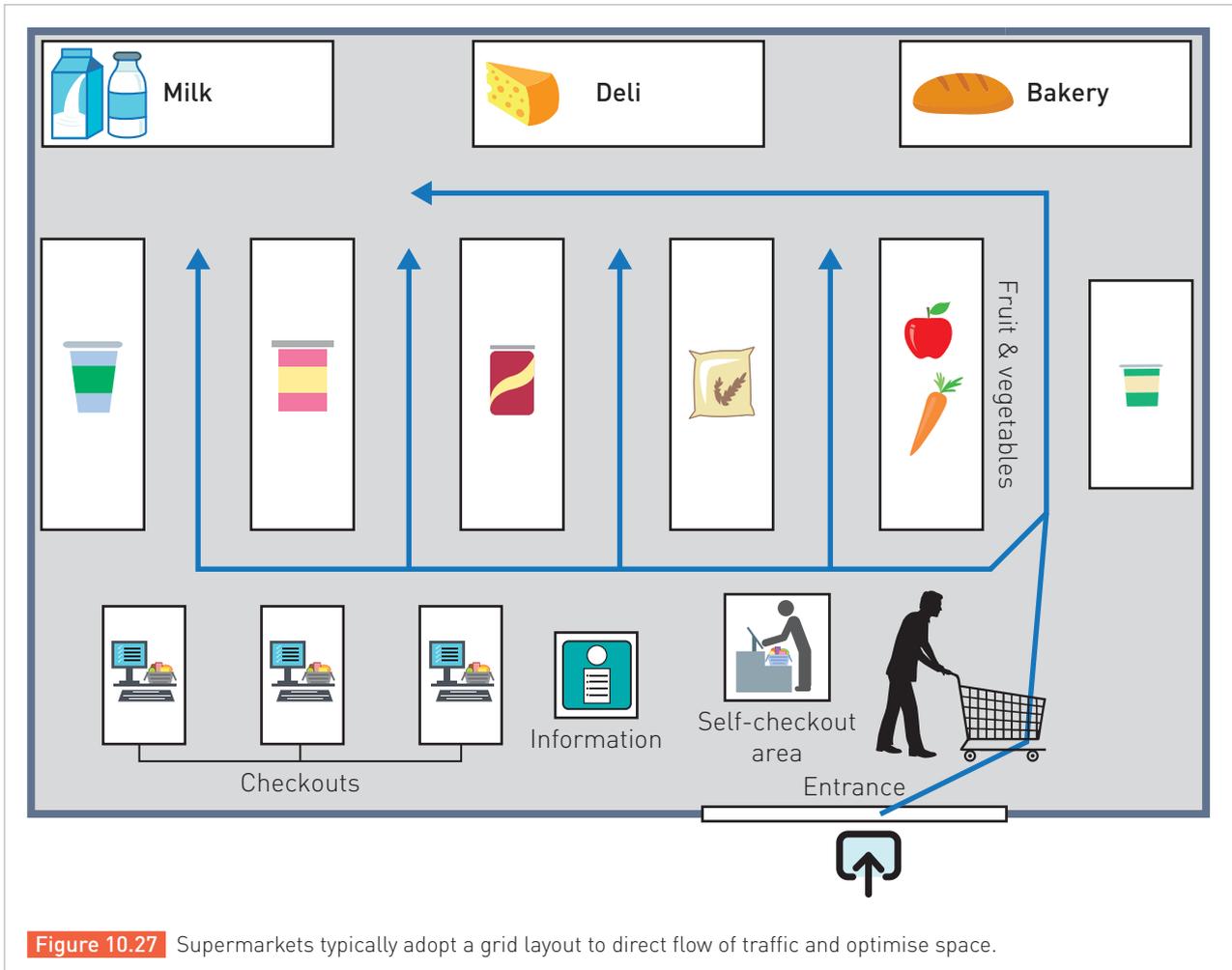


Figure 10.27 Supermarkets typically adopt a grid layout to direct flow of traffic and optimise space.

GAINING INSIGHT 10.7



The secret behind Aldi's store layout



Paula Solloway/Alamy Stock Photo

Figure 10.28 Inside an Aldi store

Research the secret behind the success of Aldi's store layout to identify similarities and differences between the store layout of Aldi and those of more traditional supermarkets such as Woolworths and Coles. **Create** a short visual presentation of your findings.



Weblink
Aldi store layout

Materials management

SMEs should confirm that their facility layout and flow facilitates efficient handling of materials (products, equipment, etc.). **Materials management** is an approach for planning, organising and controlling all activities involved with the flow of materials into an organisation to ensure the right amounts of inputs are available when required in the production system. Materials management should consider:

- material inputs (raw materials, supplies, parts)
- work in progress (semi-finished goods)
- outputs (finished goods that are yet to be delivered)
- spare parts for equipment.

Materials management is a system for planning, purchasing, moving and storing material in an optimum way that helps to minimise costs. The key objectives of materials management, referred to as the ‘famous 5Rs of materials management’, are acquisition of materials and services:

- of the right quality
- in the right quantity
- at the right time
- from the right source
- at the right price.

For a business in the growth stage of the life cycle, having the right materials management system in place is important before sales volume increases and there is expansion into broader markets. The operations manager must be able to source inputs and achieve an appropriate turnover of inventory to develop and maintain a quality product and consistent supply. They should also ensure the operations system is used in a way that optimises capacity.

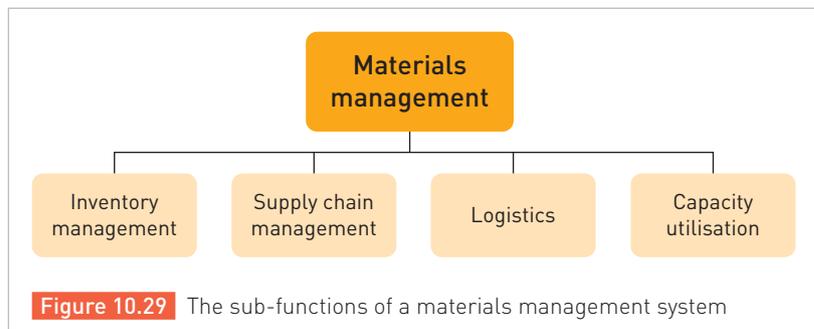
Inventory management

An effective way of managing materials is through inventory control. **Inventory** (also known as stock) is the materials and goods required to allow for the production of products and their supply to customers. Inventory is an important asset to manage: inventory turnover is a key source of sales revenue for a business and, when idle, represents an expense.

For goods-based businesses, the carrying costs of inventory can be high. A reasonable level of carrying costs is approximately 15–30 per cent of the total inventory value, however this can account for up to 50 per cent of inventory value. **Carrying costs** are the expenses incurred from holding inventory until it is sold and determine how efficiently a business is managing its materials, making it an operational KPI. Higher carrying costs indicate a business is ordering too much inventory, or too frequently, which can impact cash flow.

The associated costs of carrying and managing inventory include:

- ordering costs – the purchase price, plus other fees such as interest incurred if buying stock on credit
- transport – how much it costs to get the stock to where you need it, including frequency of freight
- warehousing and storage costs, including rent, electricity and handling costs
- insurance – a higher inventory level typically means higher insurance premiums
- other costs – theft or damage, spoilage if inventory is wasted and life space of stock items (before they depreciate or become obsolete if stored too long).



Materials management: a system for planning, purchasing, moving and storing material in an optimum way that helps to minimise costs

Inventory: the materials and goods required to allow for the production and supply of products to customers

Carrying costs: the expenses incurred from holding inventory until it is sold

Striking the right balance is an objective of operations managers as there are consequences of having too much or too little stock for manufacturers, wholesalers and retailers, as seen in Table 10.2.

Table 10.2 Consequences of incorrect levels of inventory

Too much stock	Too little stock
Storage costs – overcrowding and inefficiency. Costs to hold stock, for example refrigeration of perishable items and insurance.	Lost sales – if customer demand cannot be met, sales may be lost to other businesses that can supply. In business-to-business contracts, this may also incur a financial penalty.
Risk of waste and obsolescence – goods may deteriorate or become outdated if slow moving and held too long.	Idle production resources – delays in production could result, leaving an under-employed workforce.
Opportunity cost – funds tied up in stock rather than being employed for finance strategy, such as loan repayment or investment.	Small order quantities – a problem for businesses during establishment. Small orders or keeping stock low means missing out on savings from bulk buying (economies of scale).

Determining the optimum level of inventory depends on the type of business and its products. For example, a fruit and vegetable retailer has highly perishable inventory that must be carefully managed to avoid spoilage, while an electrical retailer must manage against ageing stock becoming obsolete or superseded by new models, which would require old models to be heavily discounted. Businesses monitor inventory levels to identify stock that is about to go out of date or unable to be sold, slow-moving stock (for discounting or discontinuing), identifying what to buy and what is selling quickly and to understand stock turnover patterns.

Designing an inventory management process and setting inventory holding levels is important. Existing businesses can use internal data from past sales and seasonal trends to forecast demand. For businesses in establishment, or experiencing rapid growth, this process is not as reliable – the data may not be available if a business is new, and changing sales volume for a growing business can skew figures. Sales forecasting will be an important tool for accurately determining inventory needs so that stock-outs or excess holding costs are avoided. Technology has made inventory management more accurate and thus more efficient as software can track what stock you order and sell and record the costs. Use of barcodes and point-of-sale (POS) systems also supports stock management.

Just-in-case and just-in-time inventory strategies

Just-in-case (JIC) relies on having plenty of safety or ‘buffer’ inventory, while **just-in-time (JIT)** is the opposite and strives to keep inventory to an absolute minimum. Each method has its merits, but businesses rarely stick strictly to one. When demand is uncertain, businesses often use a JIC approach to stock control.

Accurate demand forecasts are critical when using the JIT system. JIT was pioneered by Toyota and is widely used in the car manufacturing industry, including by rival manufacturer Honda.

Both JIC and JIT have merits and challenges, with the current trend toward JIT or a hybrid system dependent on the stage in the business life cycle and the degree of certainty around demand. Table 10.3 reviews both strategies.



Just-in-case (JIC): an approach to inventory control that involves ordering extra inventory as a ‘buffer’ just in case it is needed, to insure against running out

Just-in-time (JIT): aims to keep inventories to a minimum, meaning no buffer or safety stock is held and components arrive just in time to be used in the production system. Finished goods are delivered to customers as soon as completed

Table 10.3 JIC and JIT inventory management – merits and challenges

Just-in-case (JIC)	Just-in-time (JIT)
JIC is a 'push system', where purchases are not based on demand. Extra 'buffer' stock is kept to insure against running out – just in case it is needed.	JIT is a 'pull system', whereby stock is obtained from suppliers as required, with the aim of holding very low (sometimes zero) stock levels.
JIC can incur higher carrying costs, sometimes 30–50% of inventory value. Wasted stock due to spoilage or obsolescence represents an additional risk when ordering buffer stock.	JIT reduces the risk of overordering and leaving stock sitting idle, making it more efficient. It reduces carrying costs as the business only purchases what they will immediately use.
Capital tied up in inventory increases opportunity cost as it takes flexibility away from responding to market changes.	JIT allows greater agility in stock management as a business can respond to fluctuations in demand or change products quickly.
JIC means stock is stored and available as needed. There is no downtime in production waiting for deliveries to arrive.	JIT uses space efficiently, creating more space for more alternative plans.
JIC can increase competitiveness as a business can respond to sudden demand changes and potentially boost market share if competitors are out-of-stock or fail to supply on time.	JIT can struggle to respond quickly to fluctuations in demand. Stock shortages result in delays to production or failure to supply on time. This can impact efficiency and competitiveness.
JIC is effective for businesses where sales forecasting is less reliable and for new businesses without a sales history as inventory levels are kept high enough to keep up with demand. This means fewer lost sales.	JIT relies on a strong supplier relationship as timeliness and consistency of supply is critical. Unforeseen situations, including shipping delays and events such as the global pandemic, can dramatically impact operations.
JIC allows for buying in bulk and a business may buy when prices are lowest. Bulk ordering can achieve some economies of scale in ordering, decreasing purchasing costs.	JIT can be expensive if suppliers charge a premium for immediate delivery, prices fluctuate or the business misses out on bulk-buying discounts.

Source: Information adapted from: <https://www.myob.com/au/resources/guides/inventory-management/how-to-calculate-and-manage-inventory-carrying-costs> <https://www.business.qld.gov.au/running-business/suppliers-stock/stock-control> <https://www.netsuite.com/portal/resource/articles/inventory-management/just-in-time-vs-just-in-case.shtml>

Supply chain management process

The Council of Supply Chain Management Professionals (CSCMP) states that **supply chain management**:

... encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. It also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies.

Source: Council of Supply Chain Management Professionals, http://cscmp.org/CSCMP/Educate/SCM_Definitions_and_Glossary_of_Terms/CSCMP/Educate/SCM_Definitions_and_Glossary_of_Terms.aspx?hkey=60879588-f65f-4ab5-8c4b-6878815ef921

The supply chain is part of the materials management system a business uses to get its product to the end consumer, from obtaining raw materials through to delivering the final product. It includes all businesses directly linked to the supply of goods and services to the consumer. Some SMEs are able to manage much of the supply chain, for example, Maleny Dairies uses its own raw material inputs from its Guernsey cows and has its processing facility onsite, as seen in Figure 10.30. Businesses with large-scale operations might contract with other businesses, such as logistics specialists, to achieve quick delivery of products to consumers that are geographically dispersed.

A supply chain may be local or global. A local supply chain is characterised by the limited distance between producers and consumers, for example farmers markets. A local supply chain will have a lower carbon footprint due to less transport and pollution and may support the local community.

A global supply chain comprises international trade, that is, importing and exporting, for example buying fruit and vegetables imported from overseas markets. This has a larger carbon footprint and is arguably less sustainable due to packaging, storage and transport requirements. Consumer demand for a wide variety of products, along with cost efficiencies from producing in 'cheaper' economies, means global supply chains are essential.

The complete supply chain for a product typically involves a number of businesses. The outputs of one business represent the inputs of another. The products typically move from one supplier to another for value-adding. From the perspective of any business in the supply chain, production can be viewed as downstream

Supply chain management: a part of the materials management system used to get product to the end consumer, from obtaining raw materials through to delivering the final product. It includes all businesses directly linked to the supply of goods and services to the consumer.





or upstream. The closer to the end user an activity or business is, the further downstream it is said to be. Raw material inputs or production are elements of the supply chain deemed to be upstream – upstream businesses supply the inputs into the production system.

An optimal supply chain can be judged based on speed and efficiency. Speed is significant as customers demand fast service and short lead times. However, increasing speed can see costs rise rapidly, which erodes efficiency. The key is to balance timely delivery in a cost-effective way. An efficient supply chain can be a competitive advantage for an SME looking to establish sales and growth. Customers will choose a business that meets their needs in the timeliest way, at a reasonable cost. Key considerations in supply chain management include:

- quality and reliability of inputs supplied
- the best price in terms of value for money
- lead times between when an order is placed and received
- quantities required to be ordered (minimum and maximum)
- transport facilities available and expected delivery times
- legal and ethical conduct of suppliers.

Logistics

Logistics encompasses all aspects of transport and delivery. Resources managed can include tangible goods, such as food, materials, animals, equipment and liquids, as well as more intangible elements such as time, information and energy. Logistics often uses integrated computer technology to control tasks such as material handling, packaging, inventory control, warehousing, transportation and security. The aim of logistics processes is to achieve an efficient flow of materials through the supply chain.

The Council of Supply Chain Management Professionals (CSCMP) defines logistics management as:

... that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements.

Source: Council of Supply Chain Management Professionals, http://cscmp.org/CSCMP/Educate/SCM_Definitions_and_Glossary_of_Terms/CSCMP/Educate/SCM_Definitions_and_Glossary_of_Terms.aspx?hkey=60879588-f65f-4ab5-8c4b-6878815ef921

For a small business, logistics may be relatively simple and involve receiving stock from local supplies. However, even for SMEs, the trend to a globalised market means logistics can be complex and require the use of an outsourced specialist.

Green logistics is a growing trend as businesses look to embrace more sustainable practices. The objective is to reduce resource consumption and minimise pollution. This involves logistics plans that use green transport, green storage, green packaging and other activities using logistics technology. The aim is to meet the needs of

the economy with 'least cost' to the environment. In green logistics, cost goes beyond dollar terms to include external costs related to climate change, pollution, dumping of waste, noise and accidents. For example, packaging is a considerable challenge to environmentally friendly logistics, while also being vital to secure shipping and storage of goods. Poor packaging can represent a waste of materials and storage space. Activities aimed at improving the sustainability of logistics include:

- suppliers and the buyers recovering and recycling, or effectively disposing of, packaging, including targets for reducing waste packaging
- avoiding wasting water through recycling
- utilisation of vehicle load space (expressed as a percentage) at or near capacity
- driver training to reduce accidents and improve fuel efficiency and consumption
- following preventative maintenance programs as poorly serviced vehicles use more fuel
- energy-efficient lighting and renewable power sources, such as solar and cleaner diesel engines.

GAINING INSIGHT 10.8



How the global pandemic exposed flaws in the 'just-in-time' economy

Follow the weblinks to read the articles about JIT and JIC management systems and their relevance post-pandemic.

Questions

- 1 Read the articles and conduct some additional research to identify challenges experienced both

- 2 during and post-pandemic with JIT management and supply chains. Using an example, such as one of our case study businesses, **evaluate** the use of JIT in the post-pandemic context to make a decision and propose recommendations.



Weblinks
ABC News
article

*The Property
Tribune* article

Capacity utilisation

Capacity utilisation is an important aspect of an efficient materials management system. It expresses current output as a percentage of total potential output. For example, if a water bottler could produce 100 000 bottles a week and output was 75 000 bottles, then capacity utilisation would be 75 per cent, leaving 25 per cent idle or available. Capacity utilisation is a key performance indicator (KPI) for manufacturers and service-based businesses, such as airlines and hotels. It indicates the amount of available capacity being used to supply current demand.

Capacity utilisation can be calculated by using the formula:

$$\frac{\text{Current output level}}{\text{Maximum output level}} \times 100 = \text{rate of capacity utilisation}$$

Maximum capacity is the total output a business can achieve in a certain period. For a manufacturer, this would represent the total number of units existing resources can produce, while a hotel measures total capacity by the number of 'room nights' available during the period. A business at full capacity is achieving 100 per cent capacity utilisation. Businesses rarely seek to operate at full capacity as this allows no scope for fluctuations in demand or flexibility in operations. A preferred target may be 85–90 per cent utilisation, depending on the industry. Operating at full capacity for sustained periods has drawbacks:

- Machinery and equipment require downtime for preventative maintenance. Without this, breakdowns may occur that necessitate corrective maintenance. This is costly in terms of time and financial resources.
- Consistently operating at full capacity may impact human resources, with stressed workers and managers. This can result in mistakes, accidents, absenteeism, lower productivity and staff turnover.
- Operating at capacity and staffing this with overtime workers will increase labour costs.

Capacity utilisation: expresses current output as a percentage of total potential output. It indicates the amount of available capacity being used to supply current demand



- Some available capacity gives flexibility to meet spikes in demand, resulting in satisfied and loyal customers.
- For service businesses, such as restaurants and hairdressers, high capacity utilisation may decrease quality and increase queuing and wait times, impacting the customer service experience. Overcrowding at tourist destinations will reduce customer satisfaction levels.

When capacity utilisation is high, the average fixed costs are spread out over a large number of units, meaning the cost per unit is relatively low. When utilisation is low, cost per unit will rise and impact the profitability of the operation (Table 10.4).

Table 10.4 How fixed costs for an airline vary with capacity utilisation and impact profit contribution margins

200-seat aircraft	All seats occupied (100% capacity)	100 seats occupied (50% capacity)
Fixed costs per flight (e.g. fuel, food, salaries)	\$5000	\$5000
Average cost per seat	\$25	\$50
Average selling price per seat	\$200	\$200
Profit contribution margin per seat	\$175	\$150

In the Table 10.4 example, assuming that all seats are priced at \$200 per seat, the profit contribution margin at full capacity is \$175 per seat (\$200 selling price less average cost per seat) and \$150 per seat when utilisation is at 50 per cent capacity. This impacts on earning potential for a business.

Capacity utilisation is a useful KPI for a newly established business as it demonstrates the ability to grow the business using the current resources and processes. If a business during the establishment phase of the life cycle is already operating at 70–80 per cent capacity utilisation, this may indicate a strain on the ability to support growth using the existing framework of facilities and materials management. A business operating at less than 50 per cent utilisation may need to review its operational and marketing strategies to stimulate demand.

Capacity utilisation and management in service operations

In contrast to manufacturing, service-based businesses cannot store output as inventory – they often have queues of customers who represent customer inventory. Managing capacity is a substitute for managing inventory in a service operation, with the challenge being that demand can be highly variable and difficult to forecast. Service-based challenges for capacity utilisation include:

- *physical facilities* – the number of customers that can be managed is constrained by the number and size of physical facilities available, for example hotels, medical clinics and transport
- *service-provision equipment* – limited equipment may cause a bottleneck in flow of a service provision, setting an upper limit on the volume and quality of service delivered at a given time, for example use of telephones, hairdryers and cash registers
- *people-processing services* – capacity to serve customers is constrained by the number, experience and expertise of staff employed (a human resources challenge).

A service operation must use available time and the productive capacity of staff, labour, equipment and facilities as efficiently and profitably as possible.

QUESTIONS 10.2

- 1 Examine the challenges of managing inventory for a supermarket, for example Coles or Woolworths, given the variety and volume of inventories they hold. **Evaluate** the strategies available to propose a recommendation.
- 2 **Evaluate** the consequence of incorrect inventory levels for a manufacturer and a retailer.
- 3 Visit the DestinationQ website and research the trends in hotel capacity for a particular region (for example Southern Queensland Country or Tropical North Queensland) to determine whether capacity utilisation is rising or falling. **Explain** two key factors that account for the trend.



Weblink
DestinationQ

- 4 As a growing hair salon, you are at full capacity in your current facility. The opportunity has come up to lease the adjoining space and remove the internal wall – this will add 40 per cent to your physical facilities. Alternatively, you could relocate to the neighbouring suburb to a space twice the size of your current salon. After analysing the options, you are presented with the following:

Alternatives	Profit if:	
	Moderately successful	Highly successful
Expand the existing salon	\$250 000	\$500 000
Relocate to the neighbouring suburb	\$200 000	\$700 000

You have been told that the chance of being moderately successful is 0.6, while the chance of being highly successful is 0.4. **Create** a decision tree to determine which is the more viable option (see Chapter 3, page 72, on decision trees). **Create** a short paragraph to justify the optimum option.

Scheduling systems

Key learnings

You will learn the following about scheduling systems:

- scheduling and sequencing
- scheduling and event management.

Scheduling involves planning the timing of the use of resources in the production process. Production scheduling is the process of determining a timetable for transformation of resources in the production system based on the length of time each operational activity will take. The aim is to increase productivity and reduce operating costs.

Whereas scheduling focuses on the length of time activities take, **sequencing** refers to the order in which activities occur. Together, scheduling and sequencing are necessary to coordinate and control the production process, and are also integral to service businesses and project management. Examples of diverse businesses where scheduling decisions, and resource coordination, require control include:

- *education* – subjects, staff, students, rooms, equipment, lesson times
- *factory* – inventories (raw, partly processed and parts), staff, equipment, timing in facility
- *airline* – inventories, bookings, staff, equipment, aircraft, terminal space
- *event* – attendees, sponsors, staff, venue and equipment, timing of activities, catering.

Modern manufacturing in large-scale businesses, such as the car industry, involves complex production systems. Inputs are often sourced from across the globe and transformation processes have been optimised through use of technology and efficient systems. Final products are produced just in time for delivery. This requires advanced scheduling systems. However, scheduling is also critical to the success of SMEs to ensure the coordination of resources and activities in a timely manner and avoid bottlenecks in production or conflict of bookings in a service business.

Several analytical techniques can be used to assist with planning, scheduling and controlling operations. These are particularly useful in project and event management. The purpose is to help managers see how various operational activities fit together and enable them to monitor progress as production occurs.

Scheduling and event management

An event is something that happens at a given place and time, for a specific purpose. Events can be:

- festivals, such as music and cultural events (e.g. Woodford Folk Festival, Melbourne International Comedy Festival)
- one-off special events (e.g. Gold Coast 2018 Commonwealth Games)

Scheduling: planning the timing and use of resources in the production system

Sequencing: the order in which activities in the production system occur



- recurring events (e.g. Gold Coast 600 Supercars, Telstra Business Awards)
- conferences
- concerts
- trade shows.

Event management involves the planning, organising, leading and controlling of all types of events, for a target audience and to achieve specified objectives. The organisation of an event requires key decision-making, organising and scheduling activities that include timing of the event and timelines leading up to it.

Timing of an event can be a key determinant of success. The Gold Coast 2018 Commonwealth Games were intentionally planned to coincide with the school holidays to increase the number of visitors and reduce the impact on normal business operations. Seasonal weather factors can also be a key consideration. Large public events typically have a recurring date so that people anticipate the time of the event. Timing considerations to be included in a production schedule include:

- timing that best suits attendees and participants
- lead time required to produce the event (the time it takes to plan and prepare the entire event)
- conflicting activities that may create a clash
- availability of venue and other resources.

The management of an event will require well-sequenced timelines, which can be presented visually using project management software. As the finishing time, or date of event staging, is the most critical aspect, event management typically uses **backward incremental planning (BIP)** to develop the schedule. BIP looks at the date of the event and schedules planning activities backwards from this point. It applies to situations where a deadline is a required completion date and completing the process sooner produces no benefit.

GAINING INSIGHT 10.9



GC30 Main Beach

FOCUS QUESTION: Where did the idea for GC30 come from?

Sport 3 Event Management is the event management side of Tri Travel, a business that has been operating for 20 years with a focus on seamless travel management for athletes looking for travel to peak sporting events globally. Sport 3 launched the GC30 in 2021 at the beautiful Main Beach Spit on the northern end of the Gold Coast (Figure 10.31). It is the sister event to the GC50, which has been running since 1997, initially in Broadbeach before relocating to Coolangatta in 2020. Sport 3 Event Management saw an opportunity to host the new event when a previous event, a corporate triathlon, had not used the venue for the previous two years.

Sport 3 thought it was the ideal location for a running event and approached the Gold Coast Waterways Authority (GCWA) and Council to secure the slot for May each year. The running route mapped out to be a 15-kilometre course, so the event commenced as a 15- and 30-kilometre event. These distances also made sense as a lead into major events such as the Gold Coast Marathon in July.

An added consideration for launching GC30 Main Beach was the global pandemic. With the existing business model heavily reliant on overseas travel and no guarantee that this would return anytime soon, Sport 3 was looking for an event that was not contingent on overseas competitors and would not be impacted by border closures domestically. GC30 Main Beach was conceived as a niche event that could generate revenue and operate sustainably with Queensland entrants only.

Capacity considerations

The inaugural GC30 was the optimal size for debuting a new event and also worked well in terms of social distancing considerations as the event needed to be COVID safe. Due to accessibility and location considerations, the GC30 is capacity constrained based on parking and transport. The event has parking space for 500 cars and runs a shuttle bus to the start line from nearby Sea World. In 2021 the event commenced with 2400 runners and in 2023 had 2600 runners.

Backward incremental planning (BIP): looks at the requirements from the due date backwards and schedules the process accordingly



Figure 10.31 A key element of the GC30 is the location at the Gold Coast seaway. Sport 3 embraces events that look great for participants, with amazing views that showcase the local area.

Event organiser Adam Goodger says that an additional capacity consideration is the nature of the course, which includes beautiful beach trails, so the number of people on the course also dictates capacity. There is capacity for 3 000 runners in 2024, with Adam explaining that they grow capacity gradually each year to see how the course flows and ensure the safety and enjoyment of runners. The break-even point for the event is dependent on sponsorship revenue, but is around 1 500 participants.

How did COVID-19 impact events such as the GC30?

Adam observed that there was an interesting shift between the initial year and organising the 2022 event. A number of major events across the country had been cancelled, often due to the sheer size of the event, so

being smaller was an advantage. Those cancelled events also presented an opportunity as people were still looking for events to enter.

Another shift was when people entered events; far fewer people took advantage of the ‘early bird’ entry offer of cheaper pricing, with a trend to entering events much closer to the actual date. This is attributed to hesitancy to register in case events were cancelled and presented event planning challenges, including considerations around ordering of event merchandise such as T-shirts, singlets and finishers medals. A strategy for managing the timing of entries, minimising waste of medals and merchandise and encouraging people to register earlier has been to introduce a cut-off date for ordering singlets and personalised race bibs, while also increasing entry prices nearer to the event.



Photographed by Paul Manning



Photographed by Paul Manning

Figure 10.32 A GC30 Main beach entry includes a finishers medal, event singlet and personalised race bibs, along with a vibrant event precinct.

In 2023, Adam says the situation has flipped and people are registering earlier for events, with some major events selling out well prior. This is a positive sign for all mass-participation sports events.

Project scheduling

The GC30 organisers take a systematic approach to event management, using an online project management tool called Freedcamp (Figure 10.33).

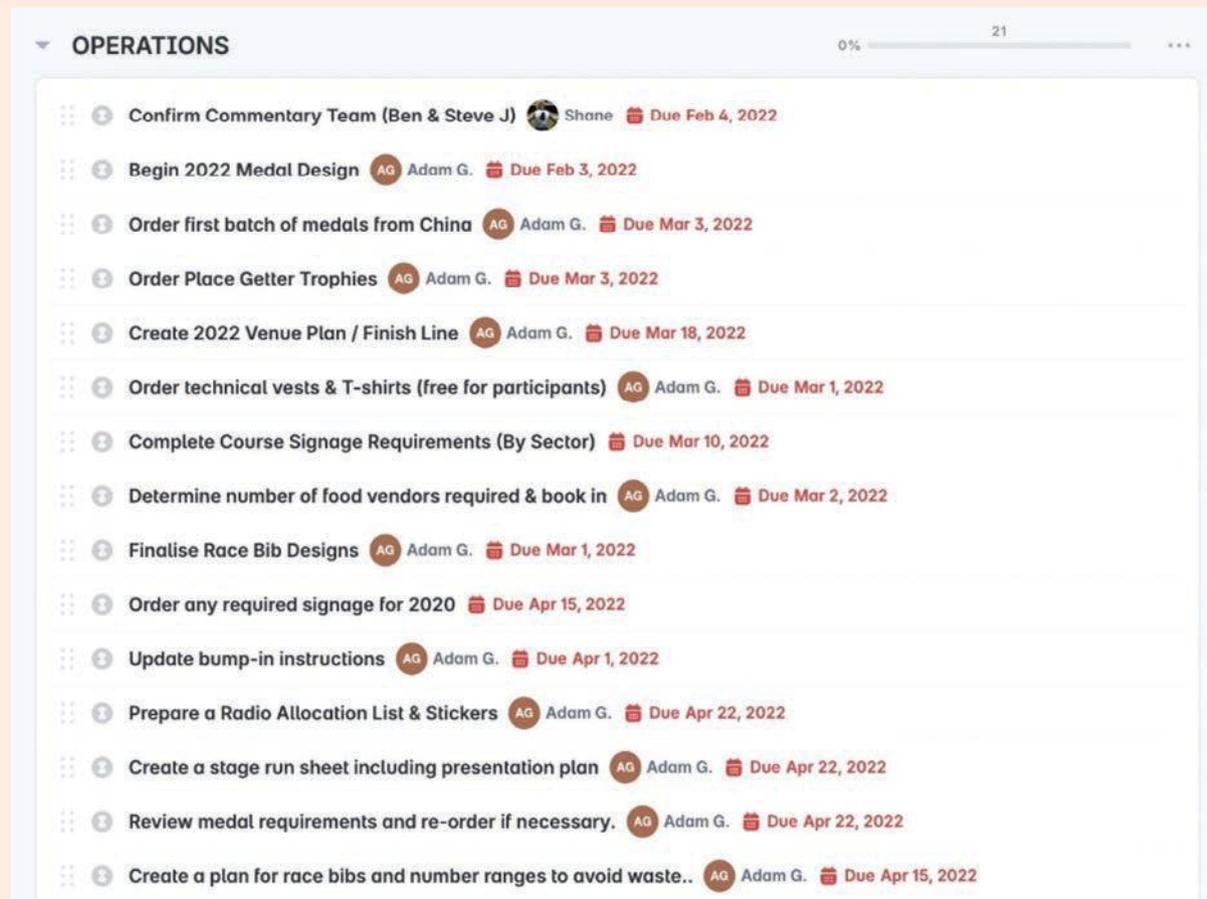


Figure 10.33 GC30 uses a project management tool called Freedcamp

This software allows organisers to set up functional tabs including operations, marketing, permits and risk management, where tasks are scheduled and able to be ticked off as completed. Adam says that each Monday he consults the software to see activities for the week and manage milestones. He adds that the software sends prompts for key milestones to ensure the event planning stays to schedule. Adam states that 'everything works backwards from the event date' and that a benefit of this software is that it will 'clone' the project, ready to roll over to the next year, making it an efficient way to schedule an annual event.

The GC30 has positioned itself as a niche event in the running calendar with a scenic, coastal course and high-quality merchandise. The event combines closed roads with coastal trails and has a challenge for everyone with distances including the 30-, 15- and 7.5-kilometre run, as well as 3- and 1.5-kilometre options for children.

Questions

- 1 **Describe** the business situation that supported the launch of the inaugural GC30 in 2021.
- 2 **Explain** why planning and scheduling are important for project management, including for staging events like the GC30.
- 3 **Explain** why the GC30 currently limits capacity. Identify ways they could increase capacity in the future to grow the event.
- 4 **Explain** the relationship between operations and marketing in the running of an event like GC30.
- 5 **Evaluate** the decision to cap runners across the festival using business criteria. Make a decision and propose recommendations for the sustainable operation of the event.

Quality strategies

Key learnings

You will learn the following about quality strategies:

- quality control
- quality assurance
- total quality management.

To be successful and move beyond establishment in the life cycle, a business must view quality as an essential part of operations strategy. Quality is a term that carries important meaning to both producer and customer, with the producer seeking quality processes and consumers assessing quality based on their degree of satisfaction with the product. From a customer viewpoint, a quality product does not necessarily have to be the best on the market, but it must conform with expectations. For example, consumers have different expectations about quality based on the different prices of products: quality expectations of an inexpensive product will differ from one priced at a premium. Therefore, a quality objective for any business is to provide customers with a product that meets their expectations.

There are many factors against which quality can be assessed, including:

- conforming to standards and specifications
- performance and ease of use
- durability
- reliability
- features
- consistency
- aesthetics in design
- speed of service
- after-sales service.

Quality management relates to the processes that a business carries out to meet quality objectives, including that products are safe, reliable and fit for purpose. A strong focus on quality management can be a competitive advantage for a business. It is also a requirement of the Australian Consumer Law that products be of 'acceptable quality' – this means products:

- are safe, lasting, with no faults
- look acceptable
- do all the things someone would normally expect them to do.

For more information on 'acceptable quality' and consumer guarantees, refer to the ACCC website.

To achieve quality objectives, a business must have a quality system in place. This means having structures, responsibilities, processes and resources focused on quality outcomes. The management of this system can take one of three forms:

- a quality control approach
- a quality assurance approach
- a total quality management approach.

Quality control

In its simplest form, quality control (QC) is about inspecting, testing or checking a product to ensure it conforms with acceptable quality and is free from faults. The intent is to identify problems, and either fix or eliminate them, to ensure products conform to predetermined criteria or control standards. QC checks will be performed at the end of the production process and often at critical intermediate stages by a trained quality inspector. If a fault is detected, the product may be either scrapped or reworked to achieve conformity. For poor service, this means repeating the service at no charge until the customer is satisfied.

QC is a reactive approach that has some drawbacks:

- It is not always feasible to inspect every item on a production line.
- There is a chance that inspectors will miss defects.
- Rejected product is expensive as it has incurred costs of production but cannot be sold. This represents waste in production. Some rejected products can be reworked, but this still incurs a cost.
- If defect levels are high, profitability can suffer unless steps are taken to rectify the causes of the defects.

The QC process must be ongoing to ensure that the source of defects is rectified. With the use of batch numbers and codes on products, businesses can investigate where problems exist and identify where improvements to the process must be made.



Figure 10.34 Management of quality can take three forms.

Quality assurance

While QC is a reactive process, quality assurance (QA) is a proactive approach that aims to prevent quality problems before they occur. QA involves having a system established to ensure that predetermined quality standards are achieved; this prevents product defects or errors in service delivery. Quality is 'assured' or guaranteed because QA endeavours to have systems that continually improve processes, including regular audits.

Businesses obtain certification from a quality assurance authority, which audits against published national or international standards. Achieving certification entitles the business to display certification marks. Standards Australia provides support to businesses pursuing QA, with advice on processes and awarding of certificates for meeting certain standards.

See the International Organization for Standardization website for the benefits to business of achieving ISO 9001 as a quality assurance program for businesses, both large and small.



Weblink
International
Organization for
Standardization

GAINING INSIGHT 10.10



Standards Australia: They've got you covered

View the Standards Australia production titled *Standards, They've Got You Covered* to learn what a standard is and how it is developed. This shows that, while some standards are voluntary, others – such as sunscreen standards – are written into law.



Weblink
*Standards,
They've Got
You Covered* –
video

Total quality management

Total quality management (TQM) is a management philosophy that seeks to unite all business functions (marketing, finance, operations and human resources) to focus on continuous improvement and meeting customer needs, both internal and external. It makes quality a responsibility of all areas of the business, not just an operations concern, meaning TQM includes employees from across the functional areas and all levels of management. The focus is on ‘getting it right the first time’ to achieve zero defects.

TQM focuses on continuous improvement, rather than checking for defects, which requires a realignment of organisational culture. Quality cannot be viewed as someone else’s responsibility – the quest for quality must affect the attitudes and behaviours of all employees. To be effective, the strategy must be fully explained, and supported by all levels of the business, and extensive training given to all employees. The aim is make all workers accept that the quality of their work is important to the whole system. Employees are empowered with the responsibility for their work, which can lead to increased levels of employee motivation, as recognised by Herzberg’s motivation factors (see Chapter 5, page 145).

QUESTIONS 10.3

- 1 Visit the Product Safety Australia website to gather data and information about the types of products typically recalled.
- 2 Select one example and identify the defect and hazard. **Interpret** the effects of the recall on the business and consumers.
- 3 **Explain** a suitable quality strategy for minimising the risk of future product recalls.



Weblink
Product Safety
Australia

Weblinks:

- HACCP (p.387)
- Customer service (p.391)
- Sea Forest (p.397)
- ACCC speech (p.397)
- Maleny Dairies (p.398)
- Maleny Dairies YouTube (p.399)
- Aldi store layout (p.406)
- ABC News article (p.411)
- *The Property Tribune* article (p.411)
- DestinationQ (p.412)
- ACCC (p.417)

- International Organization for Standardization (p.418)
- *Standards, They’ve Got You Covered* – video (p.418)
- Product Safety Australia (p.419)
- Choice toilet paper reviews (p.428)

Template:

- SWOT analysis (pp. 420 & 428)
- USP analysis (p.400)

Chapter summary:

- Chapter 10 Operational processes and systems (p.420)

 Nelson MindTap

To access resources above, visit
cengage.com.au/nelsonmindtap



Total quality management (TQM): a management philosophy that seeks to unite all business functions and employees to focus on continuous improvement and meeting customer needs

Chapter 10 review

This chapter introduced the operational processes and strategies used by businesses in the growth stage of the business life cycle. You can demonstrate an understanding of this chapter content by successfully responding to the following questions.



10.1 Short responses

- 1 Using an example, **describe** the operating environmental factors influencing market entry of a small to medium-sized business.
- 2 Differentiate between the production of goods and the provision of services.
- 3 **Explain** the relationship between customer service and the production system.
- 4 Using examples, **explain** the importance of facilities location for a manufacturer, and a service-based business. Identify the key considerations for optimal location in each example.
- 5 Identify the key objectives of materials management and **explain** how this can present a challenge for a business in the growth stage of the business life cycle.
- 6 Using examples, examine the challenges of inventory management.
- 7 Using a T-chart, contrast JIT and JIC inventory.
- 8 **Explain** the relationship between supply chain management and logistics.
- 9 **Explain** capacity utilisation, including its importance for a business during start-up and growth.
- 10 Use a double-bubble map to compare the similarities and differences of quality control and quality assurance.
- 11 Using the Remedy Kombucha case study (pages 402–404), answer the following questions.
 - a Write a one-paragraph response to **describe** the business situation that led the Condons to establish their business.
 - b Write two paragraphs to **describe** the operating environmental factors that have impacted operations at Remedy Kombucha.
 - c Conduct a simple SWOT analysis (two points per factor) to draw conclusions about the implications of operational practices and systems at Remedy Kombucha.



10.2 Extended response

- 1 With reference to the Fixx Nutrition case study (pages 385–387), and using the inquiry process, answer the following questions:
 - a **Explain** the relationship between the operations and marketing functions at Fixx Nutrition and how this supports business growth.
 - b Conduct some additional research to select data and information about the business to **analyse** the strengths, weaknesses, opportunities and threats, taking into account their operational practices and systems and competitive situation.
 - c **Interpret** the relationships and trends in the SWOT analysis to draw conclusions about the implications of operational practices and systems.
 - d **Evaluate** two operational strategies used by the business, using the criteria of effectiveness and efficiency to make a decision and propose recommendations.
 - e **Create** a business report, addressed to the owners to **communicate** your findings.



Case study 4: Entering markets

Who Gives A Crap

Source 1: About us blog: A bloggy blog for the boggy bog

Hi there! We're your friends from Who Gives A Crap. We're a toilet paper company based out of Melbourne, Australia that makes eco-friendly toilet paper out of 100% recycled materials and 100% bamboo (Figure C4.1). We donate 50% of profits to help build toilets for the 2 billion who live without them. Pretty rad, right?

We love toilet paper because for us, it's our way of making a difference. We started Who Gives A Crap when we learnt that 2.4 billion people don't have access to a toilet (now 2 billion – yay for progress!). That's roughly 40% of the global population and means that around 289,000 children under five die every year from diarrhoeal diseases caused by poor water and sanitation. That's almost 800 children per day, or one child every two minutes. We thought that was pretty crap. So in July 2012, Simon, Jehan and Danny launched Who Gives A Crap with a crowdfunding campaign on IndieGoGo. Simon sat on a toilet in our draughty warehouse and refused to move until we had raised enough pre-orders to start production. 50 hours and one cold bottom later, we'd raised over \$50,000. We delivered our first product in March 2013 and have been thrilled to keep growing ever since. Not just because our toilet paper is gracing bathrooms across the country but also because we donate 50% of our profits to help build toilets and improve sanitation in the developing world.

Though we're still growing, and now make more than just toilet paper, we always want to stay true to our roots: toilet humour and making the world a better place.

Source: 'About us', Who Gives A Crap website. <https://au.whogivesacrap.org/pages/about-us>

Source 2: A conversation with our VP of Growth and Strategy on how to do well and do good

There are plenty of amazing things that money can't buy, but when it comes to providing access to clean water and proper sanitation, funding is vital. With that in mind, we designed our business model – 50% of profits donated, 50% invested in the company's growth. From the beginning, we wanted to provide a scalable and sustainable source of income for organisations working in sanitation. For now, businesses like ours are in the minority. We hope that by sharing a bit of our journey we inspire other entrepreneurs to give back. Doing good is incredibly rewarding, but it's also good for business! Just ask our Co-founder and VP of Growth and Strategy, Jehan (Figure C4.2). Actually, we'll ask him for you.

How does leading a growth team at Who Gives A Crap differ from your experiences at other companies that don't have donations at the centre of their business model?

No matter where I am, I like doing work that has some form of impact. When I was at YouTube, for example, I liked that it was very much about openness and giving people a voice. At Who Gives A Crap, the impact is obviously more direct. That's the exciting thing – you know that the efforts you make to grow the business are going to have a real impact, because we donate a portion of the profits.

Does that mean that you feel the pressure?

Yeah, definitely. In a good way. I have to make sure we can grow the business in a sustainable way. We need to acquire new customers or break into new markets in a way that makes sense economically. I think about that all



Figure C4.1 Who Gives A Crap products are plastic free and made from sustainable materials



Figure C4.2 Jehan Ratnatunga is VP of Growth and Strategy, and a proud co-founder of Who Gives A Crap

the time, especially when deciding how much to invest into the business so that we can grow our impact in the long term. If we're going to invest, it has to have a long, sustainable payoff.

Do you have a rule of thumb for determining what tips the scale?

Don't spend more money than you're earning. Pretty genius really. It may seem obvious, but there are many businesses, startups in particular, that grow super quickly in hopes of profitability later. We don't have that luxury because we're promising impact to our customers. We have to make sure that we are profitable. Otherwise, the promise of Who Gives A Crap doesn't play out.

Ok, now what about the mistakes we've made? What can other businesses learn from our missteps?

Initially, in the very early days, we made the mistake of being quite conventional in our thinking. We thought Who Gives A Crap would be a supermarket play. We assumed those were the rules of the game – that there was a standard way of buying toilet paper and that was in a supermarket. I'm talking almost 10 years ago now, so the online market wasn't what it is now. Fortunately, we weren't so closed off that we didn't experiment with online commerce because now that's really the focus of our business. That's one mistake, being too focused on conventional wisdom.

You've touched on this, but in the beginning, knowing what you know now, what's the number one thing you would have done differently?

Word of mouth was our first real wave of growth because the product was beautiful. People were taking photos of the rolls and that was big. Then online marketing was huge. After that was international expansion. Those were the three big waves of growth. I don't think we would have done any of that differently, I think that was the right order.

Is this a 'no regrets' situation?

No, no. That's not helpful to anyone. Also not accurate! We were very focused initially – it was just toilet paper in Australia. Over time, we've added more products and more countries. It's led to a rich, diverse customer base who are incredibly environmentally and socially conscious. For us, more customers means more impact. So I guess I wish we'd thought about expanding earlier to have more impact.

Did you ever have doubts that all of this would work?

Of course! Every entrepreneur must have that gut feeling that says, 'Is this really a thing??' And then some people will tell you it's a bad idea. Eventually you realise nobody really knows what they're talking about (including you). You just have to go and do it. Fortunately, so far so good for us. We've been really lucky to find something that's resonated with so many people. I think our impact helped the business grow, even though it's kind of counterintuitive because we're giving away so much of what we're earning.

Even this idea of donating 50% of profits, that's kind of wacky.

That was the clearest way we could state the mission of the business. It was important to us to make a difference in the world and actually put our money where our mouth is. But it's definitely a risky proposition! In the end, I think it helped the business grow, even though it's kind of counterintuitive because we're giving away so much of what we're earning. But I've found that doing good is something that motivates customers (as well as our team). Oh, impact is a huge driver because it's so simple. You buy, we donate. I think that simplicity is really powerful. And we're really transparent about it! We report back on how much we've been able to donate and impact we're having.

Source: <https://blog.whogivesacrap.org/home/gooddeeds/vp-of-growth-interview>

Source 3: Branding

Who Gives A Crap is recognised by its vibrant, colourful packaging and playful puns (Figure C4.3) that make toilet paper something proudly



Figure C4.3 While using playful phrasing, tag lines reinforce the core focus of the business

displayed in homes and businesses. While it is a serious business with a significant social objective, it does not take itself too seriously, using jokes and puns to engage with customers while making them 'feel good about doing good'. Whereas leading competitors like to evoke images of gentleness, cuteness and softness in their branding, Who Gives A Crap defies conventions with its light-hearted, humorous tone. Building a vibrant brand personality differentiates the business from leading brands, with an emotional connection established through storytelling and bringing customers along on the brand journey. Who would have thought that toilet paper would come with limited-edition packaging, such is the power of the brand's packaging and visual storytelling. While playful in its messaging, the business keeps its core message front of mind, emphasising the focus on sustainability and sanitation with tag lines including 'Good for the planet, good for your bum' and 'Your bum can uncrap the world'.

Source 4: Why we don't manufacture in Australia ... yet

A question we get asked all the time is why we don't manufacture in Australia when some other toilet paper companies do. The short answer is that manufacturing in Australia would increase our current carbon footprint because we'd have to import raw materials from overseas, then truck products all around Australia. Yikes! That doesn't mean we'll stop searching for better solutions – we're always looking for ways to manufacture domestically while also lowering our carbon footprint. Right now, we just can't find a way to do that. Until we can, let's clear a few things up with the long answer ...

What does 'Made in Australia' actually mean?

When it comes to toilet paper [TP], the claim 'Made in Australia' can be misleading. When companies tell you that, it doesn't necessarily mean their raw materials come from Australia or that they make their product completely in Australia. We've found that when it comes to toilet paper, the majority of traditional TP manufacturers and some of the most vocal recycled TP brands are importing materials, ingredients and partly manufactured products from overseas, and only entering the final stage of production in Australia.

Then how can brands claim that they're 'Made in Australia'?

Well, because they're allowed to. These companies meet the necessary requirements for the claim – the end product is fundamentally different (or 'substantially transformed') from its imported parts, even though they're partly manufacturing or importing materials from overseas.

Where does 'Produced in Australia' fit in?

'Produced in Australia' or 'Grown in Australia' can be used by brands when virtually all their raw materials or ingredients are from Australia and virtually all their production happens in Australia. You might notice it's harder to find an Australian toilet paper company with this claim.

Why don't you make the end product in Australia so you can use the claim too?

When we first started, we didn't manufacture domestically because we couldn't find partners who were willing or able to meet our requirements – wrapping rolls individually in paper, not plastic.

But times have changed, as have the offerings of local manufacturing partners. For example, some can now wrap rolls without plastic. However, one of our big focuses is looking at ways to minimise our carbon emissions. We found that if we imported raw materials from overseas to produce our rolls in Australia, like most other local brands, our product transportation would cause around 25% greater carbon emissions when compared to our current process! This is due to the increased trucking (10x higher carbon emissions than ships) that would be required to get our products from a single domestic converting location to customers who are spread all around our massive country.

So, where do you manufacture?

After a lot of thoughtful consideration, we've continued to foster the producer relationships we set up in China in the early years of Who Gives a Crap's business. There's a bit of a misconception about production in China, which we think is important to address. We work closely with our producers to ensure standards and processes we're happy with, plus we found that China offers a lot of wonderful benefits:

- We have access to a large pool of local, raw materials – both post-consumer wastepaper and bamboo (neither of which is readily available in Australia at our scale). This is efficient from a transport perspective because the raw material doesn't need to travel to be converted. Many of our competitors who say 'Made in Australia' get their raw materials from other countries, including China, but then they ship them to Australia. In some cases, Australian forests are even exported as wood chips to Asia for the early stages of processing into pulp, only to be shipped back to Australia for the final stages of tissue manufacturing.

- Our partners take care of their team members, which has always been a priority. In fact, all our partners are independently audited and scored across a range of categories including workers' rights, no child labour, no precarious employment and overall ethical business behaviours.
- We freight our product into Australia on boats, which are up to 10x more carbon efficient than trucks. That means that our products can travel about 10 000 km on a boat (which is more than the distance between China and all of Australia) and have the same transport footprint as travelling 1 000 km (which is slightly more than travelling from Sydney to Brisbane or Melbourne) in a truck.

Can I have a fun fact?

All of our shipping (from the factory to your door) is now completely carbon neutral. It's a win for us, for you and for the planet.

Will you ever manufacture locally?

We would love to! As we grow and scale our business, we're continuing to look at ways to manufacture domestically in all our regions. As of 2023, we make products in the UK and the US for customers who are located in, well, the UK and the US. We are working to identify even more opportunities to expand local production capabilities without sacrificing sustainable business practices in other markets, like Australia, so watch this space.

What other actions are you taking?

We're continuing to have conversations as we look for the right domestic manufacturing partners in Australia. Through our conversations to date, we've learned a thing or two (or three).

We have to be patient to find the right situation and partner that aligns with our needs, like only using recycled materials.

Much of the raw materials used by 'Made in Australia' brands actually come from overseas. If we decide to manufacture in Australia, we'd prefer to use domestic materials, and there isn't a viable path forward for us to do this right now.

We haven't found a manufacturing facility that can make as much recycled toilet paper as we want to sell. And we absolutely want to keep making and selling 100% recycled toilet paper. (It's kinda our thing.)

Source: <https://blog.whogivesacrap.org/home/why-we-dont-manufacture-in-australia-yet>

Source 5: 'We were crowd-funding the most boring product ever'

Who Gives A Crap was founded in 2012, and survived numerous crises, like the great COVID toilet paper shortage, to grow into one of the nation's most successful direct-to-consumer businesses. Co-founder Simon Griffiths (Figure C4.4) shares his lessons from innovating what's been described as the most dull product on earth: toilet paper.

Let's start from the beginning – how did Who Gives A Crap get started?

'I laugh about it now because it's a funny way to get started, when Kickstarter and other crowd-funding platforms were just in their infancy. We realised that we were crowd funding literally the most boring product ever, you know, toilet paper. Someone working on the campaign had the brilliant idea that I should sit on a toilet and pledge to not get off that toilet until we pre-sold the first \$50 000. It was one of those ideas that you hear and you're like, 'I can't say no', I knew it was going to be horrible but I needed to go all-in. My girlfriend, who is now my wife, was away and I had to say yes without asking permission.

'We generated 2.5 million social media impressions over the course of that campaign and the concept resonated with people in a meaningful way that meant we could really focus the next chunk of our lives on trying to bring it to life.'



Who Gives A Crap

Figure C4.4 Co-founder of Who Gives A Crap, Simon Griffiths

That's certainly different to most marketing campaigns, what else about you was different?

'One of the big things was that this was not a business that made sense in the eyes of venture capital (VC); the idea that we were giving away half of our profits [to help build toilets and improve sanitation in developing countries], when VCs were typically only funding software-as-a-service businesses, and that we were trying to sell toilet paper online. We were then dubbed an e-commerce business but today is now, you know, fondly known as direct to consumer. It was not an investable business. But what was great was that we had access to the same toolkits and the same tech stack, the same systems and processes and ideas that you see in traditional for-profit businesses. And so we had all of those tools available to us with this extra tool of purpose, that was kind of built into who we were as an organisation. And so that was our secret sauce when it came to getting this really amazing, incredible love from our customers.'

Tell us about scaling up what is now a pretty major business?

'We've grown from a team that was initially just me working 30 hours a week, to a team of close to 200 across seven countries, with the first nine years bootstrapped and, over that period, growing at roughly 2x to 3x year-on-year while also giving away half of our profits. After probably seven or eight years, we started to get inbound inquiries from investors and we were like, 'what's going on?', as the market kind of shifted in our favour. And I think it shows the power of having purpose embedded into your offering, and the vitality of our products that comes from having a funny name. It's a funny name combined with a good cause that's tied to the products that we're selling. And those three things together really allowed us to achieve some amazing things that I think are very difficult to achieve in a more traditional for-profit business.'

When it comes to donating half your profits, what kind of impact have you made?

'Our impact is to talk about the donations that we're able to generate. And we've now donated more than \$10 million over the first nine years of consistently selling products. That's a very real impact. You know, I think it's fair to say we're one of WaterAid's largest funders. And the impact that's come from that capital, in their words, has gone on to help hundreds of thousands of people.'

What have been some of the biggest obstacles or hurdles to overcome?

'There are so many wild stories in any business that's gone from zero to 200 people, or to \$10 million donated or whatever, and we're no exception. One that immediately comes to mind is our very first production run where I was the sole person working in the business. I have an engineering background, but electrical engineering, not manufacturing. And I went to do a quality control on our first production run, first time on a factory floor. We landed 200 000 rolls of product into our warehouses and started shipping them out to our crowd-funding campaign supporters who waited incredibly patiently for eight months for that product to arrive. We sold out incredibly quickly and so that was a good sign. But we also started to receive a lot of emails coming in saying, 'I love the brand name, I love the packaging, I love the ethos, I love everything you guys stand for – but I can't tear the sheets apart without a pair of scissors'. And I'd managed to forget to sharpen the perforating blades every four to six hours and produced 200 000 rolls of imperfectly perforated toilet paper that needed a pair of scissors to get the sheets apart.'

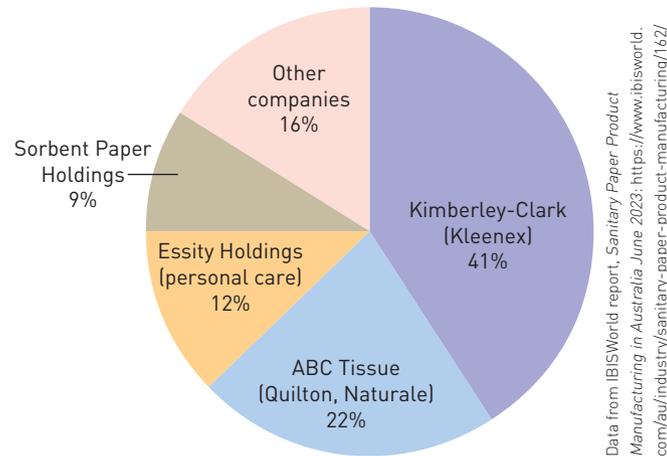
'I think the big lesson there was that I could have written back to those people and said, 'what are you talking about, the product's fantastic'. But that's not the set of ethics and values that we have as a business. And it probably would have bankrupted the company. So instead I emailed every single person that had supported that campaign and said, 'I am so sorry, I've made a huge mistake after you guys have backed this crazy idea and waited months for it to arrive at your doorsteps. And that is my fault. But I think that this idea is too good to pass up from this one mistake that I've made. So if you would, please come back and buy from us one more time. We're gonna get the perforations right on the next production run'. And luckily, about 80 per cent of our supporters came back and purchased again and then went on to tell other people about what we were doing. We learned just the power of humanising what's going on inside of business and taking people on the journey.'

Getting through the COVID toilet paper shortage must have been pretty wild as well ...

'That was another totally insane moment, and an insane learning journey. We somehow ended up at the centre of that, which was just a bizarre set of circumstances, but I think what we realised in that moment was the power of purpose. We had this crazy viral moment where our customers sent us viral, and our sales grew 12 000 per cent in four days. We were doing more than a month of sales in a day ... About 28 rolls of toilet paper every second. We turned on an email signup, thinking we'd get a few thousand people signing up to that waitlist. And we ended up with more than half a million people on there. At the end of it we were able to make a \$5.5 million donation, which capped a pretty incredible few months. I think our team said at the time that it was the most exhilarating, but the most exhausting, work they'd ever done.'

Source: <https://www.theaustralian.com.au/business/we-were-crowdfunding-the-most-boring-product-ever-simon-griffiths-lessons/news-story/0283405a42122cbedb8456e2b6276186>

Source 6: Sanitary Paper Product Manufacturing – Market share 2023



Source 7: What is the state of the toilet paper manufacturing industry?

Conditions have been difficult due to increased input costs for manufacturers and growing domestic competition. Larger manufacturers, benefiting from economies of scale, have been better able to absorb costs.

Revenue dropped 1.5 per cent over the five years to 2022–23 to \$2.3 billion. This was partly due to cost-of-living pressures and also a reflection of the drop from the high revenue of 2019–20, when consumers were panic buying during the pandemic.

Population growth and a product deemed a necessity support future growth. Revenue is forecast to rise at an annualised 0.8 per cent to \$2.4 billion by 2027–28. Strong brand recognition and customer loyalty see many consumers remain brand loyal throughout their lifetime

Increasing consumer demand for eco-friendly and sustainable products has resulted in key players expanding recycled product options. Niche businesses are appealing to the 'green' market. Major players have established environmentally friendly products, including recycled toilet paper, with consumers willing to pay premium prices for environmentally friendly options.

Source 8: Supply chain dramas result in increased home-grown demand for Aussie-made toilet paper and tissues

By Grace Whiteside, 26 May 2022, *ABC News*

Global supply chain disruptions are helping lift demand for Australian-made toilet paper and tissues products, according to one of the country's largest manufacturers. Kimberly-Clark Australia has reported an approximate 10 per cent increase in demand compared to pre-pandemic levels (Figure C4.5).

Adam Carpenter, Mill Manager at the company's operation in Millicent, South Australia, said raw material availability was playing a significant role in demand for their products. 'We, being a local manufacturer in Australia, have been able to supply products when other suppliers potentially have been importing products, so they've been more heavily impacted by the global supply chain issues,' Mr Carpenter said.

He said the company had been looking at ways to better ensure security of supply since 2020. 'We have worked with our global partners around ensuring that any raw materials that we are shipping in, [that] we're holding appropriate inventories.' He said both domestic and international issues had contributed to supply chain challenges. 'We have also been challenged with road



Bloomberg/Getty Images

Figure C4.5 Kimberly-Clark Australia's facility in Millicent is shipping out 15 000 pallets of Kleenex toilet paper each week.

transport, so with trucks and truck availability,' he said. 'Also pallet availability, which was a bit of an issue over the over the Christmas period and early in this year, have definitely impacted us and others. 'That is ultimately impacting the product on the shelves.'

Panic-buying peak

Mr Carpenter said 2022 had been 'a very busy year so far'. 'Demand has been particularly strong,' he said. '[Demand] is not as extreme as it was in 2020, when that panic buying did start (Figure C4.6).

'It was quite unusual in the sense that we pretty well just emptied our warehouses in an attempt to continue to keep product on the shelves. Since that time, what we're seeing is it just be a sustained demand over a longer period of time, but at a higher level than pre-pandemic levels.' Mr Carpenter said 'demand is probably up about 10 per cent' from before 2020. '2020 was very much a peak over quite a short period of time. It was very concentrated over about a six-to-eight-week period. This year, so far, we have seen a more sustained demand, which equates to probably 10% above what we normally see. We're shipping in the order of 15 000 pallets a week out of South Australia, so it is very busy.'

Call for more domestic capacity

Mr Carpenter's words were echoed by the manufacturing union. Manufacturing national secretary with the CFMMEU Michael O'Connor said there were a 'whole range of issues' impacting the sector.

'The issue of supply chain disruption – whether that be due to behaviour of the Chinese government, whether it's due to shortage of ships, or due to a shortage of shipping containers, it's due to a whole range of issues,' he said. 'I think all the supply chain disruptions because of COVID, geopolitical events, Russian invasion of Ukraine, et cetera, it all keeps reinforcing the fact that as much as possible, this country should be self-sufficient. 'We shouldn't be importing the amount of wood fibre that we're importing. We should be making and manufacturing more of that here,' Mr O'Connor said. He said it was vital for Australia to become more self-sufficient (Figure C4.7).

Source: <https://www.abc.net.au/news/2022-05-26/aussie-mill-reaps-rewards-of-supply-chain-disruptions/101099504>



anne-tipodees/Shutterstock.com

Figure C4.6 Mr Carpenter says Kimberly-Clark Australia 'pretty well just emptied' its warehouses to keep up with demand at the start of the pandemic.



Ajdin Kamber/Shutterstock.com

Figure C4.7 The CFMMEU says Australia should reduce its reliance on other countries for raw materials and finished products.

Source 9: The best and worst toilet paper - From the best budget buy to the softest recycled roll, here's the bottom line from our toilet paper tests

by Alice Richard, 4 Jan 2024, *Choice*

Two ply or three? Double length or triple? Patterned or embossed? Recycled or bamboo? Since when did toilet paper become so complicated? Plus, if you buy toilet paper that's rough, tears at the worst moment, or clogs up your pipes, you're basically flushing money down the toilet. So here's a handy round-up of the best and worst performers in our latest toilet paper review to help you get the best dunny roll for your dollar.

On a roll: The best toilet paper – This year's roll results were a bit complicated. Quilton Royal Toilet Tissue technically took out the top spot, but our experts can't recommend it because it didn't fare well in our puncture test – which measures how likely your finger is to burst through the paper mid-wipe. That's a real bummer. If you don't mind rolling the dice on the dunny, though, it's a great toilet paper in all other respects. But who really wants to brave a blowout on the bog? It's also not cheap at 55 cents per 100 sheets, which is a lot to pay to live so dangerously.

As for the toilet tissue our experts do recommend, it's a royal flush for Aldi: three of its Confidence toilet paper products were the highest scoring products overall that also met our experts' exacting standards.

The cheapest product in our test: Black & Gold Toilet Tissue 2 ply – scored highly overall, but like the high-scoring Quilton product it didn't perform well on our puncture test.

Best budget buy: At a budget-friendly 17 cents per 100 sheets, it's a good buy on face value, but not so much on the, er, other end. Saving money on essentials feels good, but you just can't put a price on knowing that your toilet paper isn't going to give way mid-wipe.

A pain in the bum: OoBamboo Unbleached Toilet Rolls 3 ply. If you have a sensitive sewage system at home, you'll probably want to give Oobamboo a miss: it scored an abominable 0% on our disintegration test (despite claiming to be 'septic safe'). It's also one of the most expensive products we tested, costing a huge 56 cents per 100 sheets. It scored a scratchy 55% for softness, but it did perform well in terms of separation (how easy it is to tear the toilet paper at the perforation).

Source: https://www.choice.com.au/home-and-living/household/everyday-items/articles/the-best-and-worst-toilet-paper?gad_source=1&gclid=CjwKCAjwwr6wBhBcEiwAfMEQs87qjN4t9WJCZNWDyrmWDL6CDatgZGhcPGLYU5kG8t0wcNhwGE2wuxoC8F4QAvD_BwE



Weblink
Choice toilet
paper reviews

Source 10: Canstar Blue review

Best-Rated Toilet Paper

Rated brands	Overall satisfaction*	Softness	Effectiveness	Value for money	Packaging convenience
	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
	★★★★	★★★★★	★★★★	★★★★	★★★★
	★★★★	★★★★	★★★★	★★★★★	★★★★
	★★★★	★★★★	★★★★	★★★★	★★★★
	★★★★	★★★★	★★★★	★★★	★★★
	★★★★	★★★	★★★	★★★★	★★★
	★★★★	★★★★	★★★	★★★	★★★
	★★★	★★★	★★★	★★★	★★★

Canstar Blue Pty Ltd

Figure C4.8 Canstar Blue's toilet paper ratings award five stars to Who Gives A Crap

Questions

- 1 **Describe** the facts and characteristics of the business situation as well as the business environment of Who Gives A Crap.
- 2 **Explain** the target market for the business and how it aligns with the total product concept.
- 3 **Explain** the relationship between supply chain challenges and inventory management strategies for businesses including Who Gives A Crap.
- 4 Select data and information from the case study to **analyse** the marketing and operations practices using a SWOT analysis. Interpret a relationship or a trend in the SWOT analysis to draw conclusions about the implications of the marketing and operational practices currently used by the business.
- 5 Using two criteria, **evaluate** one marketing and one operations strategy implemented by Who Gives A Crap to make a decision about the suitability in the growth stage and propose recommendations.
- 6 **Create** a business report for the founders of Who Gives A Crap to communicate your findings.



Template
SWOT analysis

GLOSSARY

Accountant: a person who records, monitors and reports upon a business's transactions and subsequent financial reports

Acquisition: the first stage of the employment cycle, which focuses on assessing a business's staffing needs and continues through to the recruitment and selection process to seek the best candidate for a job or role

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

Advertising: any form of paid, non-personal communication, by an identified sponsor, through a mass medium

Applicant: a person who applies for a job or role

Architectural innovation: taking the components of a product and reassembling or redesigning them in a new way to introduce to a new market

Assets: items of value that a business owns

Backward incremental planning (BIP): looks at the requirements from the due date backwards and schedules the process accordingly

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

Brand: the name, term, symbol, design or a combination of these that uniquely identifies a product and distinguishes it from the competition

Break-even analysis: a tool to analyse the break-even point of a business where total revenue equals total expenses or costs; identifies key drivers relating to profit, including sales, volume, production costs and sale price

Budget: an analytical tool used, before transactions occur, to compare anticipated income with expenses

Business plan: a document that compiles the goals and objectives of a business and how it sets out to achieve them, including how the business will manage its operations and strategies

By-product: a secondary or resultant product created as part of a production system. This incidental output by one business can be a key input for another

Candidate: a person who is shortlisted from a pool of applicants in the selection process

Capacity utilisation: expresses current output as a percentage of total potential output. It indicates the amount of available capacity being used to supply current demand

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

Career planning: the process in which a business tries to support a staff member in achieving their career goals such as moving into management roles, training in new areas or seeking promotion

Carrying costs: the expenses incurred from holding inventory until it is sold

Cash flow: the monitoring of money that flows into and out of a business. A business must strive for positive cash flow, which means more money flows into the business than is paid out.

Cash interest rates: a charge, set by the Reserve Bank of Australia, that regulates a percentage fee associated with lending funds, or the expected return on funds that are invested

Certificate: an approval from a local council that identifies a business is meeting its legal obligation related to a specific operating task

Chain of command: the line of authority and responsibility of different management roles within a business

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

Cloud computing: pay-per-use or subscription services for storing and accessing data and programs over the internet instead of on a computer hard drive

Codes of practice (industries): a set of standards put in place to prevent unethical or dangerous practices occurring in an industry

Codes of practice (work health and safety): the practical guide to achieving workplace health and safety, fine-tuned to industries

Competitiveness: the ability of the business to offer products or services that meet or exceed market standards in relation to other businesses

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

Constitution: a document that outlines the rules that govern a company, its directors and shareholders

Consumer behaviour: the behaviour that consumers display in searching for, purchasing, using and evaluating goods or services that they expect will satisfy their needs and the impacts that these processes have on the consumer and society

Consumer guarantees: a set of rules regarding goods and services purchased by consumers under the ACL that automatically apply, regardless of any voluntary or extended warranty given by a seller or manufacturer of goods and services, or if such a warranty has expired

Consumer sentiment: the degree of confidence consumers feel about the overall economy and their personal financial situation. This influences the level of spending that consumers will engage in

Controls: the policies and procedures a business puts in place to ensure that the security of the business's finances is maintained

Copyright: the automatic protection of the original expression of ideas, but not the ideas themselves – covers, for example, the work of visual artists, musicians, writers and video and film makers

Cost advantage: the ability of a business idea to deliver the cheapest product on the market that meets the standard expectations

Cost-benefit analysis: an approach to determining the financial viability of a project or strategy by comparing the predicted benefits (returns or income) with the anticipated costs associated with the project or strategy

Cover letter: a document that accompanies a person's resume, communicating to a business that the person would like to be considered for a job

Crowdfunding: seeking funding from a large number of people who each contribute a small amount, generally promoted through a fundraising website. The people who invest may choose to donate or request a share in the business and be paid a return from any profits.

Culture: beliefs, values, attitudes and customs shared by people in a society

Customer service: the intangible output of how well a business meets and exceeds the expectations of customers in all aspects of its operations

Debt finance: funds that a business seeks from external sources, such as financial institutions. The business uses the money to purchase assets, but must pay back the debt finance over time, incurring interest charges. The most common form of debt finance is a loan.

Deficit: occurs when a business forecasts that its expenses exceed income when formulating a budget

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

Deregulation: the process of removing or reducing restrictions and controls on an industry in order to improve the ease of entering a market and achieve greater competition

Development: the second stage of the employment cycle, which focuses on the induction and training of staff to support the business in achieving its desired corporate and organisational culture

Differentiation advantage: the ability of a business idea to deliver benefits that exceed those of competitors

Disruptive innovation: innovation that happens when a smaller business with fewer resources is able to successfully challenge an established business in the market by focusing on the market segment that is overlooked and then moving into the mass market

Employment agency: an organisation that aims to upskill unemployed people and place them into work

Employment contract: an agreement of working conditions between employer and employee that may exceed minimum standards set out in modern awards or the national employment standards

Enterprise bargaining: when employers and employees negotiate pay and working conditions, which are recorded in an agreement. Both employers and employees can appoint representatives (employer associations and trade unions) to assist in the negotiation process.

Equity finance: the internal funds invested into a business and used to purchase assets; often referred to as capital

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

Ethics: principles that guide the way a business acts

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

Expense: a cost involved in operating a business

External recruitment: occurs when a business seeks applicants from outside of the business

Feasible: capable of being achieved, accomplished or put into effect; reasonable enough to be believed or accepted; probable, likely

Feasibility report: a document that assesses potential solutions to a business problem or opportunity and determines which of these are viable for further analysis

Feasibility study: an analysis of how successfully a project or idea can be completed to determine its viability and potential action plans for moving forward

Finance company or agent: an organisation that provides debt finance products to the market, but that is not legally established as a bank or financial institution

Financial adviser: a person who is qualified to provide investment advice to clients

Financial institution: an organisation that provides banking services

Financial intermediary: an organisation such as a bank, credit union or finance company that offers debt finance products to the market

Franchise: a business relationship in which the franchisor (the owner of the business providing the product or service) assigns to independent people (the franchisee) the right to market and distribute the franchisor's goods or service, and to use the business name for a fixed period

Franchisee: the person who is granted the licence to run a franchise

Franchisor: the company that sets up the franchise arrangement and grants the licensing rights

Front-line management: staff who are tasked with responsibility for supervising or overseeing day-to-day business operations and are accountable to middle management in the chain of command

Goodwill: a monetary value that reflects the reputation of a business

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

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

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

Incremental innovation: innovation that occurs over time through a series of small improvements

Incumbent: in business, refers to a business that is already in position in a market

Induction: a process in which an employee is introduced to, and becomes familiar with, a business

Industrial relations: the relations that occur between employers and employees

Industry/professional association: an organisation established and run by industry representatives and/or professionals, providing support and advice to members, and advocating for their industry to other stakeholders

Inflation: the general increase in prices for goods and services as the value of money decreases over time

Innovation: occurs when an original invention is improved upon, or a significant contribution is made to the existing product, process or service

Innovation theories: ideas regarding the technological, organisational, financial and commercial activities necessary to create, implement and market new or improved products or processes

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

Insolvent: describes a business that is unable to pay back its debt finance

Insurance broker: a person who provides professional insurance advice and negotiates policies on behalf of their clients

Intellectual property: the property of the mind, intangible items or proprietary knowledge that a person or business creates and owns

Internal recruitment: refers to a business inviting employees within the organisation to apply for a job or role

Invention: the creation of a product for the first time

Inventory: the materials and goods required to allow for the production and supply of products to customers

Investment: when a person contributes their own funds to a business or enterprising activity, with the goal of making a return on their money

Job advertisement: a business document created to attract potential candidates to a job by outlining what the role will entail, its pay structure, qualifications or experiences required and its location

Job analysis: the process by which a business identifies its staffing needs

Just-in-case (JIC): an approach to inventory control that involves ordering extra inventory as a 'buffer' just in case it is needed, to insure against running out

Just-in-time (JIT): aims to keep inventories to a minimum, meaning no buffer or safety stock is held and components arrive just in time to be used in the production system. Finished goods are delivered to customers as soon as completed

Key performance indicators: objectives set by a business, which can be measured to allow business performance to be assessed

Large business: a classification for a business which has more than 200 employees and/or an annual turnover above \$250 million

Liabilities: money a business owes to another party, generally in exchange for the purchase of assets

Licence: a legal acknowledgement that a person or business is granted permission to operate

Liquidity: relates to a business's ability to convert assets quickly to cash, which may then be used to cover expenses

Litigation: when legal proceedings occur between two opposing parties to enforce or defend a potential breach of the law

Maintenance: the third stage of the employment cycle, focused on motivating and supporting staff in the workplace to help the business achieve its goals and objectives

Mandatory standards: the legal requirement for businesses to inform consumers about the safety of particular goods, often completed through labelling of the product

Market presence: the message a business communicates to prospective and actual customers. This message should be clear and reflect the key attributes from the total product concept and branding.

Market research: the collection, recording, organising, analysis and reporting of data to aid marketing decision-making

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

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

Market skimming: charging the highest possible price in the short term to earn a high profit on each item sold and gradually decreasing it in the longer term

Materials management: a system for planning, purchasing, moving and storing material in an optimum way that helps to minimise costs

Medium business: a classification for a business which has 20–199 employees and/or an annual turnover above \$10 million

Mentor: a person who provides advice, support and guidance to another person who has less experience

Micro-business: a classification for a business which has an owner but no employees

Middle management: leaders within a business who are responsible for implementing the decisions of top-level management while also supporting front-line managers and employees in achieving business objectives

Modern awards: a type of law issued by the government that outlines the minimum working conditions for employees within an industry

Mortgage: the name given to a loan that is used to secure land and/or buildings

Motivational theories: theories about the concepts and processes that describe the activation of goal-orientated behaviours in humans

Niche market: a smaller section of a larger market segment, focusing on a select group of customers; also known as a concentrated or micro market

Niche market: a smaller section of a larger market segment, focusing on a select group of customers; also known as a concentrated or micro market number in labour force number unemployed

Ombudsman: an officially appointed organisation that investigates complaints made against a business, dependent on industry

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

Operations management: involves planning, organising, leading and controlling all the resources needed to produce a business's goods and services

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

Outsource: to contract another business to perform services in return for a fee

Over-capitalisation: the financial position in which a business has more assets than are required for its core operations

Patent: a patent is a right granted for an invention (standard patent) or innovation (innovation patent) that is new and has not been disclosed in the market before

Penetration pricing: charging a very low price in the short term to generate high sales volume and meet sales objectives of the business

Perception: the process by which an individual selects, organises and interprets information into a meaningful and coherent picture of the world

Performance management system: a process implemented by a business and used to review and assess a staff member's performance in their job or role

Permit: a legal acknowledgement that a person or business is allowed to operate an aspect of the business not covered by standard licensing

Pitch: a type of presentation in which a person attempts to persuade others of their worth or the value of their idea. In human resources, a candidate may pitch their suitability for a job

Plant breeder's right: the exclusive commercial rights for a registered variety of plant

Point of difference: the ability of the business to offer products or services that meet or exceed market standards in relation to other businesses

Position description: a document that outlines the key responsibilities, tasks and specifications of a role

Private investor: a person or business that provides equity finance to a private company structure. A private investor who chooses to specifically fund a start-up business is referred to as an 'angel investor'.

Probationary period: a set time during which it is agreed that an employer may terminate an employment contract if the new employee is not meeting the expectations of their job or role

Production system: the set of activities that convert or transform the inputs of a business into outputs

Productivity: a measure of how efficiently goods and services are produced. It is expressed as the value of output per unit value of input

Product line: a group of products that are closely related because they are intended for the same end use or same target market

Product portfolio: the total combination of products that a business sells

Product positioning: establishing, in the mind of consumers, the identifiable image and attributes of a product (or service) in relation to competing products

Profit and loss statement (income statement): a financial report that summarises a business's revenue and expenses to calculate profit

Profit margin: the portion of a selling price that contributes to profit; generally represented as a percentage

Profit maximisation: the process by which a business strives to achieve an increased or greater potential profit

Promotion: use of advertising, sales promotion, publicity, personal selling, digital, social and emerging platforms to communicate with consumers and create sales

Proprietary: referring to the ownership of a business

Puffery: wildly exaggerated or vague claims about a product or service that no reasonable person could possibly treat seriously. For example, a cafe claiming they have the 'best coffee on earth'. These types of statements are not considered misleading

Radical innovation: involves the harnessing of new technology and a new business model simultaneously. It does not seek to take the market share of another business or product but rather to create an entirely new and currently non-existent market segment.

Rebranding: to change the corporate image of a business, including logo, signage and marketing materials

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

Recruiter: a human resources professional, outsourced by a business to assist in the selection process

Recruitment: a strategy within the acquisition stage of the employment cycle which focuses on how and to whom a job will be advertised

Referee: a person, generally a current or former manager or colleague, who vouches for a candidate's ability to complete a job. Referees' names and contact details are provided on a resume

Reference: a letter, written by a candidate's referee, that recommends the candidate as suitable for a job

Registered design: protects the visual appearance or design of the product and grants the owners the exclusive rights to commercially use, license or sell the design

Regulation: a rule or set of standards outlined by a government where compliance by stakeholders is required

Reporting period: an accounting term that represents the span of time over which financial reports are related

Resume: a document that outlines a person's work history, qualifications and skills, and which they use to apply for a job

Retailers: sell goods or services directly to the final consumer

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

Royalty: a percentage of sales that must be paid to an investor or contributor to a business or project

Scheduling: planning the timing and use of resources in the production system

Selection: a strategy within the acquisition stage of the employment cycle that focuses on how a pool of candidates can be shortlisted to find the ideal candidate for a job

Selection criteria: a set of standards or expectations that a business requires of a candidate to be successful in obtaining a job or role

Sequencing: the order in which activities in the production system occur

Shareholder: an owner of a share in a business

Situation analysis: an investigation of the factors internal and external to a business that influence planning and strategy

Small business: a classification for a business which has 0–19 employees and/or an annual turnover of less than \$10 million

Small-to-medium enterprises: a term used to collectively classify small and medium businesses based on their 1–199 employees

Solicitor: a person, qualified in the legal profession, who draws up contracts, provides advice and represents clients regarding legal matters

Solvency: relates to a business's ability to meet its debt obligations in the long term, while maintaining high value of its assets

Staff retention: the rate at which a business keeps its staff within a given period. Ensuring staff retention rates remain high can be an objective of the business.

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

Statement of financial position (balance sheet): a financial report that summarises a business's asset and how they are financed to inform the business's financial position

Strategic competitiveness: an outcome achieved when a business implements an effective value-creating strategy that cannot be duplicated, or is too costly for the competition to imitate

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

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

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

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

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

Supply chain management: a part of the materials management system used to get product to the end consumer, from obtaining raw materials through to delivering the final product. It includes all businesses directly linked to the supply of goods and services to the consumer.

Surplus: occurs when a business has forecasted more income than expenses when formulating a budget

Sustainability: the capacity to endure

Target market: a group of actual and potential customers whose needs and wants a business wishes to satisfy

Tariff: a tax imposed on imported goods

Taxation: the process in which government earns its income to provide public services. It is generally in the form of a levy that is added to the selling price of goods or services, or is calculated proportionally to a person's income and then paid to the government

Tax credits: the tax a business pays for the purchase of goods and services; offset against a business's tax liability to reduce the amount of tax that has to be paid

Tax liability: tax, collected by a business, which needs to be paid to the government

Third party: one or more people who are affected by an event, but who may not be directly involved or responsible

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

Top-level management: senior-level executives who sit at the highest level of decision-making in a business, and who have the most authority

Total product concept: when customers purchase products, they are buying both the tangible attributes and intangible benefits that make up the total product. This could include the packaging, branding, warranty and after-sales service.

Total quality management (TQM): a management philosophy that seeks to unite all business functions and employees to focus on continuous improvement and meeting customer needs

Trademark: protects brand names, logos, original sounds and scents, and even aspects of packaging

Trade secret: any valuable business information that is not generally known and that efforts are made to keep confidential as a competitive advantage

Training: a process where a staff member is supported in acquiring new knowledge and skills

Trial: when a potential candidate is invited to work in a business, for the purpose of being observed, before they are offered a job

Turnover: an accounting term that represents the income or revenue earned by a business in a set period

Under-capitalisation: the financial position in which a business does not have enough equity or debt finance to source assets and operate the business

Unemployment rate: a measure of the relationship between the number of unemployed people looking for work and the size of the labour force in a given market. It is usually given as a percentage and is calculated by:

$$\frac{\text{number unemployed}}{\text{number in labour force}} \times \frac{100}{1}$$

Unique selling proposition (USP): a key factor that differentiates one product from another. It is the reason that one product or service is better than that of the competition – it is the competitive edge

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

Venture capitalist: a person or business that provides equity finance to a business with plans for growth and expansion

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

Word-of-mouth: a promotional avenue where one customer tells a potential customer about a product or business experience. Information conveyed in this medium is often highly influential as it is not directly controllable by the business and is thus viewed as more reliable

Work Health and Safety Act 2011: legislation that provides a framework to ensure safe work practices are carried out in all workplaces

Work Health and Safety Regulation 2011: in a workplace health and safety context, this provides administrative and procedural detail relating to the Act

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