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WESTERN AUSTRALIAN CURRICULUM

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## Australia and the global economy

# Understanding the economy

At its most basic level, **economics** is the study of how people produce goods and provide services for other people to consume or use. More specifically, economics is about maximising the amount of **goods and services** that can be produced from a limited supply of resources. Every country has its own way of organising the production and consumption of goods and services. This is known as an **economic system**. In Australia, we use a **market capitalist** system. Under this system, producers exchange goods and services with **consumers** in return for money.

Countries all over the world also exchange goods and services with each other. This is called **trade**. Today, international trade is more common than ever before.



## 11A

### How does the economy work?

- 1 Make a 'wish list' of all the items you would love to buy. Explain why most of us can't just buy everything we want. Why can't the economy produce everything that people wish to consume?
- 2 Have you ever purchased an item on sale? Why do you think the price of the item was reduced? Why is buying the sale item good for both the buyer and seller?

## 11B

### How does Australia participate in the global economy?

- 1 Do you buy Nike runners or have an Apple iPad? These are imported goods. What other imported goods do you like to buy? Why?
- 2 Have you ever bought any of the items in Source 1? Many foods are produced by foreign-owned companies operating in Australia or are imported from overseas. Why might a country such as Australia import food?





**Source 1** Today, many food products that were once made and sold in Australia by Australian companies are produced by multinational corporations. More than ever before, Australia is part of a global economy.

# 11C

How do businesses create a competitive advantage?

- 1 Do you know a business that has closed down?  
Why did it close?
- 2 Why do you think fast food chains regularly change the products on their menu?

# 11.1 The Australian economy — an introduction

Most of us know more about economics than we think. Test your own economic knowledge by answering yes or no to these simple questions.

Test your economic instincts	Yes	No
1 You are given a wardrobe of new clothes. Would you still like to purchase other goods such as shoes or a new backpack?		
2 You already have a television, but have the opportunity to purchase a better one at a very reasonable price. Are you likely to purchase the new television?		
3 If you were selling homemade pies and knew they were popular, would you keep the price low?		
4 Mango farmers have experienced bumper crops. Is the price of mangoes likely to rise?		
5 Are bananas more expensive than diamonds?		

**Source 1** Quiz: See what you know about economics

If you answered yes to the first two quiz questions and no to the rest, you already have some understanding of economics. Our needs and wants are virtually unlimited and many of us would like to purchase more goods and services. Read the case study 'What do you spend your money on?' Goods are physical items you can feel and touch, such as clothes, a skateboard, an iPad or even food. Services are non-physical things that assist us in some way or that we experience, such as attending a concert, having a haircut or getting help from a tutor.

At a very early age we learn that we 'can't have everything we want'. It's the same in the wider **economy**. We have to make choices about what can be produced and therefore consumed, because resources (used to make goods and services) are limited. Choices must be made about how best to use limited resources.

## Resources in the economy

Natural resources, labour resources and capital resources are the ingredients used to make all goods and services (see Source 3). These resources are limited.

### case study

## What do you spend your money on?

How much money do you **spend** per week and what do you spend it on? According to market research company TRU, average spending per week ranged from \$56 for those aged 12 and 13 to \$192 for 18 and 19 year olds. Based on an online questionnaire, and using the answers of a sample of 810 young people, the study found that the most popular items to spend money on were clothes, transport, mobile phones, electronics and fast food. Favourite brands were Apple, Coca-Cola, Nike, McDonald's and Adidas.

Teenagers receive money from parents, part-time jobs, gifts and allowances. According to the Australian Bureau of Statistics (the ABS) a third of full-time

secondary school students had a part-time job.

Many teenagers now have the technology that allows **businesses** to market and advertise their **products**. Advertising through social networking sites and emails keep teenagers abreast of the latest consumer goods on the market. Video games have also become a popular marketing tool to reach teenagers.



**Source 2** Many businesses are now using social networking sites to market their products.

**Natural resources** such as:

- milk
- wheat
- sugar
- eggs
- cocoa.

**Labour resources** such as:

- technicians
- marketing executives
- bakers
- sales representatives
- managers.

**Capital resources** such as:

- ovens
- mixers
- cooling conveyors
- packing machines
- factories and buildings
- trucks.



**Source 3** Resources used in the production of a chocolate biscuit

**Natural resources** are resources that come from nature, from above or below the ground. These can include coal extracted from the ground, fish from the ocean, or wood from trees.

**Labour resources** are the intellectual or physical skills of a worker that are needed to make a good or provide a service. The different jobs people do every day – whether it be a store manager, bricklayer or nurse – are all classed as labour. **Capital resources** are man-made resources such as machinery, buildings, roads and bridges that are used to produce and transport the goods and services we purchase.

## How to deal with the problem of scarcity – opportunity cost

There aren't enough resources available to satisfy all our needs and wants. This is because resources devoted to one type of production cannot be used to produce something else. **Economists** call this **scarcity**. Resources are limited, so we must make the best use of them. Economics is about how to make the best choices with our limited resources. At an individual level, for example, purchasing a car worth \$20 000 means that person cannot afford their next best preference – going on an overseas holiday. Forgoing the overseas holiday is the real cost of buying the car. Economists refer to this as **opportunity cost** – the cost of the next-best alternative use of resources.

### Check your learning 11.1

#### Remember and understand

- 1 Why are needs and wants unlimited and resources limited?
- 2 Complete the following table by giving examples of the different resources used to produce each of the goods or services listed.

Good or service	Natural resources	Labour resources	Capital resources
Car wash			
Bunch of flowers			
Guitar lesson			

#### Apply and analyse

- 3 Assume a farmer can grow either wheat or rice or both. The sale price of both crops is the same.

Production possibility	A	B	C	D
Wheat (tonnes)	0	100	200	400
Rice (tonnes)	200	150	100	0

- a What production possibility (A, B, C or D) would give the farmer the best outcome?
- b What is the opportunity cost (the next-best option) of the farmer producing 400 tonnes of wheat?

#### Evaluate and create

- 4 Do you think you spend more than your parents or carers did when they were teenagers? Why?



# 11.2 Economic systems and their characteristics

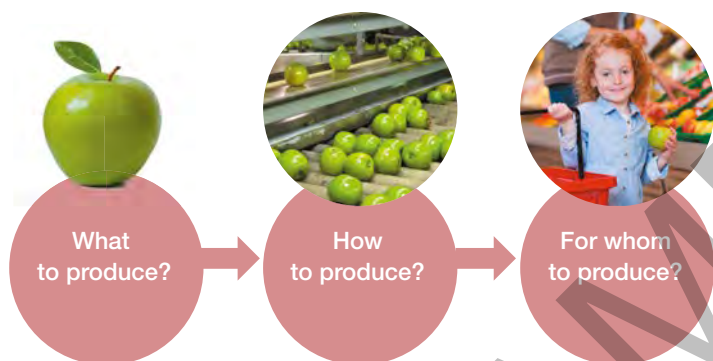
All countries use an economic system to ensure they use their scarce resources wisely. An economic system is a way of organising the production and distribution of goods and services. There are many different types of economic systems, but all of them must answer the three economic questions shown in Source 1.

Imagine you are stranded with your classmates on a remote island, completely cut off from the rest of the world (see Source 2). In order to survive, you would have

to develop a mini-economic system. 'What to produce?' will depend on what is available – perhaps fish and coconuts are readily available. The next question is 'How to produce?' Perhaps someone will cook the fish on a camp fire and someone else will use a rock to split the coconuts. Once you've produced the items, you will need to decide 'for whom to produce?' Perhaps each classmate will be allocated the same amount of produce.

## Types of economic systems

There are different types of economic systems that answer the three basic economic questions in a different way. Before we discuss each type of economic system, it is important to understand that political beliefs influence the economic system chosen. In a capitalist economy, there is a belief that resources (natural, labour and capital) used in production should be owned privately. Producers are motivated to provide goods and services for consumers with the aim of making a profit for themselves.



**Source 1** The three economic questions all economies must answer



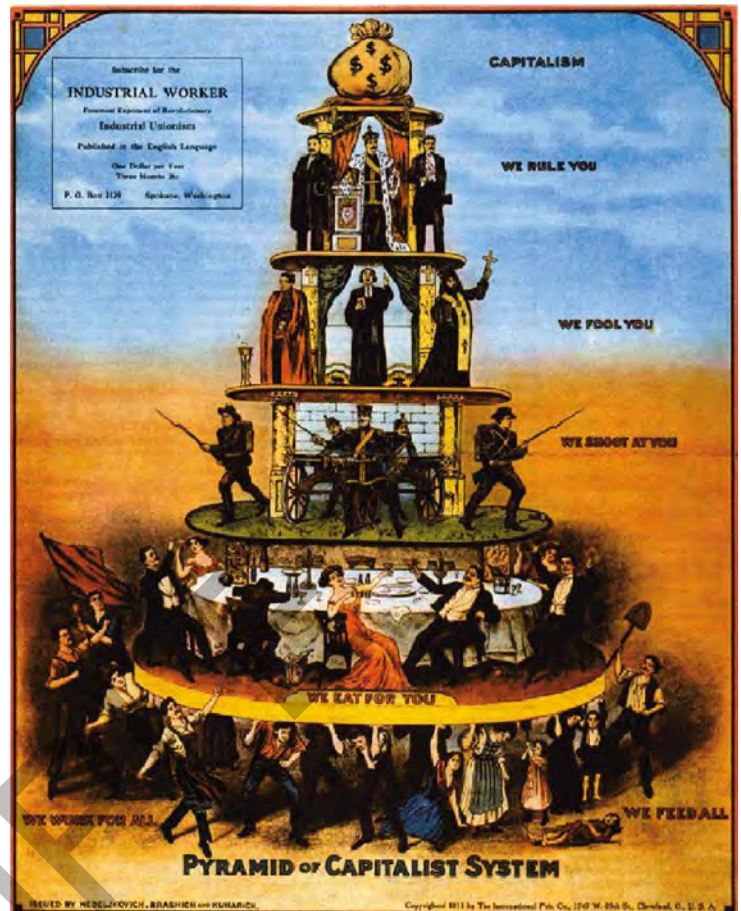
**Source 2** If you were stranded on a desert island with your classmates, how would you organise what had to be done?

In a socialist economic system, it is believed that social ownership of resources is much fairer. In many **socialist economies**, this has meant the government (referred to as 'the state') owns all the resources on behalf of the people. Karl Marx, who wrote *The Communist Manifesto* and *Das Kapital*, observed that workers were exploited in the capitalist system and would eventually revolt, overthrowing the rulers and creating a classless society (see Source 3).

## 1 Traditional or subsistence economy

In a traditional or **subsistence economy**, producers are self-sufficient, producing enough to survive, rather than aiming to make a profit. Money is not used. 'What to produce?' depends on what is available through hunting, gathering and growing food. Shelter is basic. Custom and religious beliefs may influence the question 'How to produce?' Production is usually shared, solving the question 'For whom to produce?'

There are very few subsistence economies in existence. Some villages in rural Alaska are self-sufficient, with its inhabitants fishing and hunting for food. The following case study illustrates how one man in England opted for a subsistence lifestyle.



Source 3 An anti-capitalism poster printed in 1911

## casestudy

### Could you live without money?

Mark Boyle, pictured in Source 4, is also known as the 'moneyless man'. He embarked on a life without money in 2008. He now lives by growing his own food and foraging, scavenging and bartering.

Surviving has led to some creative thinking as Boyle runs his laptop and shower using solar power. His stove is made of huge olive tins. Going to the toilet just requires a spade and some recycled newspaper to use as toilet paper. Toothpaste is no problem when you can make it from cuttlefish and fennel seeds. Nettles found in the forest make a healthy green tea.

Boyle says, 'If we grew our own food, we wouldn't waste a third of it as we do today. If we made our own tables and chairs, we wouldn't throw them out the moment we changed the interior decor. If we had to clean our own drinking water, we probably wouldn't contaminate it.'

Boyle, an Irishman now living in Bath in the UK, is one of a number of individuals who live without money. An American man by the name of Daniel Suelo stopped using money in 2000 and currently lives in a cave in Utah.



Source 4 Mark Boyle lives without money. Could you?



## 2 Market capitalist economy

In a **market capitalist economy** such as Australia, producers exchange goods and services with consumers in return for money. This exchange takes place in a market, which may or may not be an actual physical space (see Source 5). Producers decide 'what to produce' based on what consumers want and the price they are willing to pay. 'How to produce?' is solved by the producer choosing the most cost-effective method of production. The question 'For whom to produce?' is determined by who has the money to pay for the goods and services. The majority of productive resources (labour, natural and capital resources) are owned by individuals and firms. Most countries, including Australia, the United States, Germany, France, the UK, Malaysia and Japan, have adopted a market capitalist economy.

## 3 Planned capitalist economy

In a **planned capitalist economy**, individuals and firms own the productive resources but the government determines 'what to produce', 'how to produce' and 'for whom to produce'. This type of economy does not currently exist.

## 4 Market socialist economy

In a **market socialist economy**, the three basic economic questions are answered in the same way as the market capitalist system, but productive resources in this type of economy are mostly owned by the government ('the state') on behalf of the people of the country. The former Socialist Federal Republic of Yugoslavia is considered to have had a market socialist economy.

## 5 Planned socialist economy

In a **planned socialist economy** it is the government that determines 'what to produce', 'how to produce' and 'for whom to produce'. It is called a planned economy because production takes place in line with the government's long- and short-term plans. The majority of productive resources are owned by 'the state'. In these economies, the emphasis may not be on



**Source 5** In a market capitalist economy, buyers and sellers come together in what is called a market. When there is an oversupply of a good, the price falls and many consumers will be enticed to buy, clearing the oversupply of goods.

producing the goods and services consumers want but may be directed to areas the government sees as desirable, such as defence. As a result, shortages of consumer goods may occur. North Korea has a planned socialist economic system. Many consumer goods in North Korea are in short supply and trade in illegal goods through the black market thrives.

## The tale of two cows

The tale of two cows (see Source 6) is a simple and humorous story that is commonly used to explain how different economic and political systems work. Here we will use it as a tool to understand the main differences between the economic systems we have been learning about.





1

### Traditional or subsistence economy

#### You have two cows...

You milk the cows and make enough cheese for your own needs. This allows you to feed your own family.

2

### Market capitalist economy

#### You have two cows...

You sell the cows' milk and have enough money to buy a sheep. You sell the wool from the sheep to buy a chicken and then sell the eggs. You're getting rich, but some others in your community might be poor.

3

### Planned capitalist economy

#### You have two cows...

You continue to own the cows but the government tells you what to do. For example, they may want you to produce butter.

4

### Market socialist economy

#### You have two cows...

The government owns your cows but you decide what to produce (perhaps cheese), how to produce and who you will sell your product to.

5

### Planned socialist economy

#### You have two cows...

The government takes your cows, sets up a dairy farm to produce milk and decides who the milk will be sold to.

Source 6 The tale of two cows – how different economic systems work

## Check your learning 11.2

### Remember and understand

- 1 What is an economic system?
- 2 Match the statements below to the correct economic system:
  - a Firms are told what to produce by the government who owns most of the productive resources.
  - b Workers produce what they need to survive and money is not used.
  - c This is a market economy in which productive resources are owned by the state.
  - d This is a market economy in which productive resources are largely owned by firms and individuals.
  - e There is no money, and people only produce enough to meet their own needs.

### Apply and analyse

- 3 Explain why very few subsistence economies exist today.
- 4 What are the advantages and disadvantages of living without money, as Mark Boyle does?
- 5 Look closely at the anti-capitalism poster (Source 3). What criticism is being made about the capitalist economic system?

### Evaluate and create

- 6 Some North Koreans have recently been willing to pay up to a day's wage for chocolate biscuits called 'choco pies' on the black market. Why might there be a black market for items such as chocolate biscuits in North Korea?
- 7 Which type of economic system do you think is the best? Why?

# 11.3 Participants in the Australian economy

Australia has a market capitalist economy. Let's first look at two key participants or players in the Australian economy – consumers and producers, as shown in Source 5. Producers provide consumers with the goods and services they need, and in return consumers spend money buying these goods and services. Some

consumers **earn** wages (by providing the resource of labour) to pay for these goods and services.

One important characteristic or feature of Australia's economy is **free enterprise**, where individuals can set up a business and make a **profit**. Businesses are expected to pay tax to the government and comply

## casestudy

### What are some of Australia's booming businesses?

#### Carman's Fine Foods

When Carolyn Creswell was 18, she used her \$1000 in savings to buy a muesli business. Twenty-one years later in 2014, she was ranked 25th on the BRW Young Rich list, with her wealth estimated at \$83 million.

Carman's Fine Foods produces a range of muesli products that are Australian made and owned. Carman's is a major food retailer, exporting to over 32 countries and employing up to 20 staff.



Source 1 Carolyn Creswell

#### Adriano Zumbo Patisserie

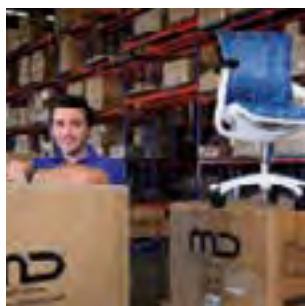
Adriano Zumbo is an Australian patissier and chef. You may have seen him on television making his intricate desserts. After Year 10, Adriano finished school and started an apprenticeship as a pastry chef. Although he now owns six patisseries in Sydney and Melbourne, employing more than 100 staff, Adriano started out small, selling homemade cakes and pastries to local cafes.



Source 2 Adriano Zumbo

#### Milan Direct

Milan Direct is a market leader in selling designer furniture online and now has the biggest share of the Australian online household furniture market, according to a recent IBISWorld report. Dean Ramler, co-founder and CEO of Milan Direct, comes from a family of furniture makers. Dean's concept of selling designer furniture online only, with no retail store, has paid off. Milan Direct sells its furniture in Australia, the UK and Europe. The company employs 20 staff and is a multimillion-dollar business.



Source 3 Dean Ramler

#### Shoes of Prey

Jodie Fox, Michael Fox and Mike Knapp didn't think that their business idea for Shoes of Prey in 2009 would become a multimillion-dollar business within two years. The concept was unique, though, as the customer can design their own shoes using the 3D designer. The business has five offices globally and employs 150 staff.



Source 4 Jodie Fox

with regulations. Businesses similar to those in the case study benefit the economy because the government is able to collect more tax (boosting its **revenue**), consumers are provided with goods and services, and individuals are employed and earn a wage. The individuals in the case study used their own resources to establish their businesses.

The Australian economy doesn't just consist of consumers and producers. The government and financial institutions also play an important role, as outlined in Source 5.

Economic decisions made by any of the participants in Source 5 will have economic consequences. For example, if you decide to set up your own IT business, you will need capital equipment such as computers, desks and chairs. People will be employed making these capital products, and you may also have to employ IT consultants and administrators to help you run the business. These people will in turn earn wages, and they will spend their earnings on more goods and services after they have paid tax to the government. Some of the wages earned will also be saved by financial institutions, which will then use those savings to lend to consumers. In this way, participants in the Australian economy are interconnected.

The overseas sector, where we are linked to international markets, is another key part of the Australian economy.

Australians buy imported goods and services from other countries and we also export goods and services overseas. This trade with other nations directly affects our economic welfare. There are many factors that influence trade, especially the constantly changing **exchange rate**. The exchange rate is the value of one country's currency when swapped with another

country's currency. For example, \$1 in Australian currency might be worth 72 US cents. If the Australian dollar rises in value against other currencies, it means Australian exports will be more expensive and imports cheaper. If the Australian dollar falls in value against other currencies, Australian exports will become cheaper and imports will become more expensive (see Topic 11.4 for more information on Australian trade).

## Australia and the global economy

**Globalisation** is a term you will have heard before, probably in the news. It means that all the countries of the world are linked and should be seen as one worldwide, or global, economy.

Australia is linked to the global economy because of:

- trade with other nations – we import goods and services made overseas into Australia, and export goods and services from Australia to other countries
- foreign direct investment – foreign funds used to establish new or existing businesses in Australia
- an international market for labour – Australians work overseas and people from other countries come to work in Australia
- technology – allowing us to quickly and efficiently communicate with potential customers all over the world
- **migration** – settlers come to live in Australia.

Australian businesses are crucial to the economy's success and have had to adapt to the changing business environment. Many businesses now source products from overseas or have part or all of their products made overseas.



### Consumers

- buy goods and services
- earn wages and salaries
- pay taxes
- receive government benefits
- save



### Producers

- produce goods and services
- aim to make profit
- pay wages
- pay taxes
- borrow money
- import and export goods and services



### Government

- charge taxes
- pay wages
- spend on goods and services
- provide benefits, payments and services to Australians
- borrow money



### Financial institutions

- hold savings
- lend money
- aim to make a profit
- pay taxes

**Source 5** Key participants in the economy are consumers, producers, the government and financial institutions.



## Where are your clothes made?

### The garment trade and sweatshops

It's highly likely the clothes you are wearing were not made in Australia. Have a look at the labels on your clothes and you might discover where they were made. Australian retailers such as Rivers, Coles, Target, Kmart and Cotton On order clothes from factories in Bangladesh. Bangladesh is one of the cheapest locations to make clothes, because wages are so low. Four million people work in the Bangladesh garment **industry**, typically working 12 hours per day. China, India and Cambodia also supply Australia with cheap clothing.

The global garment trade came under scrutiny and inspired protests (see Source 7) when more than 1100 people died in a garment sweatshop in Dhaka, Bangladesh, in 2013. This particular sweatshop was making clothes destined for the US and Europe. Building inspectors had requested the building be evacuated the day before it collapsed, but supervisors at the sweatshop declared it to be safe.

### Challenges for Australian fashion businesses

At the higher end of the fashion market, many Australian designers are struggling to keep their businesses afloat. Perth fashion designer Poppy Lissiman, for example, has put her fashion label on hold while investigating having her garments



**Source 6** Many Australian designers have their clothes made overseas.



**Source 7** An anti-sweatshop protest in Washington, D.C. manufactured overseas to cut the costs of production.

Fierce international competition has also led some designers to close their businesses. Smaller businesses in particular may struggle, as some large manufacturers overseas will only do business if the order is substantial. Online shopping has also had a significant impact on local fashion designers.

Some Australian fashion designers have managed international success, however. Australian fashion



designers Peter Strateas and Mario-Luca Carlucci launched their label during Paris Fashion Week. They bypassed Australia and went straight to the Paris catwalk with their striking designs, and now have 20 stockists around the world.

Source 6 shows how a dress might be made in various parts of the world – it's the process of globalisation in action.

## Check your learning 11.3

### Remember and understand

- 1 Imagine you set up a hairdressing salon.
  - a What service are you providing for the consumer?
  - b What does the consumer give you in return for cutting their hair?
  - c List some of the costs you incur as the owner of your hairdressing salon.
  - d In what ways does the government affect your hairdressing business?
  - e Why might you need the services of a financial institution such as a bank in running your business?
- 2 List the economic consequences of opening up a new restaurant in your area.
- 3 Explain what happens to the price of exports when the Australian dollar rises.
- 4 Explain why Australia is part of the global economy.

### Apply and analyse

- 5 In 2014, ALCOA (a metals and engineering company operating in 31 countries) closed its Point Henry aluminium smelter and two rolling mills. List the economic consequences of this decision in relation to:
  - a employment
  - b taxes
  - c government payments, such as unemployment benefits.
- 6 List five businesses that sell their products or services worldwide.
- 7 Would companies such as Milan Direct and Shoes of Prey have been successful if they had not sold their products overseas? Why/why not?
- 8 Take a few minutes to daydream.
  - a If you were going into business, what product or service would you be most interested in selling?
  - b Is there an international market for your product or service?
  - c How will your product or service stand out from other products on the market?

## 11A rich task

# The decline of the automotive industry in Australia

Increased competition from overseas is one of the adverse effects of globalisation. This has led to some business closures in Australia.

Mitsubishi closed its last Australian car manufacturing plant in 2008. Holden, Toyota and Ford no longer manufacture cars in Australia (see Source 1). GM Holden boss Mike Devereux declared, 'As painful as it is to say, building cars in this country is just not sustainable.'

Reasons for the decline in the Australian automotive industry include:

- Pressure from imports. Australians now have 65 brands and 365 car models to choose from, making it the most competitive automotive market in the world.
- The more cars that are produced, the cheaper they become, and Australia did not produce cars in large enough volumes.
- The high Australian dollar made our exported cars more expensive overseas and imported cars cheaper in comparison.

The Holden, Ford and Toyota closures have also sparked concern for those businesses supplying car parts. Lawyer Evan Stents, who specialises in the automotive industry, raised concerns about job losses in those businesses supplying car parts. In relation to Ford he said, 'For every one manufacturing job at Ford, there are probably another four jobs that are threatened in the parts industry.'

Workers made redundant have their own personal tale to tell. Fifty-five-year-old Moji Behbahani, who has worked for Ford for 23 years, described losing his job, his hands shaking.

'I have to work,' Mr Behbahani said. 'I have so many friends there, it is like a second family.'



Source 1 The end of car manufacturing in Australia



## skilldrill

### Identifying the consequences of business decisions

Businesses make decisions all the time, such as whether to hire staff or produce a new product using sustainable resources. The closure of a business is an example of a decision that can have far-reaching consequences, not only for the business owners and staff, but for the economy as a whole. Identifying the consequences of a business decision is vital to:

- reduce unwanted side effects
- provide assistance to those who are affected by the decision
- turn a negative business decision into a positive outcome.

**Step 1** Clarify exactly what you are being asked to do. You must specifically 'identify consequences'. Consider using a dictionary for the meaning of 'identify' and 'consequence'. It is also helpful to find synonyms for these words. Rewrite the task if it is easier for you so that 'identify consequences of a business decision' becomes 'look for the effects or outcomes of the business decision'.

**Step 2** Be clear about what business decision has been made and try to state the decision in just one sentence.

**Step 3** Who will be affected by the business decision? Identify groups/people that will be affected by the decision.

**Step 4** How will groups/people be affected by the business decision? Identify how each group might be affected by the business decision. Brainstorm possible effects on each group.

### Apply the skill

Identify the consequences of cars not being made in Australia anymore.

- 1 Read the information provided on the decline of the automotive industry in Australia, then copy the following table (adding as many rows as you need) and fill it out. Remember that the information provided will not provide all the answers; you will have to think about how the decision will affect certain groups yourself. The first answer has been done for you.

Those affected by cars not being made in Australia	How groups/people will be affected by not making cars in Australia
Car manufacturer	<p>Their business will now survive and operations will continue in other countries where profit can be made.</p> <p>Car sales may decline in this country.</p> <p>Redundancy payments (when the employer makes a payment to the employee whose job is no longer needed) will need to be made, affecting profit outcomes.</p> <p>The factory site will be sold and some of the proceeds returned to the company.</p>

- 2 Write 2–3 paragraphs about the consequences of the decision to stop car manufacturing in Australia.

## Extend your understanding

Identify another industry in Australia that is in decline.

- 1 Use the following table to help you identify who will be affected and how they will be affected by the decline of the industry. Search the internet for more information.

Those affected by the decline of the industry	How groups/people will be affected by the decline of the industry

- 2 Write 2–3 paragraphs about the consequences of the decline of this industry in Australia.

# 11.4 Australia's place in Asia and the global economy

Australia's economy is relatively small by global standards, representing around 2 per cent of the world's production. Nevertheless, international trade – buying from and selling goods and services to other countries – is important to us.

Australia is both an exporter and importer of goods and services. Exports are goods and services produced locally and sold overseas. Australia exports around one-fifth of what it produces. Examples of Australian exports include beef, wheat, pharmaceuticals, wine, beer, and education and travel services. Imports are goods and services produced overseas and sold to Australia. Australia imports the equivalent of around one-fifth of its production. Examples of goods and services imported by Australia include cars, computers, telecommunications equipment and personal travel services.

Australia has an abundance of natural resources such as coal, iron, copper, gold, natural gas, uranium and renewable energy sources (see Source 1). These types of natural resources are sometimes referred to as commodities. These natural resources have been in high demand by Asian countries, particularly China, for the manufacture of consumer goods sold around the world. China's recent economic slowdown has, however, resulted in falling commodity prices.



**Source 1** Australia is rich in natural resources such as gold, which we export to the world. Australia is one of the largest gold producers in the world.

Australia is not a large exporter by world standards (see Source 2). Trade with other nations is important, though, because:

- Australia earns money by exporting our goods and services
- international trade provides employment for both Australians and people overseas
- Australia can buy products it does not produce itself from other countries
- Australia can sell products that other countries need.

In addition to the exchange of goods and services between Australia and the rest of the world, other countries invest directly in Australia by setting up business or expanding their existing business operations in Australia. Chances are your favourite chocolate bar was made in Australia, but the company that produced it was the foreign-owned British company Cadbury.

**The top 30 exporting countries**

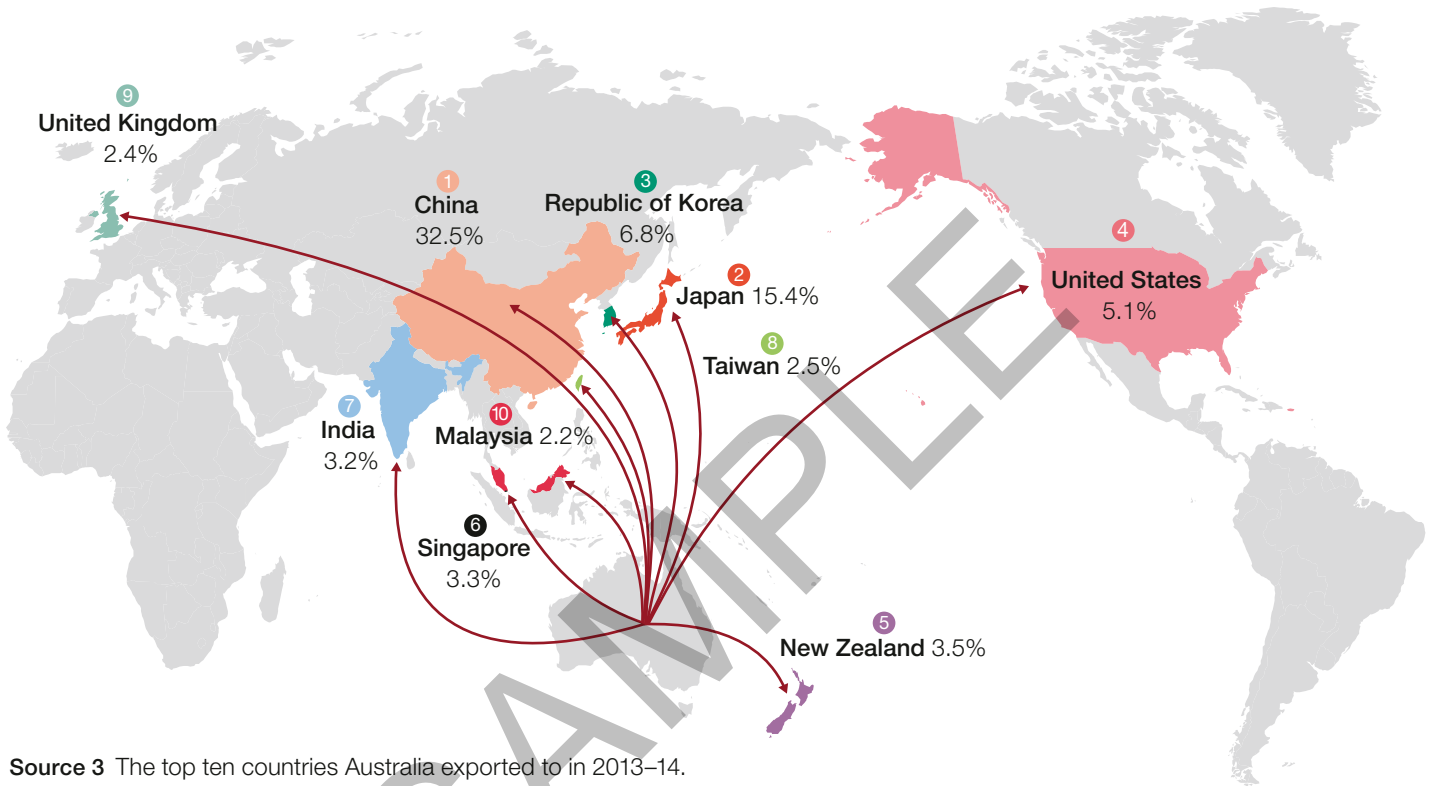
1	China	11	United Kingdom	21	Switzerland
2	European Union	12	Mexico	22	Saudi Arabia
3	United States	13	Canada	23	Thailand
4	Germany	14	Singapore	24	Malaysia
5	Japan	15	Russia	25	Poland
6	South Korea	16	United Arab Emirates	26	Brazil
7	France	17	India	27	Australia
8	Hong Kong	18	Taiwan	28	Vietnam
9	Netherlands	19	Belgium	29	Turkey
10	Italy	20	Spain	30	Indonesia

**Source 2** This table, constructed using figures from the CIA World Factbook website, shows the ranking of countries according to the value of export goods in 2015.

## Australia's major trading partners

The United Kingdom was Australia's major trading partner in 1900, receiving nearly 60 per cent of all Australian exports. This was because Australia was once a British colony and had strong historical ties with

Britain. This strong relationship continued into the 1950s, seeing Australia trading mainly with the United Kingdom and other European countries. Since then, there has been quite a dramatic shift in the countries we predominantly trade with. As you can see in Source 3, the United Kingdom now only receives 2.4 per cent of our exports, while China receives almost a third of our exports of goods and services.



Source 3 The top ten countries Australia exported to in 2013–14.

## What Australia imports and exports

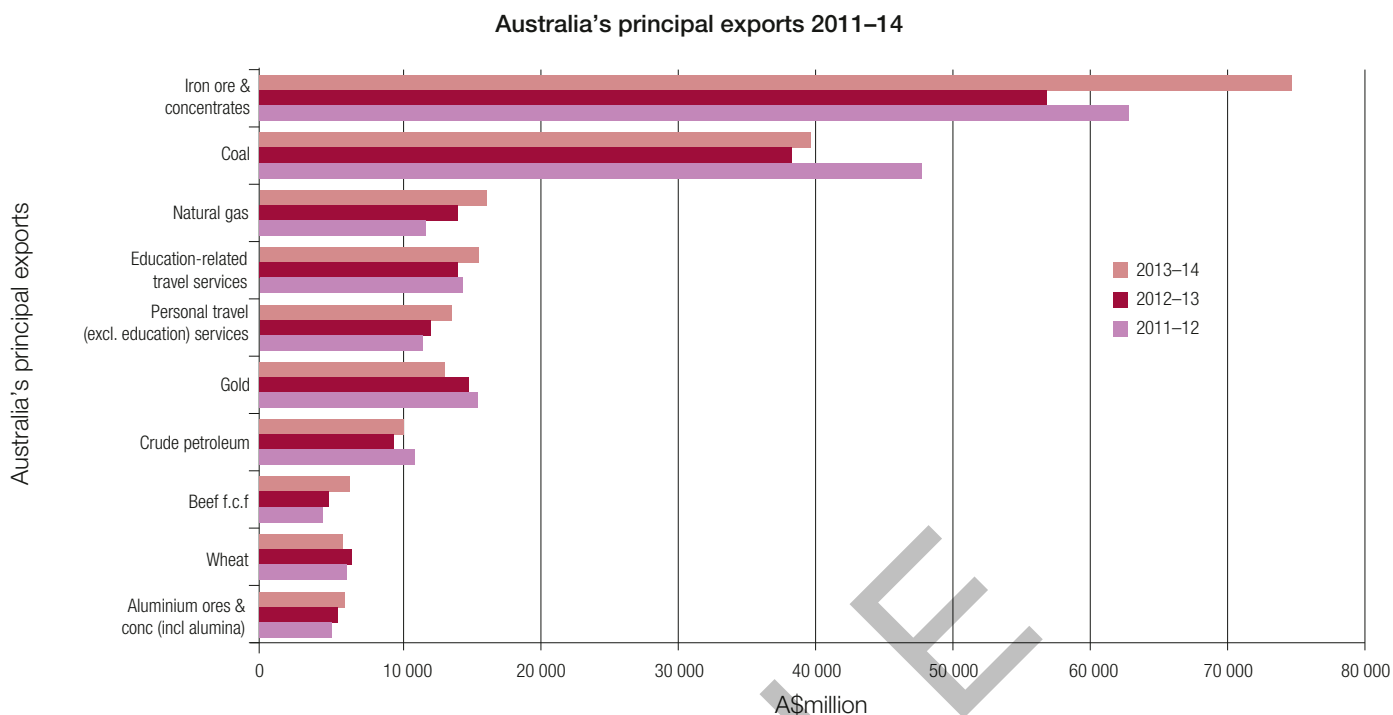
What Australia imports and exports is called the 'composition' of trade. Nearly 78 per cent of our exported goods in 2013–14 were in **primary products**. These are products that are produced from raw materials and are not manufactured. Nearly 16 per cent of our exported goods in 2013–14 were manufactured goods. Agriculture, fishing, mining, and forestry are examples of primary industries. Referring to Source 5, count how many of Australia's major exports are primary products.

Nearly 72 per cent of all the goods we imported in 2013–14 were manufactured products and just over 24 per cent of imports were primary products. Refer to Source 9 and count how many of Australia's major imports are primary products.



Source 4 Primary products make up 75 per cent of Australia's exports.





**Source 5** This chart shows Australia's principal exports. Iron ores and concentrates are Australia's largest individual export items.



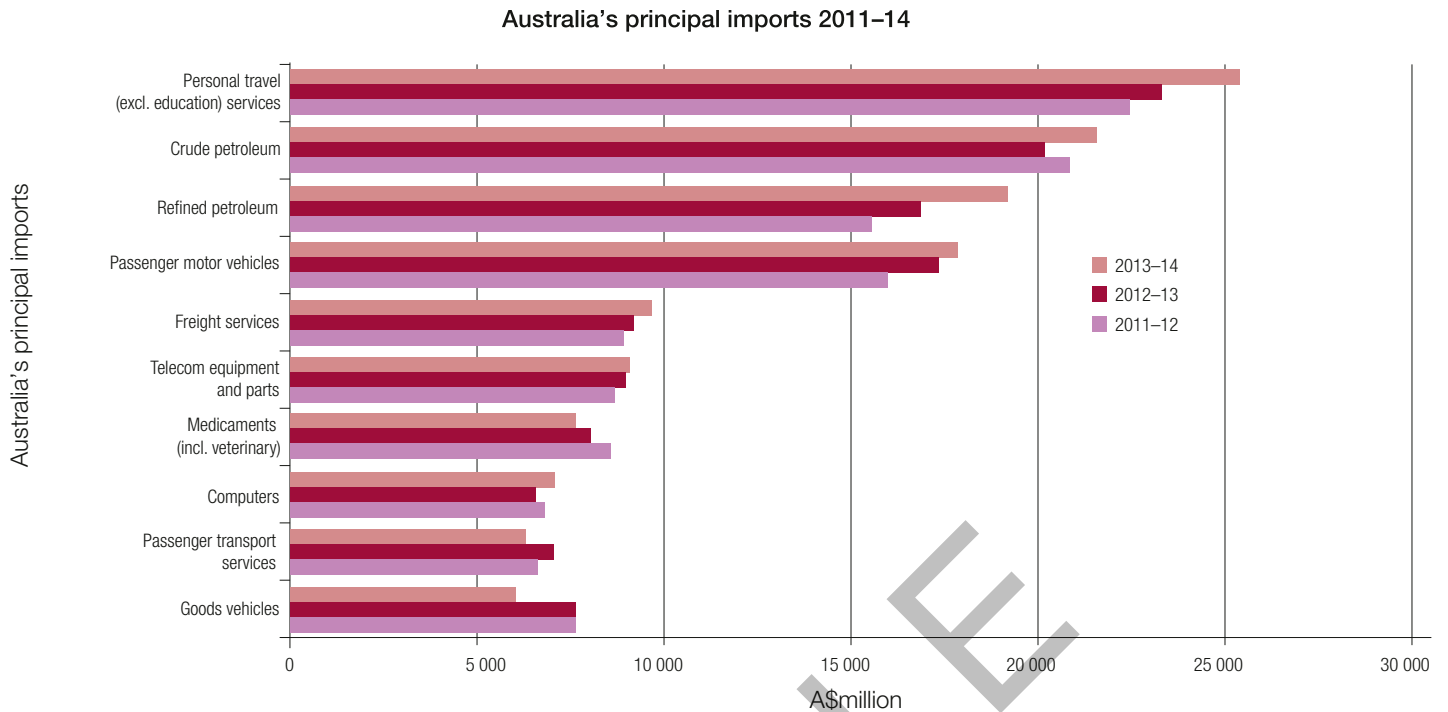
**Source 6** This iron ore mine in Kalgoorlie, Western Australia, is one of the largest artificial holes in the world. Iron ore and other mineral concentrates are by far Australia's largest export.



**Source 7** A huge coal loader prepares shipments of Australian coal for export to China. Coal is Australia's second-largest export.



**Source 8** In 2013–14, gold represented Australia's sixth-largest export.



**Source 9** This chart shows Australia's principal imports. Many Australians travel. Our top import from 2010 to 2013–14 was personal travel services.



**Source 10** In 2013–14, Australians travelled overseas in record numbers. Personal travel services, that is people travelling overseas for holidays, is Australia's largest import, with countries such as Indonesia, Thailand and the United States among the hottest destinations.



**Source 11** Crude petroleum, used to manufacture a range of products from petrol to plastics, is Australia's second-largest import.



**Source 12** Passenger vehicles manufactured overseas in countries such as Japan, Korea and Germany are Australia's fourth-largest import.

## How do you make a plane these days?

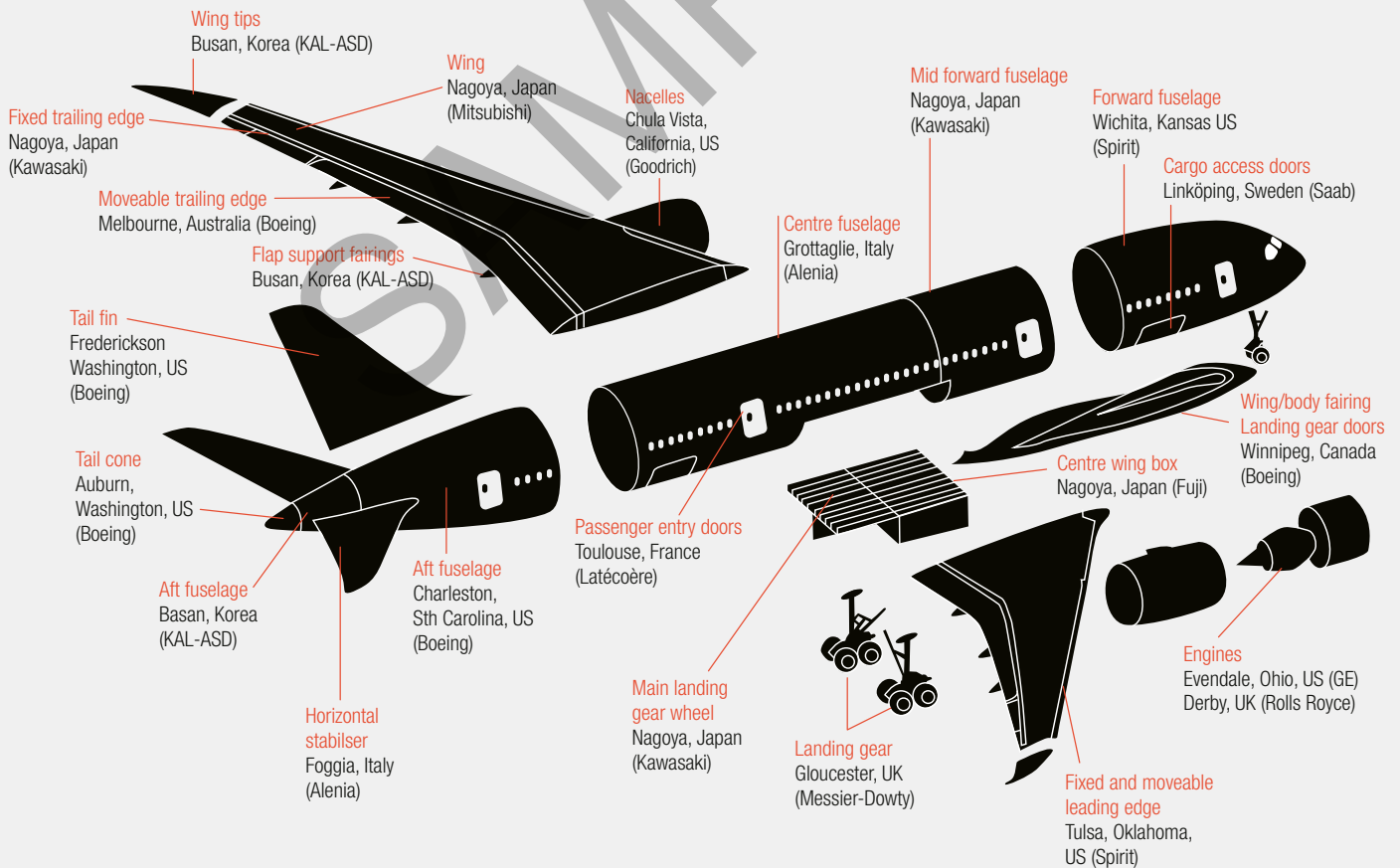
Soon there might have to be a label that reads 'Made in the world'. Products are increasingly being created internationally. A product may, for example, be designed, manufactured, assembled and marketed in several different countries.

The Boeing 787 Dreamliner is an example of a global product. Source 14 shows that the plane's parts or components are sourced from countries all over the world. Part of the plane's wing is designed and produced in Melbourne at Boeing Aerospace Australia. Assembly takes place in the United States.

Producing a global product may be beneficial for a number of reasons. The latest information technology in the world can be sourced. Costs of production may also be reduced by choosing the country that can assemble or produce the components the most cheaply.



**Source 13** The Boeing 787 Dreamliner took to the skies for the first time on 15 December 2009.



**Source 14** Countries from all over the world work together to make the Boeing 787 Dreamliner.





Source 15 The cockpit of a Boeing 787 Dreamliner



Source 16 The economy cabin of a Boeing 787 Dreamliner

## Check your learning 2.4

### Remember and understand

- 1 What is the difference between an import and an export?
- 2 Which two countries receive the largest proportion of Australia's exports?
- 3 Describe the change in Australia's major trading partners from the 1950s to today.

### Apply and analyse

- 4 What type of products does Australia mostly export and why?
- 5 Why can trade with another country affect employment?

### Evaluate and create

- 6 The following is a list of the top 10 countries Australia sourced its imports from in 2013–2014: Malaysia 3.8%, United States 12.2%, Japan 6.3%, Singapore 5.5%, Thailand 3.9%, China 15.4%, Germany 4.1%, United Kingdom 3.7%, New Zealand 3.3%, Republic of Korea 3.6%
  - a Rank the countries in order from 1 to 10. Number one ranking is the country we import from the most.
  - b Using these statistics, create a bar chart (either in Excel or by hand) to display the top 10 countries we import from.
- 7 Describe Australia's place in the global economy in relation to the following:
  - a our world ranking as an exporter
  - b the total percentage of world exports Australia produces
  - c the total percentage of world production Australia is responsible for.
- 8 Go to the Department of Foreign Affairs and Trade website and select the 'Countries and regions' section. Each country has a fact sheet. Choose a country you are interested in and create a PowerPoint presentation of our trading relations with that country. Include the following:
  - a a map showing where this country is in relation to Australia
  - b the major goods and services exported and imported between the countries
  - c the total value of our exports and imports with this country
  - d our trade relations and trading history with the country.

# 11.5 The global supply chain

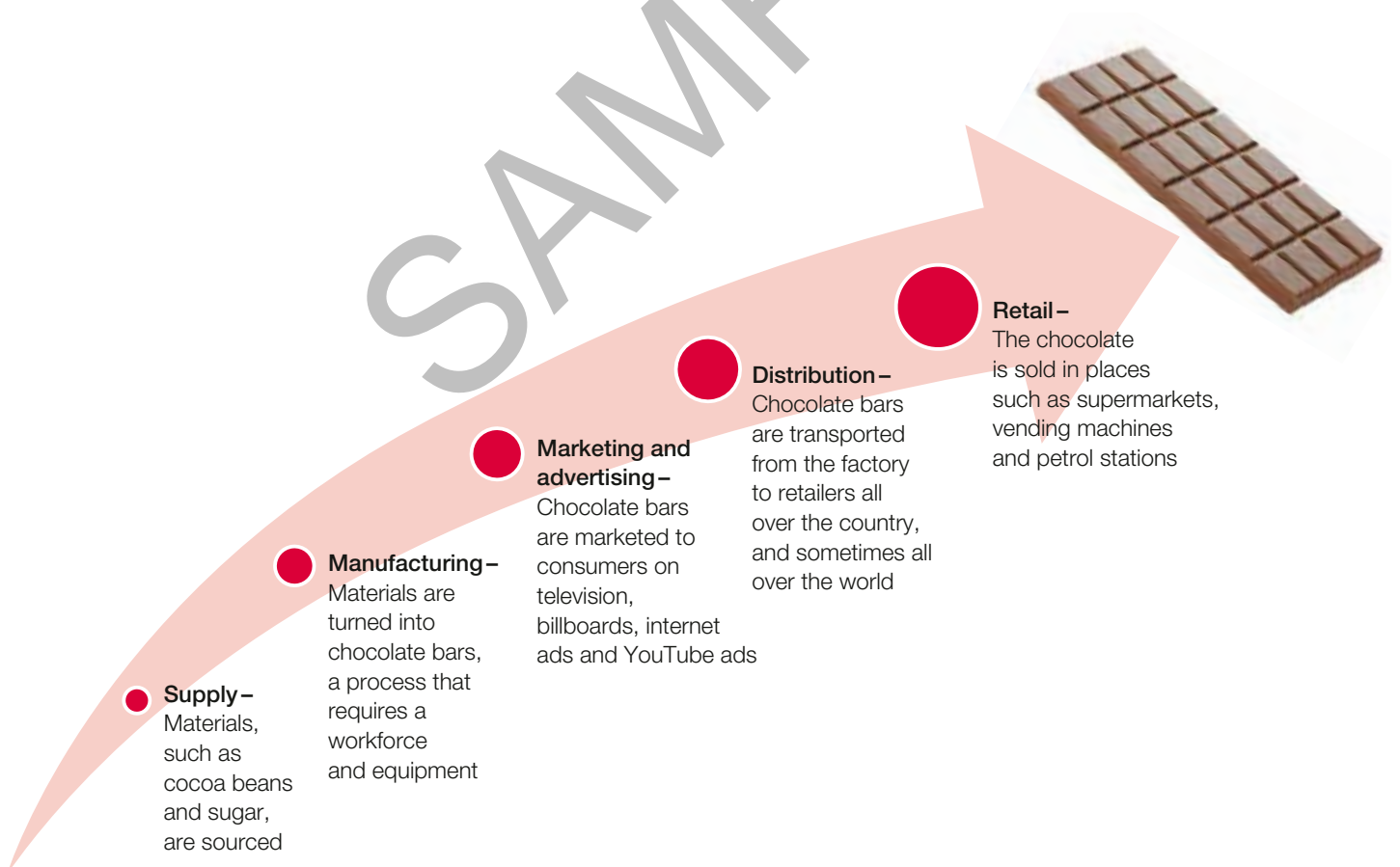
## What is the supply chain?

A **supply chain** refers to the many links or activities that are required to move a product or service from a supplier to a consumer. Source 1 provides a broad summary of the supply chain for a chocolate bar. To make chocolate, raw materials such as cocoa beans and sugar must first be sourced. At this stage, farmers, labourers, transport workers and contractors may enter the supply chain. Australia has only just begun to grow cocoa beans so most of the cocoa beans used to make a chocolate bar might be sourced from plantations all over the world in countries such as Brazil, Ecuador, Papua New Guinea and parts of Africa and Asia. Other ingredients such as sugar may be sourced from Australia or other major sugar producers such as Brazil and India.

You can begin to see that a simple chocolate bar involves many different workers often from many

different countries. The manufacture or making of chocolate may take place within Australia or overseas so we can add factory workers and managers, technicians, cleaners and transport workers to the supply chain. The Cadbury chocolate manufacturing process, for example, begins in Singapore where the cocoa beans are processed into cocoa mass, which is a combination of cocoa and cocoa butter. This mass is then transported to factories in Victoria and Tasmania.

Once chocolate is made, it needs to be packaged, so this may involve packaging companies, graphic designers, marketers and advertisers entering the supply chain. When the product is ready for sale it must be distributed and sold in stores and vending machines, requiring another set of workers from buyers to shop assistants, warehouse supervisors and truck drivers.



Source 1 Supply chain for a chocolate bar

## Dependence on other countries in the supply chain

All countries need to import goods and services to meet the demands of consumers at home. Many products we buy are not produced in Australia. Even services may be sourced from overseas, such as technical support required for mobile phones and computers. Many companies in Australia **outsource**, using resources outside of their business, often overseas. For example, the Australian boot company Blundstone now makes most of its boots in India and Thailand. Australia's airline Qantas outsources the heavy maintenance of its remaining 747-400 airliners overseas.

There are several reasons why we import some of our goods and services from other countries. One major reason is that production costs may be lower, allowing goods and services to be produced at a cheaper cost than would be possible at home. Wages, for example, are a cost of production and in many countries the minimum wage that can be paid to workers may be much lower than in Australia. According to latest figures from the **Fair Work Commission**, the minimum hourly rate in Australia is \$17.70 compared with a minimum hourly rate in some other countries that may range between \$1.68 and \$3.98.

The natural resources each country possesses, such as forests, petroleum and coal, may determine what a country can produce. Climatic conditions also play a role in production decisions. For example, the cocoa tree only grows in hot, rainy and tropical climates, so countries such as Iceland would be unable to grow these trees in the open.



**Source 2** Cocoa pods hanging from a tree in Huayhuantillo village near Tingo Maria in Peru. We source our cocoa beans overseas. Australia's cocoa industry is only just beginning, with some plantations in Queensland producing cocoa for boutique chocolate that is truly made in Australia.

Importing goods and services means that we rely on other countries to produce the goods and services we use. Many consumers are becoming increasingly concerned about imported foods and the safety standards that are used in various countries in the supply chain. For example, in 2015, some consumers who ate imported frozen berries contracted hepatitis A. As a result, a new system to ensure clearer food labels showing country of origin was introduced by the Federal Government so the consumer can decide whether they wish to buy a product made overseas.



**Source 3** Food companies should be aware of the safety standards used in their supply chains. In 2015, frozen berries gave some consumers hepatitis A.

## Transnational corporations in the supply chain

A **transnational corporation** is a company that operates in more than one country. Transnational corporations don't consider their home to be any particular country as they are a worldwide business. The food and drink company Nestlé is an example of a transnational company. Nestlé produces global brands such as Nescafé coffee and the Kit Kat chocolate bar. Nestlé has its global headquarters in Switzerland, has factories in 85 countries and employs 335 000 people worldwide. It is thought that by spreading the business geographically across the world, the company can respond more quickly to customers' needs at a local level. General Electric, Siemens and Toyota are other examples of transnational corporations.



Transnationals bring many benefits to the country they operate in. They provide employment opportunities and, because of their size, may be able to buy a failing Australian business and improve its business prospects through providing the capital required (such as machinery) to expand the business, make a profit and compete on a global scale.

Some transnationals, however, have been criticised for contributing to pollution and threatening the health and environment of those who live in the country where the transnational operates. Some transnationals in the garment trade have been criticised for not taking enough care to ensure their supply chains are socially responsible.

## casestudy

### Who made your T-shirt?

The T-shirt you are wearing is most probably not made in Australia. Perhaps it was made in Bangladesh, because wages are much lower there. Wages are a significant cost of production and if they are low it means the costs of production are lower. Low wages

mean not only cheaper clothes but also higher profits for businesses that sell clothing. Unfortunately it is the worker who is sometimes exploited.

Transnational companies have a responsibility to ensure that workers who are part of their supply chain are working in safe conditions and are paid appropriately.



Source 4 An anti-sweatshop protest

## The impact of global events on the supply chain

Australia is part of the world or global economy and is therefore affected by events overseas. Natural disasters such as tsunamis and earthquakes can have an impact on supply chains. For example, the earthquake and tsunami in Japan in 2011 slowed down the manufacture of Toyota cars in Australia. This is because Australian manufacturers relied on Japanese factories to supply them with parts that could not be accessed in the aftermath of the natural disaster.

Political unrest in and between countries can also affect the flow of trade and therefore our supply chains. For example, in 2014, Russia imposed a ban on food imports from many Western countries, including Australia, in retaliation for sanctions imposed on Russia caused by its military intervention in the Ukraine. This ban was extended in 2015 and impacted Australian

agricultural exporters who had to find new markets for their products.

Disruption to the importing of oil to Australia is another factor that could disrupt Australia's supply chains, affecting our production and transport systems. Australia is oil dependent, importing just over 90 per cent of its crude oil and refined petroleum from the Middle East.



**Source 5** The manufacture of Toyota cars in Australia slowed down after the tsunami and earthquake in Japan, 2011.

### Check your learning 11.5

#### Remember and understand

- 1 What is a supply chain?
- 2 Give an example of a transnational corporation.
- 3 Why are transnational corporations that produce clothes sometimes criticised because of their supply chains?
- 4 Give one reason why another country may be able to produce a product more cheaply than Australia.

#### Apply and analyse

- 5 Imagine a disease wipes out all cocoa trees in Africa, the world's largest cocoa-growing region. How will this affect the supply of chocolate bars in Australia?
- 6 Why does Australia import goods and services from other countries?

#### Evaluate and create

- 7 Make a list of five products you or your family would normally buy from the supermarket on a weekly basis. Do some research using the Internet and the packaging of those products to uncover where that product or its ingredients are from. Present your findings as a poster that maps the supply chain of these five products.
- 8 Some chocolate producers have been criticised for not ensuring that workers who are part of their supply chain are not exploited. Use the Internet to find out what fairtrade chocolate is and how it can protect cocoa farmers and their families
- 9 Pick at least four food items from your pantry or refrigerator and fill in the following table.

Food item	A Was it made in Australia? B Was it totally made overseas? C Was part of it made overseas?	If the product was made totally or partly overseas, suggest reasons why this might be the case.
1		
2		
3		
4		

## 11B rich task

# The rise of China as Australia's largest trading partner

China is Australia's largest trading partner. China's economic reforms in the 1970s saw it change from a planned socialist economy to a more market-based economy. China also increased its trade with the rest of the world, reducing its **tariffs** (taxes on imported goods and services) and other barriers to trade.

The China–Australia Free Trade Agreement was signed between Australia and China in 2015. When the agreement is fully implemented, 95 per cent of Australian exports to China will be tariff-free. That means Australia's goods and services will be cheaper to buy in China, so the hope is that demand for Australian exports will rise. Australian tariffs on Chinese imports will also be eliminated over time, resulting in lower prices and greater availability of Chinese products in Australia.

Since 1979, China's economy has grown very rapidly. It is estimated that this growth has helped around 500 million people in China to move out of extreme poverty. This growth has led to higher **living standards** and increasing urbanisation, as people move from farms to large cities to live and work. China is now the second-largest economy in the world behind the United States.

Major Australian exports to China include iron ores and minerals, coal, gold and crude petroleum. These exports are needed for China's huge manufacturing industries, which produce consumer goods sold throughout the world. Major Chinese imports into Australia include telecommunications equipment and parts, clothing, computers, furniture, mattresses and homewares.

In the Australian business news we hear daily reports about how the Chinese economy is performing. The performance of the Chinese economy is important to Australia because it affects Australia's export performance. Over a quarter of all Australian exports are currently sent to China. It is hoped that there will be continued demand for our exports in the future. Also, as incomes in China grow, there may be increasing demand for Australian food products, manufactured products requiring skilled creation and assembly, and services.

**Australia's goods and services trade with China (A\$ millions)**

Description	2009	2010	2011	2012	2013
Total exports from Australia to China (A\$ millions)	47 763	64 304	77 596	79 260	101 590
Total imports from China to Australia (A\$ millions)	37 399	41 029	44 030	46 402	49 329

**Source 1** The value of Australia's imports and exports with China, between 2009 and 2013



**Source 2** China is now Australia's major trading partner. In 2013 we exported 28.1 per cent of our total exports to China and imported 14.5 per cent of our total imports from them.



## skilldrill

### Reading and interpreting data tables

A table consists of rows of data that run horizontally and columns of data that run vertically. The first row and column of the table typically do not include any numerical information. Instead, they identify the names of what is being shown.

Being able to read and interpret a table of statistics provides the information we need to solve problems, investigate reasons why a problem has occurred, prove a point and strengthen an argument we are trying to make.

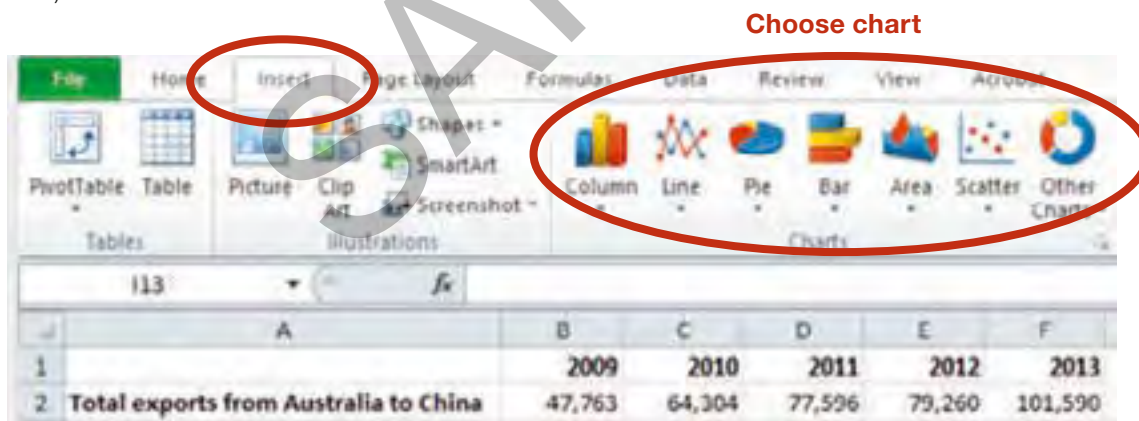
**Step 1** Read the table heading to gain an overall idea of what the table is about. Then, read the names of the columns and rows that do not have numbers in them. The first row in Source 1 tells us that the data is annual data. The second row of column 1 tells us that the data contained in each square or cell is the value of total exports in millions of Australian dollars. Read across to the year 2009 and then down to the next row to see the value of total exports from Australia to China for that year (A\$47 763 000 000, or over 47 billion!).

**Step 2** Now try to make some observations about the data you see. As you read the value of exports for each year, try to observe whether there is a trend. Are the numbers generally increasing or decreasing or do they fluctuate? It's not enough to say that Australian exports to China have increased over the last five years to 2013. Has there been a gradual increase from one year to the next or has there been drastic growth in the value of exports to China? Are there any years that stand out as exceptionally good or poor? It may also help if you calculate the percentage change from one year to the next.

**Step 3** Consider drawing a chart from the data so you can more easily see the trends. Copy the table into an Excel spreadsheet, select the table, click the 'Insert' tab and choose a chart.

### Apply the skill

- 1 Interpret the table in Source 1 and describe the change in Australia's total exports to China in the five years to 2013. Provide an Excel chart with your description.



Source 3 How to create a simple chart in Excel

### Extend your understanding

- 1 Compare imports and exports in the year 2013. Did we export more goods and services to China than we imported from them?
- 2 Explain why the performance of the Chinese economy may affect Australia's export performance.

## 11.6 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 17. 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.



**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.

Larger businesses have the advantage of lower costs of production because it is cheaper to produce larger volumes of goods or services than smaller volumes. This is referred to as economies of scale. The reason for this is that firms have fixed production costs such as equipment, advertising and marketing costs. Consider a 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 to a product through various media such as websites, social networks, television, print material such as newspapers and magazines, or even product placements in film and television. **Blended marketing** is the combination of digital and traditional marketing and is said to be the key to reaching the most consumers.



**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?

## Showing corporate social responsibility

Strategies to improve brand reputation also include **corporate social responsibility (CSR)**. CSR requires a business to contribute positively to society, such as through environmental, economic or charitable initiatives. Some companies, such as The Body Shop and Thankyou, have made social responsibility a part of their business practice and branding. Their work with charities and sustainable practices has made them an appealing choice for consumers. CSR helps a business to increase its competitiveness in the following ways:

- It improves the reputation of the brand.
- Consumers are more willing to purchase goods and services from the business because it makes them feel good about themselves.
- It can save money on costs while being more socially responsible, for example, adopting environmentally-friendly practices to cut down energy consumption.



## 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 quality 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.

– 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 quickly 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** Most valuable luxury brands in 2013, according to Interbrand's top 100 brands

## Being more responsive to consumer needs

Being responsive to consumer needs may be as simple as bringing products to market 'on time'. The motor mechanic 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 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.



**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 11.6

### 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 perceived 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'?
- 7 Why is blended marketing believed to be the best way to advertise a product or service? Do you agree?

### Evaluate and create

- 8 Select 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.
  - a What was the most expensive product out of the three and what rating did the taste testers give it?
  - b What have you learned from this experiment about the power of brands?
- 9 Describe when you were last given poor customer service in a store and how the business could improve in this area.
- 10 Look in your pantry, laundry or bathroom cupboard and list any products that claim their product is superior because of the ethical way it was produced. For example, the label claims the product is environmentally friendly. Do you think these claims are true? Why or why not?

# 11.7 Innovation in business

**Innovation** is changing an existing process or product so that it is more effective than ever before. 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

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## 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 Kingdom in 2013–14.



**Source 1** Coca-Cola's 'Share a Coke' campaign



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 Indian restaurants because of Hindu and Muslim beliefs.

Segmentation is used so that consumers with common characteristics can be pursued or targeted to purchase the product. For example, older people are usually targeted to buy funeral **insurance** so that in the event of their death the person's family is paid a lump sum to cover funeral expenses.

A technique called **positioning** is also used by 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, chocolate-covered 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:

Geographical market segment	Where the consumer comes from, for example their nation, state or region
Demographic market segment	The age of the consumer, gender, amount of income, ethnicity and religion
Behavioural market segment	Includes the level of knowledge the consumer has of the product or whether the consumer uses the product regularly
Lifestyle segment	Includes the consumers' attitudes and opinions or the way they spend their leisure time

**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 factors such as 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, have employees undertake training to help foster creativity and innovative thinking. Innovation may be specifically stated as a business goal, and time and resources may be devoted to help staff develop great ideas. Amantha Imber, the founder of Inventium (an innovation consultancy firm) says, 'If you do not innovate, you risk becoming irrelevant because so many other companies are innovating and looking to stamp out their competition. We're seeing it becoming a priority for more and more CEOs.'

Innovation can be applied to how a business operates. John Lewis (see case study on page 392) 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.

## 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



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

Waitrose supermarkets in the United Kingdom.

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. **Business processes** must be efficient or productivity will decline. If you have ever waited a long time for a meal in a restaurant, it may have been because the process of ordering a meal could have been 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.



**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.

### Check your learning 11.7

#### 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.
- 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.



## 11C rich task

# The importance of innovation in business

Innovation can be the key to business success. Take the Rubik's Cube, for example, invented by sculptor and professor of architecture Ernő Rubik in 1974. We had all seen puzzles before, but not a 3D combination puzzle that was so entertaining 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

### Being innovative in business

You may not have ever thought about innovation as a skill before, but like many aspects of business, it is something that can be learned, practised and improved upon. A business that strives to add value to their product or service and changes according to consumer demand is more likely to stay in business and remain competitive. Businesses now compete in a global market and the emphasis is not only to produce good products but to produce them in a cost-effective way.

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)
- Step 3** Add complementary products. When a business is selling a product such as a hamburger, fries and drinks that might go along with it are offered for purchase as well. (Seed 3)
- Step 4** Enhance the sales channels. A sales channel is a business' access to a customer. You might have heard a salesperson ask you whether there is anything else they can do for you. Coles is an example of a business that has used their relationship with customers to sell other products, such as insurance, in addition to their main business of selling groceries. (Seed 4)

### Apply the skill

Practise your innovation skills by devising a new way to produce each product or service outlined in the table on the following page (first column).

The following task focuses on Seed 1 from La Salle's 'four seeds' approach that relates to changing a product or service. Here are just some of La Salle's suggestions to get innovative ideas flowing.

- 1 Make a wish for the product.** For example, if you take a simple product, such as a pen, you may wish it did 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. 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.
- 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 4.
- 4 Review your answers for each of the products or services in the table.** State (a) what your innovative idea is and (b) whether your idea would have commercial success. Put your answer in the last column.

Source 3 on the next page will help you practise your innovation skills. See the sample answer to the first product (tablecloth) as an example.

- 5** If you have a great idea, this becomes your intellectual property (IP). You can legally protect this idea from being taken by others. Access your [obook link](#) and go to the IP Australia website and use the interactive called 'IP in everyday life'. List the products or services you have used today and tick the ones you think have protected intellectual property.

The product or service to change	A wish for the product	The life cycle 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 tablecloth 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 did they do it.



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

SAMPLE

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