YEAR 10 Unit 2 Work and work futures

The business environment

Successful businesses must change and adapt in order to survive and remain and error. The co-founders of Twitter, pictured here, had two weeks to come product, called Odeo (a network used to that now has over 300 million active users.

Although Twitter has been successful, it



7A What is a competitive advantage and how does it benefit business?

- **1** Do you know of a business that has closed down? Why did it close?
- 2 Why is competing in a global marketplace a threat to some businesses and an opportunity for others?
- 3 Why might the employees of a business be its most important asset?

7B

What is innovation and how can it be used in business?

- 1 Why do you think fast food chains regularly change the products on their menu?
- 2 Why do you think the iPhone has been a business success?
- 3 An innovative idea may lead you to change the way you do something such as homework or travelling to school. Think of something you do every day and how you could do it faster or better.

a viable business.

Source 1 Twitter co-founders (front row, from left) Jack Dorsey, Evan Williams and Biz Stone are seen here at the New York Stock Exchange. Twitter is one of the most visited social media platforms today, but it must continue to innovate if it is to remain

7.1 Gaining a competitive advantage

A competitive advantage gives a business the ability to outperform other similar businesses in a market. The business is able to better satisfy the consumer than other similar businesses and this may result in increased sales and **profit**. Profit is the revenue a business receives minus any expenses such as the cost of raw materials, the cost of labour (wage costs) and taxes.

Businesses that gain a competitive advantage have worked out how to best satisfy the consumer - the buyer of their good or service. There are several methods a business can use to gain a competitive edge.



Source 1 Some businesses strive to gain a competitive edge by creating something entirely new in the market. They stand out from the crowd because their business idea is unique. Nick D'Aloisio, an Australian-born entrepreneur, created an app called Summly from his London home when he was just seventeen. Summly summarises news for smartphones. The technology behind it was sold to Yahoo for millions of dollars.

Offering the consumer a better price

Lower prices are an important way of enticing the consumer to buy goods and services. Some businesses are able to offer consumers lower prices because they find ways to reduce the cost of making a good or providing a service. New technology may be used to cut labour costs. Self-scan checkouts in supermarkets, for example, may reduce the need for employees to work on a checkout (see Source 2). Sourcing cheaper materials from suppliers may be another method of cutting production costs.

Larger businesses have the advantage of lower costs of production because it is cheaper to produce larger



Source 2 Self-service checkouts such as this are one of the ways in which businesses can use technology to reduce their labour costs, in an attempt to offer consumers cheaper prices on the goods they sell.

volumes of goods or services than smaller volumes. to a product through various media such as websites, This is referred to as economies of scale. The reason social networks, television, print material such as newspapers and magazines, or even product placements for this is that firms have fixed production costs such as equipment, advertising and marketing costs. Consider a in film and television. cake manufacturer, who has the capacity to cook 10000 cakes per day. The electricity costs of using ovens might be the same whether 8000 cakes or 10000 cakes are produced so there is an advantage in producing more, rather than fewer, cakes.

Outsourcing part of their operations is another cost-cutting measure some businesses choose to use. This can mean that work that was once undertaken in Australia is now completed overseas at a reduced cost. Qantas, for example, has recently outsourced the heavy maintenance of two of its largest planes to a company in Hong Kong.

Cost cutting is one way of reducing the price of a good or services, but a business may also decide it is in their interests to lower prices, accepting lower profits in order to ensure continued sales, and ultimately the survival of their business.

Making the consumer aware of the product or service

In order to buy a particular product or service, the consumer must first be made aware that it exists. Advertising is one way a business can gain a competitive edge. Advertising involves drawing the public's attention



Source 3 Next time you're browsing your favourite website or watching your favourite TV show, see if you can detect any product placement.

Offering consumers better quality or perceived quality

There are some goods and services that many consumers are willing to pay more for because of their quality. There are many different aspects of quality. David Garvin developed the concept of there being eight dimensions of quality.

- 1 Performance how well does the product work?
- 2 Features what additional features does the product have compared to similar products?
- 3 Reliability can the product be tested to work without fail?
- 4 Conformance does the product meet expected standards?
- 5 Durability will the product last a reasonable amount of time?
- 6 Serviceability how quickly and efficiently can the product be repaired if it does break down?
- 7 Aesthetics does the product's look, feel, sound, taste or smell appeal to the consumer?
- 8 Perceived quality does the consumer think the product is a quality product?

casestudy

Would you buy a bag for \$5000?

What makes a customer buy a luxury handbag for nearly \$5000 when they could buy a handbag for less than \$50? Some say you pay for guality and craftsmanship. But is a well-made quality handbag that costs close to \$5000 really worth it?

For some customers, the worth may be in a combination of beautiful craftsmanship, the aesthetics (how the leather feels, looks and smells) and the bag's features - whether it is versatile, allowing the customer to remove the straps and carry it in different ways, for example.

However, there may be something else that the customer is buying when they buy such a handbag



Source 4 Louis Vuitton is an example of one of the world's biggest luxury brands. The company sells a range of luxury products, such as handbags, luggage, small leather goods, shoes, stationery, timepieces and jewellery.

Being more responsive to consumer needs

Being responsive to consumer needs may be as simple as bringing products to market 'on time'. The motormechanic that is known for their quality work will soon grow out of favour if the customer has to wait an unreasonable amount of time for their car to be repaired.

Responding to consumer needs also means treating the customer well. Helping the customer when and if they need help is called customer service. Depending on the product, many customers need staff that have product knowledge. After-sales service is also important.

Businesses can improve their customer service by ensuring staff are properly trained. Technology may - perceived value. This is intangible and cannot be measured. It may be about how that product makes them feel and how they are viewed by others when they use it. According to Uché Okonkwo, a management consultant specialising in the luxury sector, 'Luxury is neither a product, an object, a service, nor is it a concept or a lifestyle. It is an identity, a philosophy and a culture'.

Creating a brand helps the consumer to guickly identify who made the product and sets the product apart from similar products sold by others. Advertising and marketing can therefore have a dramatic effect on whether a company gains a competitive advantage. Examples of well-known global brands include Apple, Google, IBM, Microsoft, General Electric and McDonald's. Source 5 lists the top seven luxury brands. Do you recognise any of them?

Rank in top 100 brands	Brand Name	Brand Value (\$m)
17	Louis Vuitton	24,893
38	Gucci	10,151
54	Hermès	7,616
60	Cartier	6,897
72	Prada	5,570
75	Tiffany & Co.	5,440
77	Burberry	5,189

Source 5 Best luxury brands in 2013, according to Interbrand's top 100 brands

also assist a business to deliver faster, more efficient customer service. For example, airports that provide customers with self-check-in facilities minimise delays.

Responding to consumer needs is not just about customer service and fast delivery. Businesses who produce new products in response to consumer needs, such as Nick D'Aloisio did, also gain a competitive edge. Many consumers also demand that ethical business practices are used in the production of goods and services. Ethics are standards that provide us with a guide to what is right and wrong. Goods or services produced without harming humans, animals or the environment are considered favourable by many consumers today.

er sunermarket cheaper petrol.

Source 6 Supermarkets use many methods to gain a competitive advantage. In Australia, the two largest supermarket chains are Coles and Woolworths. These supermarkets combined take up 71 per cent of the national food market share in Australia.

Check your learning 7.1

Remember and understand

- 1 What is the main advantage of a business obtaining a competitive advantage?
- 2 List five ways a business might reduce their production costs in order to obtain a competitive edge.
- 3 What is the difference between quality and perceive quality?

Apply and analyse

- 4 Each of the eight dimensions of quality consist of a question. Answer each question in relation to a product you were given for your birthday or at Christmas.
- 5 Why is a brand so important when it comes to selling luxury goods?
- 6 Consider the goods you buy. Explain why you buy these goods. Do you think it is because they are considered to be cool?

7A What is a competitive advantage and how does it benefit business?

Larger supermarket

Larger supermarket

	Evaluate and create			
9	7	7 Pick a food product and have five people undertake a blind taste test. Choose at least three different brands of the same food and ask five blindfolded testers to rate each from one to three, with one being the best rating.		
ed		a What was the most expensive product out of the three and what rating did the taste testers give it?b What have you learnt from this experiment about the power of brands?		
	8	Describe when you were last given poor customer service in a store and how the business could improve in this area.		
ng	9			

7A rich task

Undertaking a small business venture

Successful business ideas can sometimes be so simple. Setting up a sandwich shop hardly seems extraordinary but for Fred DeLuca, co-founder of the SUBWAY[®] chain, phenomenal business success.

Fred was just seventeen years old when he set up his first sandwich shop in Connecticut in 1965, with \$1000 he borrowed from his Fred at a barbecue one day that setting up

The first sandwich shop provided a valuable learning experience. Both Fred and Peter learned that a visible location and marketing were key factors to success.

Today there are more than 30000 SUBWAY® outlets in 87 countries. In Australia there are over 1200 SUBWAY® restaurants with plans to open more franchise stores in the future. A franchise gives an individual business the permission to market and distribute another firm's goods or service and use their business name for a fixed period of time.



Source 1 Subway franchises are popular in Australia.

skilldrill: Reasoning and interpretation

Planning and conducting a small business venture at school

This activity gives you a chance to practise your business skills by running a small business. It is important that anyone embarking on a business venture conducts proper planning before commencing their business, to ensure success. Many small businesses fail because of:

- inability to manage costs
- inexperienced management
- inadequate or no business plan
- insufficient funds to commence the business.

Sources 2 and 3 provide a guide to help plan a small business venture at school. If setting up a more extensive business, a proper business plan should be undertaken.



Organising your small business venture What are you selling? Who will buy it? What are your costs of production (materials you may have to purchase, the cost of phone calls, transport, marketing and whether you pay yourself and others a wage)? What will you charge? Will you make any profit (cost-revenue earned from sales = profit)? How will customers learn about your business venture? List marketing activities in the accompanying table When must your good or service be available for sale? What steps need to be taken in order to produce your good or service? Fill in the accompanying table adding as many columns as you like Do you need to seek permission before carrying out your small business venture? Why is your small business venture likely to be a success? Source 2 Some basic steps to guide you in your small business venture

Steps involved in producing your good or service AND marketing it	How long will this take?	Who will undertake this?	Where will your business venture be undertaken?
1			
2			
3			

Source 3 It is best to itemise the steps involved in producing and marketing your good or service, determine how long each step will take and who will carry out each task.

Apply the skill

1 Undertake your own small business venture, either individually or in groups. Remember that this is a small business venture, and so you should be able to complete in a reasonably short time frame. Consult with your teacher about the time frame you will work to. Your business venture could be as simple as setting up a second-hand goods stall, holding a concert, making and selling birthday cards or providing a service, such as gardening.

Use Sources 2 and 3 to help you plan your small business venture.

Extend your understanding

After you have completed your small business venture, evaluate how you went by answering the following questions.

- **1** Do you think you charged the right price for your good or service? If not, what price should you have charged?
- 2 What were the overall costs of the business venture and what revenue did you earn? Did you make a profit? Regardless of whether you made a profit or not, what could you do better next time?
- 3 What marketing did you undertake and was it successful?
- 4 Do you think you provided good customer service? Give reasons for your answer.
- 5 What were the business ventures that seemed to be really successful in the class overall? Explain why you think they were successful.

7.2 Innovation in business

Innovation is changing an existing process or product so that it is more effective than ever before. In Unit 4.2 we saw how Stuart and Cedar Anderson's creation of the Flow Hive allows honey to be collected more efficiently. It is important to understand that innovation can be used in many parts of a business to create a competitive edge. Let's first look at how innovative ways to market a product can lead to business success.

Innovation in marketing

A company's marketing methods can influence a consumer's decision to buy a product. Marketing is conveying the value of goods or services to a customer in order to sell that product to them. Marketers today realise that they will be more successful if they produce goods and services consumers want. They do extensive

case**study**

How do marketers reach young people?

Marketers now have to communicate with consumers in the digital world to ensure they continue to influence buying decisions. This means communicating via websites, email, apps and social networks. Recent statistics found that both teenage boys and girls spend 2.5 hours a day using the Internet, so businesses that wish to connect to a younger audience of consumers need to have online marketing strategies.

In 2011. Coca-Cola Australia embarked on an innovative marketing campaign to increase sales, particularly among younger adults. The 'Share a Coke' campaign used both traditional and online marketing to get their message across. Sales increased by 7 per cent after the campaign. The company printed 150 of the most popular Australian names on Coke bottles, inviting consumers to share a Coke with a friend. Consumers could go online and create a personalised virtual Coke can and even SMS one of their friends' names, which would then display on a huge Coca-Cola billboard at Kings Cross in Sydney. The campaign succeeded in creating awareness among younger users and gaining media attention, and was rolled out successfully in other countries, including the United Kinadom in 2013-14.



research to find out what consumers want and set about creating goods or services that meet consumer needs better than other competitors in the same market.

Marketers use different techniques to influence consumers to buy their products. Not all consumers have the same needs and wants, so marketers set about dividing the market into groups or subsets of consumers who have common needs and characteristics. This is called market segmentation (see Source 2). For example, all consumers eat, but what and how we eat is affected by our culture, and perhaps religion. To illustrate, McDonald's does not sell beef and pork products in their

have employees undertake training to help foster Indian restaurants because of Hindu and Muslim beliefs. creativity and innovative thinking. Innovation may Segmentation is used so that consumers with be specifically stated as a business goal, and time and common characteristics can be pursued or targeted to resources may be devoted to help staff develop great purchase the product. For example, older people are ideas. Amantha Imber, the founder of Inventium (an usually targeted to buy funeral insurance so that in the innovation consultancy firm) says, 'If you do not event of their death the person's family is paid a lump innovate, you risk becoming irrelevant because so sum to cover funeral expenses. many other companies are innovating and looking to A technique called **positioning** is also used by stamp out their competition. We're seeing it becoming a priority for more and more CEOs'.

marketers. This technique aims to create a distinct image for the product that differentiates it from other similar products on the market. The benefits of the product are communicated to the consumer as well as how unique that product is. For example, chocolatecovered popcorn called 'chocorn' has managed to gain consumer attention among other snack foods because consumers see it as a new and distinct product.

A consumer's buying habits may be influenced by the following:



Source 2 Marketers may target their product or service at a particular segment of the market.

Innovation in business culture

Each business will have its own particular way of conducting business. The 'culture' of each business is influenced by things like values, beliefs, the vision for the business, and habits. If an organisation is considered to be a good place to work, labour productivity (the amount of goods and services that a worker produces in a given amount of time) is likely to be higher.

Businesses that have an innovative business culture take active steps to ensure creativity is encouraged within their business. A business may, for example,

Innovation can be applied to how a business operates. John Lewis (see case study on page 112) is a UK company that has a different way of conducting business, which has contributed to its business success.



Source 3 Garth Midgley came up with his chocorn idea when he accidentally mixed his chocolate icecream with popcorn at the movies.

casestudy

Would you like to work for this business?

Imagine working for a business that divides a percentage of its annual profit among the people who work in the business. At John Lewis, a chain of upmarket department stores in the UK, this is exactly what happens. The 91 000 employees (who are referred to as 'partners' rather than 'employees'), each own a share of the 31 John Lewis department stores and 319 Waitrose supermarkets in the United Kingdom.



Source 4 Employees or 'partners' at John Lewis find out about their annual bonus which is linked to the businesses performance.

All workers, from top management to cashiers, receive the same percentage cash bonus each year, provided that the company makes a profit. In 2013 this amounted to 15 per cent of each worker's annual pay; an amount roughly equivalent to eight weeks' wages.

The radical idea to give employees a share of the profits came from John Spedan Lewis (1885–1963) who began distributing profits to employees in his stores in 1926. The John Lewis department stores and Waitrose supermarkets have been a financial success, with both increasing their share of the market for the fifth consecutive year. The chairman of John Lewis, Charlie Mayfield, believes that ownership by the partners plays a key role in the businesses success.

Employee ownership is popular in the United States, Britain and Europe but is yet to catch on in Australia. Research suggests that there are significant productivity gains to be made through employees owning a share in the business they work for.

John Lewis' business success cannot only be attributed to its profit share policy. The company has been leading the charge in online retailing and actively uses technology to appeal to its customers. In-house staff have just produced an app which shows a sofa in 3D, where the shape and colour of the fabric can be changed to give the customer a more informed choice.



Source 5 Innovative ideas can sometimes occur when many people work together on a project.

Innovation in business processes

All businesses use a number of processes to create a product (either a good or service). A process is a series of tasks or actions. Businesses processes must be efficient or productivity will decline. If you have ever waited a long time for a meal in a restaurant it may be because the process of ordering a meal could be more efficient (see Source 6). To use another example, if a shop regularly runs out of a product it may be because the process of keeping track of its stock is inefficient. Computerised stock systems can help a business control stock. Some manufacturing businesses use just-in-time inventory systems so that materials arrive at the right time without the need to hold vast amounts of stock, thus reducing storage costs and the possibility of waste or damage to stock.

Check your learning 7.2

Remember and understand

- **1** What is innovation?
- 2 Why is the UK business John Lewis considered to be an innovative company?
- **3** Why would marketers use different techniques to influence the buying choices of consumers?
- 4 Describe two marketing techniques commonly used to influence consumers.

Apply and analyse

- 5 In order to make a product or service more effective it is useful to think about the problems that might be experienced using it. For example, one of the problems with buying a fresh lettuce is that it has to be washed. Many supermarkets now supply washed lettuce for consumer convenience. Think of at least three products or services that you use that have been improved or could be improved.
- 6 What particular market segment or segments would the following products likely appeal to:
 - **a** shaving cream
- **b** hairspray
- c walking frame
- **d** Nike runners
- e outdoor heater



Source 6 Tired of seeking the attention of waiting staff himself in restaurants, restaurateur Noel Hunwick came up with the idea of an interactive table. The customer chooses from the menu by tapping the touchpad on the table and the order is sent straight to the kitchen.

- 7 Think of two products you have purchased and explain how these products have been specifically marketed to consumers in your age group.
- 8 How did Coca-Cola manage to increase sales through the 'Share a Coke' campaign?

Evaluate and create

- **9** Read the following cases and give each business owner some ideas on how to be more effective in their business.
 - a Maree owns a bakery but has noticed that the bakery at the end of the street is much busier than she is. Maree has been making the same cakes since she started the business three years ago and has not changed anything about the shop.
 - **b** Lee runs an online rubber stamp business. Businesses can order a custom-made business stamp and ink pads. Lee analyses the number of customers to his website and realises that his business is just not being seen. He set up a business to get customer feedback and one customer said she had trouble visualising what the stamp looked like, so wouldn't buy it.
 - c Kyla has an online gift shop. She prides herself on having the greatest range of gifts for the home but her competitors are more popular. Customers find it difficult to find what they want and the photography is very unappealing.

7B rich task

The importance of innovation in business

success. Take the Rubik's Cube, for example, invented by sculptor and professor of architecture Ernö Rubik in 1974. We had all seen puzzles before, but not a 3D it became the best-selling puzzle game in the world.

Innovation isn't always about the creation of novel (i.e. new and original) products such as the Rubik's Cube, though. Innovation can be used in all businesses to add value to existing products and services. For example, we all need and are familiar with shoes, but normally we buy them ready made in a shop or online. One Australian business called Shoes of Prey is changing the way we think about shoes, as customers can design their own shoes, choosing the shape, colour and height of their shoes, which are then custom-made and delivered.

Source 1 The Rubik's cube is an example of a novel innovation that has enjoyed huge commercial success.

Product or service innovation can give a business a competitive edge. One of the keys to innovation, though, is realising that change is necessary. Change in technology has meant that businesses must change the way they produce their product or service, or be left behind. One small business operating a 1950s clothes shop in the historic country town of Braidwood in NSW understands the importance of innovation. The co-owner of the business, Michelle Watkins-Sully, knew the business could not survive on local custom alone, so set up an online store to capture customers further afield. The business has also used social media to build a strong customer base.

Innovative products or services that allow other businesses to reduce labour costs, reduce materials needed to make a product, or reduce environmental damage are much sought after. Japanese scientists have just unveiled their first robotic newsreader that has perfect language skills and can read the evening news (see Source 2).



Source 2 The world's first robotic newsreader was unveiled in Tokyo in 2014.

skilldrill: Reasoning and interpretation

Being innovative in business

Practise your innovation skills by devising a new way to You may not have ever thought about innovation as a skill produce each product or service outlined in the table on before, but like many aspects of business, it is something the following page (first column). that can be learned, practised and improved upon. A The following task focuses on Seed 1 from La Salle's 'four business that strives to add value to their product or seeds' approach that relates to changing a product or service and changes according to consumer demand is service. Here are just some of La Salle's suggestions to more likely to stay in business and remain competitive. get innovative ideas flowing. Businesses now compete in a global market and the emphasis is not only to produce good products but to 1 Make a wish for the product. For example, if you produce them in a cost-effective way. take a simple product like a pen you may wish it did

Roger La Salle is an innovation expert and has developed a 'four seeds' approach to product innovation. This approach provides a structure that can be followed to help a business find innovative ways to improve their business, whether it is creating a new product, improving an existing service, streamlining work processes or simply finding new business opportunities.

Follow these steps to use the 'four seeds' approach to business innovation:

- Step 1 Change the product or service. How can the product be changed for the better? (Seed 1)
- Step 2 Add accessories. It's not just the product that is important, it is the accessories, such as the iPad cover or the mobile phone holder, that can add value to a business. (Seed 2)
- 4 Review your answers for each of the products or Step 3 Add complementary products. When a business services in the table. State (A) what your innovative is selling a product such as a hamburger, fries and idea is and (B) whether your idea would have drinks that might go along with it are offered for commercial success. Put your answer in the last purchase as well. (Seed 3) column.
- **Step 4** Enhance the sales channels. A sales channel Source 3 will help you practise your innovation skills. See the sample answer to the first product (tablecloth) as an is a business's access to a customer. You might have heard a salesperson ask you whether there is example. anything else they can do for you. Coles is an example 5 If you have a great idea, this becomes your intellectual of a business that has used their relationship with property (IP). You can legally protect this idea from customers to sell other products, such as insurance, being taken by others. Access your obook link and in addition to their main business of selling groceries. go to the IP Australia website and use the interactive (Seed 4) called 'IP in everyday life'. List the products or services you have used today and tick the ones you think have protected intellectual property.

Apply the skill

- the writing for you if you told it what to do. Make a wish for each product or service listed in the first column and put your answer in each row of column 2 of the table below. The first answer has been done for you.
- 2 Think about the life cycle of the product or service. For example, if we use the example of a pen again it might only last a month depending on how much you write. State the life cycle of each product or service in column 1 and put your answer in column 3 of the table below.
- 3 Analyse the problem with the product currently. For example, pens are never there when you need them! State the problem with each product or service in column 1 and put your answer in column 3.

The product or service to change	A wish for the product	The lifecycle of the product or service	The problem with the product currently	Innovation (a) What is your idea? (b) Do you think it would have commercial success? Why/Why not?
Tablecloth	It's always clean, you can design your own table cloth and change the colour.	It becomes stained and only lasts a year or so.	Requires constant laundering. You can't find one to suit your decor and are tired of the colour.	 (a) Design a table for restaurants that consists of a table that has a self-cleaning tablecloth. (b) Further research and development required.
Mobile phone				
Can of drink				
Chair				
Calculator				
Getting a haircut				
Going out to dinner				

Source 3 This table can help you practise your innovation skills.

Extend your understanding

1 Choose two of the following Australian innovations and conduct some research on the Internet to find out more about them.

Australian innovations:

- fire-stick farming
- Granny Smith apples
- Pink Lady apples
- Vegemite
- pre-paid postage
- School of the Air
- Clean up Australia (and the world)
- Earth Hour
- Speedos
- Sydney Opera House
- Caroma dual-flush toilet
- Solar Sailor
- wave piercing catamaran.
- 2 For each innovation, explain:
 - **a** why this product or service was innovative
 - **b** how it has been successful
 - c who led the innovation and when they did it.



Source 4 Vegemite, Earth Hour, Pink Lady apples and the Sydney Opera House are just a few Australian innovations.







