

Marking Guide for the Activities

These are suggested responses and general pointers for discussion. Text activities are designed to form the basis for further classroom discussion and extension.

SECTION A: ENVIRONMENTS

CHAPTER 1: Business Ownership

Content review

1. List three differences between sole traders and partnerships.

Type	Definition	Liability	Taxation	Ownership
Sole Trader	A single person operating a business under their own name.	Unlimited liability. The owner is personally liable for all debts and damages owed by the business. All contracts and assets are in the owner's name.	Profits of the business are taxable income of the owner.	The business can be run in the name of the owner or a business name can be registered.
Partnership	When 2 or more people go into business together with a view to make profit. Governed by the Partnership Act 1895. The Act can be overridden by a formal Partnership Agreement.	Unlimited liability. All contracts and assets are in the owner's name.	Profits of the business are distributed to the partners and considered part of their personal taxable income.	Contracts entered into by one partner are binding on all partners. New partners can enter with the consent of all partners. There is a maximum of 20 partners except for a limit of 400 for some professions eg accountants, lawyers

2. Discuss two factors to consider when deciding which legal form to use for a business.

Any 2 of:

- **Tax** – which form will minimise the tax burden
- **Ownership** – how best to share business ownership
- **Liability** – how best to protect owners and investors from being personally liable for business debts
- **Succession** – to set up the ownership and control of the business for the future (very important with family businesses)
- **Sources of finance** – consider the capital needed to start the business.



3. What is income splitting?

When a high level of business income is split up amongst family members. The overall tax bill will be less than the business owner paying tax on the whole amount. Each person will be able to use the tax free threshold. Often used in a situation where a business operator splits income with their spouse.

4. Why can't a sole trader use income splitting to minimise personal tax?

There is only one owner and the business is not a separate legal entity, the income is all personal income of the sole owner.

5. Why should you consider liability when choosing a form of business?

To protect from creditors taking personal assets for business debts.

6. Which form of business is best for minimising personal liability for business debts?

Small proprietary company – it is a separate legal entity with limited liability and holds assets and debts in its own name.

7. What are some advantages of a small proprietary company?

- Limited liability – personal assets are not taken to cover business debts
- A person can sell their shares if they want to leave the business

8. What are some disadvantages of a sole trader?

- Unlimited liability – if the business goes broke the owner could lose personal assets to pay off business debts
- No-one to share the work load
- If the owner is unwell there may not be anyone to work in the business

9. What is a franchise?

Franchising is a business arrangement where the franchisor (the owner of the franchise concept) licences the business model to franchisees in return for ongoing fees or royalties.

10. Why is a franchise a good option for becoming a business owner?

- A well established brand and product or service
- Franchisor offers management training and assistance
- Established operating procedures, manuals and management systems
- Obtaining finance may be easier due to established market presence

CHAPTER 2: The legal framework of business

Content review

1. What is the purpose of Australian Consumer Law (ACL)?

To put in place national consumer protection laws and protect consumers from deceptive and misleading conduct

2. What are 2 penalties a business may receive if they breach ACL?

For example:

- monetary penalties
- injunctions to force the business to stop the conduct
- damages awarded to the consumer
- orders to require the business to do such things as; provide repairs and spare parts and advertise corrections.

3. What are the benefits of national consumer protections?

Consumers are protected in the same way regardless of where they shop or buy products and services, clearer for business to comply and easier to know what legal position is.

4. What is bait advertising?

Bait advertising is when an advertisement shows a very low price for a product that is very attractive to customers. The aim is to lure customers into the shop with the promise of a bargain, to take the bait, and when they can't buy the advertised special they buy something else at full price.

5. What is the difference between a voluntary and a statutory warranty?

Australian Consumer Law gives consumers a right to a refund under certain conditions regardless of the warranty provided by the business.

Voluntary warranties are also called manufacturer's warranties. They are a warranty provided above the required statutory warranty. Businesses often offer a voluntary warranty as a way to highlight the quality of their products.

6. Explain the two mandatory standards for product safety.

Products must meet mandatory safety standards before a business can sell them. The following must all be safe:

- the manufacturing process
- ingredients and components
- how it works.

Consumers have a right to receive safety warnings about use and storage of a product. It is illegal for a business to sell products that do not comply with a mandatory safety standard

7. What are the three reasons a consumer is entitled to a replacement or refund?

- A product is not of acceptable quality
- A product is not fit for the purpose
- A product does not match the description

8. What is the purpose of the National Employment Standards?

To provide all employees with minimum standards employers must comply with regarding their pay and conditions.

9. On what grounds can an employer fairly dismiss an employee?

- Their ability to do the job
- Their conduct and performance in the workplace
- Operational requirements of the business

10. Explain the six elements of a valid contract.

Intention	The parties must intend that their promises will create legally enforceable obligations in a contract.
Agreement offer and acceptance	The parties have negotiated the terms of the contract. One party has made an offer which has been accepted and agreed to by the other party.
Consideration	There must be something of value exchanged between the parties. Consideration is usually money but it can also be the performance of an act or the provision of a service.
Legal Capacity	The parties to the contract must be aged 18 and older and of sound mind.
Consent	Signing a contract must be done with free will and proper understanding of what is involved. If it can be shown that proper consent was not given a breach of contract exists. Consent may be affected by: <ul style="list-style-type: none">• false statements• duress• using authority or power to force someone to sign
Legality of purpose and form	The purpose of the contract must be legal. The contract is invalid if it requires parties to do anything illegal. Some contracts such as for banking and for the purchase of land must have certain details to be valid.

11. Verbal agreements or oral contracts are common in business. Agreements can be reached quickly without having to wait for legal documents to be written, reviewed and signed. But many disputes and court cases arise because agreements are not in writing and contained in a valid contract.

A. What is a contract?

B. List four reasons why businesses should use contracts.

C. Describe two situations that would result in an invalid contract.

A contract is an agreement between two or more parties that is legally enforceable. There can be written or verbal contracts. A contract is formed when one party makes an offer and another party accepts it.

Reasons to use a contract:

- all parties have a record of what has been agreed to
- documents the promises that have been made
- contract details are used to resolve any dispute
- contract may be used in a court to prove that there is an agreement.

Response depends on situations selected. Should discuss the elements of a valid contract:

- intention
- agreement offer and acceptance
- consideration
- legal capacity
- consent
- legality of purpose and form.

12. Explain whether each of the following case studies of misleading or deceptive conduct is an example of puffery, silence, disclaimers/ small print, prediction/ opinions or not misleading and deceptive:

A. A real estate agent is selling apartments with a view of the Swan River and has told buyers that the view will never be built out, because it was zoned for low rise development. This was based on information obtained from the council, however it was wrong.

Not deliberately misleading.

B. A clothing retailer is advertising '25% of all clothing' but has an exclusion for certain clothing written in small print at the bottom of the advertisement.

Disclaimers/small print.

C. A fish and chip shop owner is selling their business because a similar shop is opening nearby. He does not tell the buyer this information.

Silence.

D. A day spa advertisement claims they have the 'best sun tanning' product in the world.

Puffery.

CHAPTER 3: Economic impact on business

Content review

1. Which level of business environment are economic factors a part of?

Macro.

2. What are 3 examples of economic factors that impact on business?

For example:

- interest rates
- inflation
- unemployment level
- supply of labour
- currency exchange rates.

3. How can inflation impact on spending?

- Substitution
- Look for lower prices
- Buy goods overseas
- Online shopping
- Spend more on the same products

4. How can the supply of labour impact on business costs?

If supply is low there is pressure to pay more to attract and keep employees, workers have a stronger bargaining position and can demand higher wages

If supply is in excess of demand the employers have a stronger bargaining position and there is a downward pressure on wages

5. How can rising unemployment impact on business costs?

6. How can falling unemployment impact on business costs?

Rising unemployment

- Lower consumer spending
- Lower demand for products and services
- Consumer spending is focused on essential items not luxury goods
- Over supply of labour may result in lower pay levels
- Specialised skills and experience are lost when people are sacked
- Staff morale may be lower, they are motivated by fear of losing their job

Falling unemployment

- Consumers can spend more
- Higher demand for products and services
- Consumer spending can broaden to more non-essential items
- Shortages in labour puts upward pressure on pay
- Higher wages increases business costs
- Workers are more motivated if the business is doing well

7. *What is the impact of currency exchange rates on business spending?*

If the Australian dollar increases in value compared to other currencies then imports from those countries will be cheaper. People can afford to buy more imported goods and go on international travel. Consumers may also buy more online so they can take advantage of cheaper foreign products.

If the exchange rate for the Australian dollar decreases, imported products will be more expensive, more Australian dollars will be needed to pay the same price. People will buy less imported goods and may cut back on international travel.

CHAPTER 4: Corporate and social responsibility

Content review

1. Why is public image important to business?

It is how the business is perceived and the reputation it has in the community. In a market where businesses compete with similar products at similar prices, it is their public image and reputation that may influence where a consumer shops.

2. What are two ways a positive public image helps a business?

- Stand out from the competition
- A brand that people remember
- Attract and keep motivated employees
- Loyal customers and repeat business

3. Explain two strategies a business could use to build a positive public image.

For example:

- corporate sponsorship
- 'green' gifts
- donate to good causes
- exceed expectations in service
- be ethical.

4. What is sponsorship?

Sponsorship can be a combination of payments, providing support by supplying free office space, equipment, food, clothing or staff. In exchange for financial support or the provision of goods and services the sponsor receives benefits. Corporate sponsorship is a business relationship where two parties make an economic exchange.

5. Describe two business benefits of sponsorship.

- **Visibility** – the participants and spectators will see the logo and slogan of the company during the event and visibility will be high if a company sponsors an event that is broadcast nationally and internationally.
- **Positioning** – because of the association between a company and an event the values and image of the event can support the image and positioning of the company. The event endorses the company in a similar way to how celebrities are used in advertising. By supporting an event the good intentions and community involvement of the event are associated with the company. This linking helps create a positive image.
- **Publicity** – during the promotion and running of an event the corporate sponsors are mentioned and thanked. Company representatives may be involved in ceremonies. The sponsor and event are aligned so a mention of the event in the media will usually include a mention of the sponsor and the title of the event may include the name of the company. This is all free advertising adding to brand awareness and creating an image.
- **Market reach** – the company will choose what to sponsor based on the demographics of the people involved. A baby products company will sponsor a baby expo or parenting workshops. A company selling healthy breakfast cereal or sports shoes will sponsor a sporting event. Sponsorship is more effective if the company and what it is sponsoring targets the same market.

6. How can community groups benefit from sponsorship?

Sponsorship can be a combination of payments, providing support by supplying free office space, equipment, food, clothing or staff, financial support or the provision of goods and services.

7. Discuss 1 environmental issue that can impact on public image.

Responses will vary depending on the issue chosen. For example:

- climate change
- pollution
- energy use
- animal testing
- greenwashing.

8. What is greenwashing?

Consumers can see through gimmicks and what is called 'greenwashing'. This term is based on whitewashing, where imperfections in a wall or building can be covered up by a layer of paint. Businesses have been found to be using claims about being 'green' to try and build a positive public image without really being committed to sustainability. The ACCC can take action against greenwashing because it is deceptive and misleading conduct.

SECTION B: MANAGEMENT

CHAPTER 5: Understanding your market

Content review

1. Complete the following sentence, using these terms: *planning, market, goals, goods.*

Marketing **goals** assist the business in **planning** how the business can achieve their aims in relation to the **goods** (or services) and the overall **market**.

2. *How can a business define its potential market?*

The potential market for a product can be defined as the entire population of consumers who have any interest in the product. This potential market will be a particular size. Within the whole potential market, the business will target a specific section. This **target market** includes all the consumers that the business has decided to supply. A business may decide that it has more than one market.

3. *Define the concepts of 'market' and 'marketing', using examples.*

- **Market** = a location where transactions or deals take place. Markets can be physical meeting places such as a livestock market, or virtual locations such as an online auction website.
- **Marketing** = a process whereby the pricing, promotion and distribution of products is planned and carried out, in order to meet business goals and mission.

4. *Outline how a market can be segmented.*

To complete segmentation, markets can be divided based on the demographic, geographic, psychographic (lifestyle and behavioural) characteristics of the population.

5. *Describe potential target markets for the following products and services.*

Examples:

- A. Cricket equipment:** males aged 15-25 from a mid socio economic rural/suburban background, interested in watching sports and playing social cricket.
- B. Car parts:** males aged 30-50 from a low/mid socio economic background, interested in tinkering with mechanics, with space for their own workshop area at home.
- C. Luxury hotels:** females from high socio economic background interested in luxury products and pampering. Work full time and believe in having short high quality holidays.
- D. Physiotherapy services:** Males and females aged 20-40 who are physically active or have an occupation that requires physical exertion. Small family size, with the time to spend on regular health visits. Believing in the importance of regular physio to maintain strength or health.
- E. Beauty products:** Women aged 40-60 who have high disposable income and live in a climate with harsh sun/wind. Have enough leisure time to go to beauty salons and remain loyal to products.

(There are many examples possible for all of these scenarios)

6. *Distinguish between the following terms:*

- A. Mass market:** largest audience of potential consumers possible.
- B. Market segment:** a portion of the mass market.
- C. Niche market:** a very small market segment.
- D. Market size:** the quantity of customers that a business has from the mass market.
- E. Market share:** the percentage of the entire market that an individual business has.

7. Why would a business segment the market?

To target product at a specific group of consumers and to understand their wants.

8. Identify the three main characteristics of market segmentation and give examples for each one.

Demographic, geographic, psychographic (lifestyle and behavioural) characteristics of the population. Demographic characteristics describe attributes of the consumer population. Geographic characteristics outline where consumers live. Lifestyle characteristics describe attitudes and values in the population. Behavioural characteristics describe how the population would use the product.

9. Summarise three questions that can be used when constructing marketing goals.

For example:

- What level of sales is expected in the next six months? Next year?
- How many new customers does the business want to obtain?
- How many queries about the business should be received?
- How many quotes for new work should be written? Taken up by customers?
- What level of public recognition is required?

10. List the objectives of market research.

- Market size?
- Can the market be expanded?
- What are the profit goals?
- Are customers satisfied?
- Are new markets possible?
- Can the product be improved?
- Current market trends?
- Our competitors?
- Our customers?

11. Explain the difference between primary data collection and secondary data collection, using examples.

- **Primary data** is collected from the original source, usually the customer. The business might conduct the collection. For example: interviewing, questionnaires, observing or test marketing (experimental).
- **Secondary data** has already been collected by another organisation, such as the government or another market researcher. For example: journals, government reports, industry association information and other publicly available locations.

12. Recommend how a small catering business could complete market research for expansion into a new market segment.

For example:

- interviews
- questionnaires
- observation
- loyalty cards
- industry association.

13. Demonstrate how marketing data can be analysed, using examples to illustrate your answer.

The business can determine if there is a market for a particular product or service. It can decide if the product idea will appeal to consumers, and the likelihood of sales forecasts being met. After budgeting for potential sales, the business can predict likely profits. The main result of the market research process is to use market research information to determine the target market and positioning of the business.

14. How can a business position its product to negate a crowded market?

In a crowded market place, it is difficult for a business to distinguish their product from others. Positioning requires the business to both simplify their advertising message, and to ensure their message sticks in the mind of the consumer.

15. Summarise the main sections of a Marketing Plan in a table.

- Market position
- Current market
- Competitor analysis
- Target market analysis
- Marketing goals
- Marketing strategy and marketing mix
- Costing

16. What external environmental factors will affect the market of a business?

- **Physical:** new government legislation or policy
- **Economic:** changes in interest rates, industry income, industry annual profits
- **Socio-cultural:** alternative markets, changing social beliefs and values, family groupings
- **Technological:** new information technology, mobile offices

17. Explain the purpose of a market Competitor Analysis, and the main elements that might be found in one.

A table showing each product, comparing each one with the competitors' product. The aim is to summarise the strengths and weaknesses of each competitor by analysing their capabilities, strategies and goals.

Competitors can be analysed in the marketing areas of:

- **Product:** quality, choice
- **Price:** method, additional features, offers
- **Positioning:** branding
- **Premises:** facilities, ambiance (etc)
- **People:** staff, customer service
- **Type:** current or potential, direct or indirect.

18. What is a SWOT analysis?

An analysis showing the internal strengths and weaknesses and external opportunities and threats.

19. Complete a Competitor Analysis for your choice from each of the following categories of businesses, showing each response in a summary table.
- A. A local café or bakery in your area.
 - B. A national franchise chain.
 - C. A manufacturing company that distributes goods Australia wide.

Responses will vary and should apply decisions to the following areas, for example:

- **Product:** quality, choice
- **Price:** method, additional features, offers
- **Positioning:** branding
- **Premises:** facilities, ambiance (etc)
- **People:** staff, customer service
- **Type:** current or potential, direct or indirect.

20. What are five questions that could be addressed by a businesses marketing goals?

1. What level of sales is expected in the next six months? Next year?
2. How many new customers does the business want to obtain?
3. How many queries about the business should be received?
4. How many quotes for new work should be written? Taken up by customers?
5. What level of public recognition is required?

21. Outline the relevance of a marketing strategy.

The strategy is probably the most important section of the Marketing Plan. All earlier sections relate to identifying the current situation of the business and the aim of the plan. The strategy outlines exactly how the business will achieve the goals set out in the Marketing Plan. It is divided into the four (or seven) sections of the marketing mix. For each section, the business must outline an action plan of how the marketing goals are to be met

22. Why is it important to create a timeline when doing costing for a marketing plan?

It will assist with planning, and enable the business to budget for expenditure.

CHAPTER 6: The marketing mix

Content review

1. *Identify the elements of the marketing mix.*

The **Four P's**: Product, Price, Promotion and Place.

2. *Discuss the main elements of a Product focused marketing strategy.*

- Features: quality, design, attributes, benefits
- Packaging and labelling
- Branding
- Customer service: after sales, warranty

3. *Apply a relevant product growth strategy to each of the following scenarios:*

A. *A orchardist who wishes to increase sales of bananas at local markets*

B. *A baker who is developing a wider selection of cakes to sell in her bakery*

C. *A home stay business run from a farm that wants to also sell native flowers grown on the property.*

Responses will vary and should apply decisions to the following areas, for example:

- increasing sales of the existing product through improved market penetration
- developing new product for the currently existing market
- increasing sales of the existing product by developing new markets
- diversification.

4. *Outline a process that could be used to reposition a motor vehicle (of your choice) in the marketplace.*

- Decide on the target market
- Identify the current features of the vehicle
- Research customer perceptions about the vehicle's features
- Distinguish where the vehicle is presently located in the market
- Decide on the ideal combination of product features in the ideal target market
- Examine the gap between the current product and the ideal

5. *Contrast the effects of prices that are too low or too high on customer behaviour.*

If the price is too high, the consumer may decide the product is not of high enough quality, or offers enough customer service, to justify the higher price. If the price is too low, the consumer may believe the product is too cheap and poor quality. The reputation of the business might be adversely affected.

6. *Define five pricing methods.*

- **Market price:** respond to customer demand and increase price if demand is up
- **Discount price:** lower price to stimulate demand if demand is low
- **Target return pricing:** set price based on budget forecasts and required returns
- **Competitor's price:** meet the price being charged by main competitor
- **Profit margin or Cost plus:** set price based on cost of producing it plus required profit margin

7. Apply four pricing strategies to market examples.

For example:

- **Skim pricing** – A high price is set, because customers are happy to pay more. For when a new product is launched, because consumers who are early adopters of new products or new technology are unconcerned about the premium.
- **Penetration pricing** – A low price is set, because customers will then respond by purchasing more and new customers will start to purchase the product or service. The product needs to be relatively popular.
- **Psychological pricing** – The price is set based on customer perceptions of quality, convenience, security or satisfaction. For example, ‘odd-even’ pricing occurs when a price slightly below a whole number value is given.
- **Premium or Prestige pricing** – A price higher than competing product prices is set. This gives the business a niche market for exclusive products.

8. Compare two pricing methods from the list below, explaining which would be best used for a rock climbing business:

- A. Market price
- B. Discount price
- C. Target return pricing
- D. Competitor's price
- E. Profit margin or Cost plus
- F. Psychological pricing

For example:

Market price vs discount price – setting a higher price when demand is high and recognising the seasonal nature of the business.

9. Summarise four promotional methods.

- **Personal selling:** Direct selling through viral marketing, door-to-door or telemarketing, sales staff such as real estate, shoe store or car sales.
- **Publicity:** Setting up positive news stories, creating media releases, product launches
- **Sales promotion:** Special deals such as frequent flyer, customer loyalty, coupons, samples
- **Advertising:** Media advertising, including the Internet, print and mass media.

10. Compare and contrast the effects of push and pull promotional strategies.

A ‘push’ promotional strategy attempts to create demand from customers for the product. Information about the product is disseminated through the distribution chain of wholesalers and retailers.

A ‘pull’ promotional strategy involves a lot of spending on advertising before the release of a product or service, to create demand from customers for the product or service. When it is released, consumers will request product.

11. Define viral marketing, using examples.

Viral marketing depends upon a multimedia message being passed along from person to person to create awareness and interest for a brand or product. Someone forwards something to their friends, then those friends forward it on to other people and so on. The message can quickly reach more people than an advertisement on television or in a magazine.

12. Outline how the following technologies can be used to facilitate promotional activities:

- A. Internet*
- B. Mobile devices.*

Responses will vary and should apply decisions to the following areas, for example:

- online new product launches
- advergaming
- product placement
- SMS
- point of purchase technology
- hypertags
- viral marketing
- m-commerce
- social media.

13. Outline the main differences between direct distribution and indirect distribution.

A small business might be able to distribute directly to retailers themselves, simply by approaching each individual business. A large manufacturer would probably distribute product indirectly. They would arrange to have a distributor who organises transport of the product to wholesalers who then channel the product to the retailer.

14. How can the expanded marketing mix be applied to service businesses?

This expanded model allows for the fact that the traditional 4-P's model applied more directly to business that sold goods. The expanded marketing mix accounts for elements of marketing that are important to service businesses - people, process and physical presence.

15. Explain the importance of good processes to the marketing of a product.

Consideration of what the consumer is going to be experiencing at every stage of their visit, and how they might choose to interact with the business, is an important part of process.

16. What is relationship marketing?

Customers are treated as individuals and staff in the business build up a connection with customers. By having rapport with customers, the customer receives personalised service, a greater understanding of the benefits and features of the product or service being purchased, and may become a repeat customer.

17. Describe how the following elements of the business are relevant to physical presence:

- A. Signage*
- B. Webpage*
- C. Staff uniform*

The 'physical presence' of the business encompasses all the elements of the business identity that the customer can see.

18. Define a KPI.

Key performance indicator.

19. Create a summary of key KPIs to measure marketing objectives.

KPIs to measure sales:

- number of sales and sales returns
- number of customer queries in a month or year
- sales by customer segment, demographic, geographic area
- proportional increase in sales revenue or decrease in sales returns
- proportional increase in sales after a marketing campaign or new product/service launch
- how long it takes to process a return
- percentage take up of discounts or other special sales offers.

KPIs to measure customer experiences:

- number of complaints and/ or questions
- number of repeat customers in a month or year
- number of calls made to customers each week or month
- proportional increase in sales after a marketing campaign or new product/service launch
- how long it takes to process an order, respond to an email query or answer a phone call
- warranties claimed.

CHAPTER 7: Customers and competition

Content review

1. *Describe the main characteristics of a customer focused business.*

- Understands the importance of a good first impression
- Gives an accurate description of the product or service to customers
- Values customers and listens to what they want, not telling them what the business expects
- Keeps customers fully informed at every stage
- Asks customers if they understand their requirements and invites questions from customers
- Provides options for delivery, payments and other requirements
- Ensures that complaints are followed up and resolved

2. *What is a customer profile, and what would be included in one?*

It defines the specific group of customers in relation to the target market, and includes data on a range of elements such as:

- demographics
- location
- lifestyle
- behaviour
- buying motives.

3. *Complete a customer profile for the following products:*

- A. *Fizzy cola drink*
- B. *Removalist company*
- C. *Pilates classes*
- D. *Staplers*

Responses will vary and should apply decisions to the following areas, for example:

- demographics. eg. age, culture, income, occupation, marital status
- location
- lifestyle
- behaviour
- buying motives. eg. rational or emotional.

4. *Compare and contrast rational buying motives and emotional buying motives.*

Rational buying motives:

- reliability
- durability
- efficiency
- ease of use
- expense.

Emotional buying motives:

- financial gain or loss
- self-gratification
- comfort or convenience
- security
- to feel satisfied.

5. *Summarise the main consumer buying motives in relation to current trends and fashions.*

- Range of options available
- Attributes of each option
- Comparisons available
- The 'noise' from other trends
- Customisation
- Information technology
- Ethics

6. *List strategies for managing customer loyalty.*

By being aware of trends and fashions, the business can keep customer loyalty. This results in the customer continuing their habit of purchasing the businesses good or service, and the business positioning themselves in the mind of the customer. The business must identify a market trend and the associated demand for products and cater to the customer. For the business this involves identifying and setting up long term sales, customer loyalty, and income patterns.

7. *How does customer profiling enable a business to determine customer needs and expectations?*

It involves collecting information about the businesses' customers, who are the consumers wanting to buy their product or service. Consumers are specific about their motives for purchasing and the same product or service does not appeal to every consumer.

8. *Describe how to use a competitor profile to determine a competitor's:*

- A. *Product range*
- B. *Prices*
- C. *Marketing strategies.*

Describe the following for the competitor:

- How is the competitor positioned in the market?
- What is their target market and do they have a niche market?
- What is the branding of their product or service?
- How much customer loyalty does the competitor achieve?
- What is their product range?
- What pricing strategies do they use?
- What marketing strategies do they use?

9. *How has the Internet improved communication with customers?*

For example: The business can send personalised messages to customers, using the Internet customers can choose products, place orders and make payments with a quick turnaround time, customer queries and complaints can be easily followed up.

10. *Define customer relationship management (CRM).*

A customer relationship management strategy builds strong relationships with customers. Customer relationship management software is a tool to use that focuses on customers and customer service not the business as a whole. It integrates all communication and information involving customers into a single system.

11. Describe examples of good customer service.

For example:

- responding quickly to queries
- correct billing procedures
- listening carefully to the customer
- ensuring information is up to date
- providing clear quote
- giving discounts for prompt payment.

12. What are the advantages of customer communication technologies based on the Internet?

Give business the ability to communicate globally and to send and receive documents, video and audio and to promote their products or services to potential customers around the world.

13. How can a business use SMS?

- Competitions and surveys
- Maintain contact with customers
- Send personalised messages to promote special offers and sales
- Remind customers about appointments and to make bookings.
- Bulk SMS

14. Explain how a business could use customer relationship management software.

- To integrate all communication and information involving customers
- Database recording customer contact and purchase details. More comprehensive systems automatically
- Generate invoices, customer statements and reminders, update stock levels
- Detailed histories of customer purchases and communication
- Record how customers use a business website
- Communication can be personalised by using the information collected. eg. personalised emails, SMS, newsletters, special offers and invitations.

15. How can a business best manage relationships with early adopters?

- Provide incentives by making it easy to access new products
- Ensure it is easy for them to ‘spread the word’ about new products
- Make them feel special by valuing their opinions
- Offer financial incentives, such as paying customers to ‘trial’ a new product and publish their thoughts.

16. Why is customer feedback vital for managing customer relationships?

To listen to customer needs and be proactive.

17. *Outline how to use the following strategies for managing customer relationships:*
- A. *Customer loyalty*
 - B. *Early adopter incentives*
 - C. *Communication technologies.*

Responses will vary and should focus on examples from the chapter from each of the following areas of customer management:

- customer queries
- interactions
- follow up
- documentation of orders
- billing customers
- after sales service.

CHAPTER 8: Organisational structures

Content review

1. *What is an organisational chart?*

A diagram which illustrates the structure of a business organisation and the relationship between different roles. The level of each individual or group on an organisational chart indicates their importance relative to each other.

2. *Explain the meaning of the following terms: hierarchy, accountability, responsibility.*

- **Hierarchy** = the levels of responsibility within the organisation
- **Accountability** = who each person reports to in the hierarchy.
- **Responsibility** = the work an individual does at their level in the organisation.

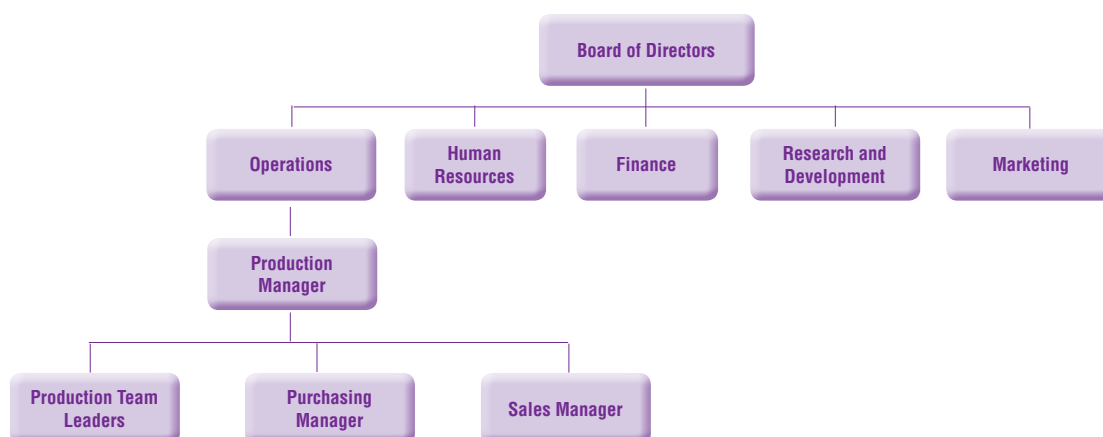
3. *What is an expanded organisational chart?*

A functional organisational structure chart can be expanded to show more detail about one of the areas of the business.

4. *Define the concepts 'chain of command' and 'span of control' and 'delegation'.*

- **Chain of command** = how the hierarchy of the business is set up so that each person has authority over other people and is responsible for a specific section of the business organisation.
- **Span of control** = the number of employees who work directly for a manager.
- **Delegation** = when a manager or supervisor is able to assign authority to an employee who becomes responsible for decision making. The accountability for the work still remains with the manager and the decision making authority has shifted to a different level of the organisational chart hierarchy.

5. *Interpret the information shown in the following chart. Include an explanation of the chain of command and span of control for the Production Manager.*



The chain of command moves from the Board of Directors to the Operations Department, then to the Production Manager and then finally to Team Leaders and Purchasing/Sales Managers. The span of control for the Production Manager is three (or more) employees – depending on how many Production Team Leaders there are.

6. *Select a business that sells its product at a national level. For this business, describe each of the following levels of management:*
- A. *Top*
 - B. *Middle*
 - C. *Front line.*

Responses will vary and should refer to the following definitions:

- **Top:** generally this is the Board of Directors or the Chief Executive Officer (CEO) or General Manager
- **Middle:** usually consists of managers or supervisors
- **Front line:** these are the employees who work directly on the product – perhaps on an assembly line, or directly with customers – perhaps as sales staff.

7. *Outline the main characteristics of a traditional hierarchical style of organisational structure.*

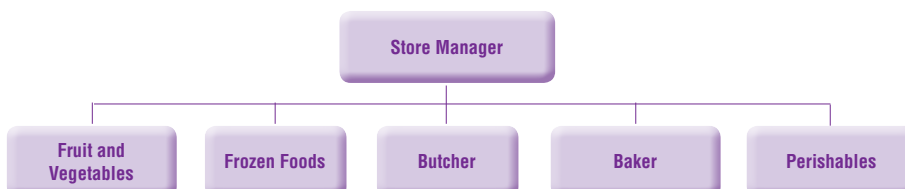
- Several layers of management
- A lot of information directed downward to employees at lower levels
- Major decisions being made at the top levels
- A clear chain of command and span of control

8. *Create a table comparing the advantages and disadvantages of the four main types of simple organisational structure.*

Type	Advantages	Disadvantages
Functional	Useful when similar products being made Task specialisation	Rigid Inflexible
Product	Quick decision making Grouping of related staff together	Spreading of overheads Duplication of work
Divisional/geographic	Self contained units More responsive to local needs Less competition between areas of the business	Centralisation of some services
Customer	Focus on individual needs Customers can be grouped	Spreading of overheads Work duplication Conflict over resources allocation

9. *Consider your local supermarket as if it were a microcosm of a large organisation. Draw a Product Structure organisational chart for the supermarket.*

Responses will vary, for example:



10. *Create a simple organisational chart for a business that you are familiar with. Include at least two levels of management. Is the structure functional, product, geographic, customer or something else?*

Discussion question. Responses depend on examples selected.

11. *Describe how a large national business could undergo transformational change to a flatter structure using each of the following techniques:*

- A. Employee empowerment** = trust staff to make decisions, allow feedback, respond to feedback
- B. Teams** = adaptable groups, communication and conflict resolution skills
- C. Flatter structures** = remove management layers
- D. Diversification** = creating a new product, selling to a new market
- C. Outsourcing** = for parts of the business not considered essential.

12. *Summarise the life cycle of a team.*

- Forming
- Norming
- Storming
- Performing
- Adjourning

SECTION C: PEOPLE

CHAPTER 9: The employment cycle

Content review

1. *List the four stages of the Employment Cycle.*

- Acquisition
- Development
- Maintenance
- Separation

2. *What is involved in the maintenance stage of the Cycle?*

- Requires the business to continue to offer employees the conditions and support required to retain them in the workplace
- Ensure employees are rewarded and recognised for their efforts
- Performance management and feedback to employees

3. *What is involved in the acquisition stage of the Cycle?*

- Predicting the businesses need for staff – evaluating staffing needs
- Attracting the best employees to meet business goals
- Analysing jobs
- Recruiting
- Selecting employees.

4. *What is a job description?*

Job descriptions are detailed outlines of work involved in a particular position within the business.

5. *List the six stages of job analysis.*

Step 1: Select job

Step 2: Determine the type of information to be gathered

Step 3: Identify people who will be sources of information

Step 4: Gather information

Step 5: Evaluate the information

Step 6: Write a job description based on the finding

6. *What are the two sources for recruitment?*

- **Internal recruitment:** identifying individuals within the business who have the required skills, knowledge, and motivation to fill the role.
- **External recruitment:** sourcing new people from outside of the business.

7. *Explain the two sources a business could use for recruitment.*

Source	Advantages	Disadvantages
Internal	Less cost Employer knows the applicants well already	May have to fill the position of the person who is given the job Limited choice of applicants
External	Can recruit people with fresh ideas Can pick from a bigger pool of applicants	Can be costly May have to spend a considerable amount of time teaching the new recruit about how things are done

8. *List the four stages of recruitment.*

- Application
- Interview
- Referees and testing
- Selection

9. *What are referees used for?*

To learn more about the applicant, to confirm what is in the resume, and to get third party evidence about their performance and workplace behaviour.

10. *What is an induction?*

The induction of a new employee involves making the employee familiar with their workplace, to ensure they start their job in the best manner possible and to provide essential information about the new workplace.

11. *What is involved in the development stage of the cycle?*

- The induction of new employees
- Ongoing training as employees develop and advance in their careers.

12. *What is an employment package?*

A set of benefits offered to an employee along with their rate of pay. Financial benefits can be salary, superannuation and fringe benefits including entertainment, car, information technology, expense account, housing, mobile phone and so on.

13. *Outline three forms of employment contract.*

Casual, part-time, permanent.

14. *What is involved in the separation stage of the cycle?*

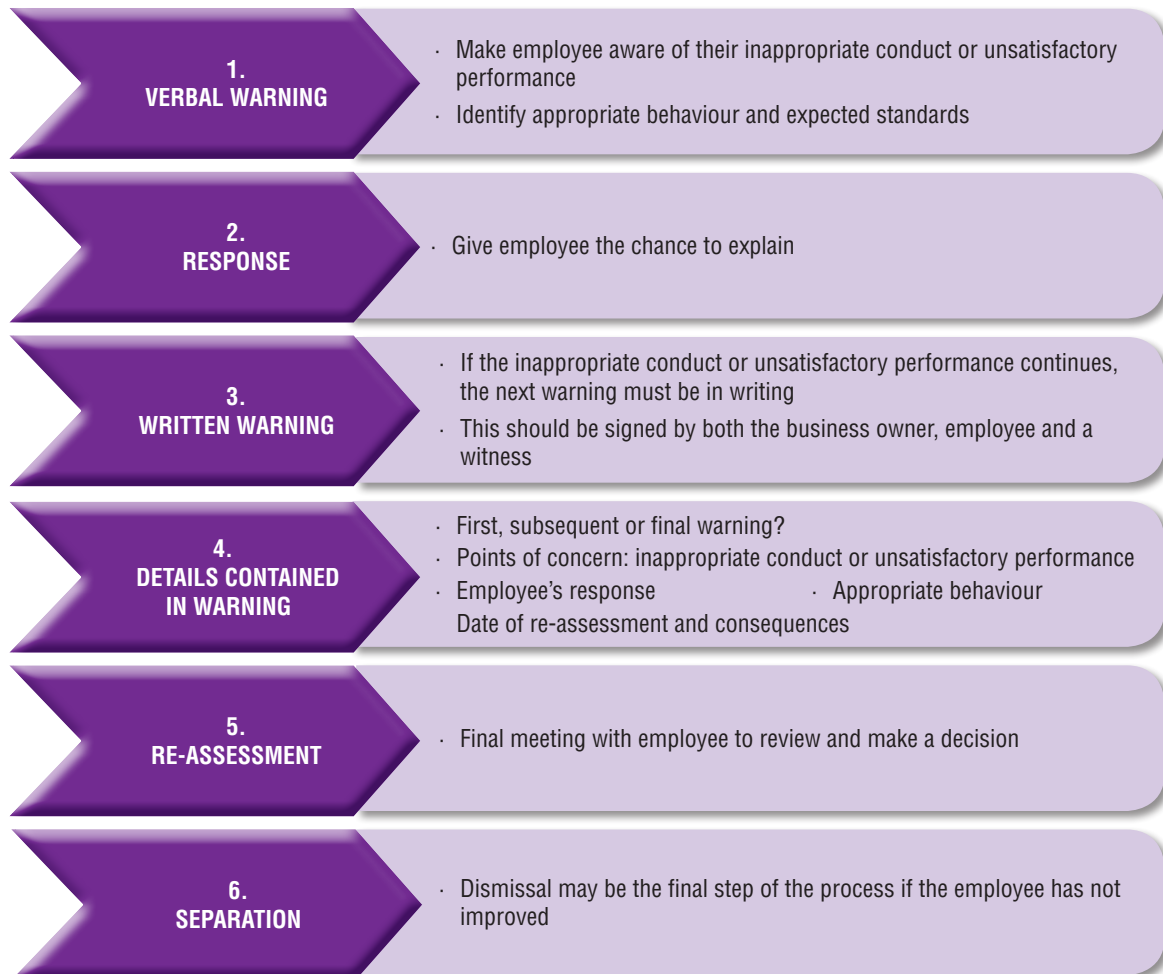
Separation is the final stage of the human resource planning process, and is heavily affected by legislation. It requires the business to plan for both voluntary separations such as employee retirement or resignation, as well as involuntary separation through retrenchment or dismissal.

15. Describe two reasons for separation in the employment cycle.

For example:

- retirement
- resignation
- retrenchment
- dismissal.

16. Draw a diagram showing the process to be followed when an employee's contract is terminated.



17. Define four entitlements that employers must consider when terminating an employee's contract.

- Outstanding wages or remuneration
- Payments in lieu of giving notice
- Annual Leave and Long Service Leave
- Any redundancy pay

18. What are the major transition issues in termination management and how should they be dealt with by the employer?

- Employee benefits
- Exit interview
- Security of data and property
- Meet with the employee and a support person – follow termination process (outlined in previous question)

SECTION D: ENVIRONMENTS

CHAPTER 10: Business in society

Content review

1. *What are some signs of high economic activity?*
2. *What are some signs of low economic activity?*

High economic activity	Low economic activity
Low unemployment	Higher unemployment
Increasing wages	Decreasing wages
More choice in goods and services	Less choice in goods and services
Businesses compete on service and value	Businesses compete on price
May result in: Inflation	May result in: Deflation
Increasing interest rates	Decreasing interest rates

3. *What is consumer confidence?*

An indicator of the impact of economic activity on spending is consumer confidence. Consumer confidence is measured by the Consumer Sentiment Index. The Index is based on a survey of over 1,200 Australian households.

4. *How is the Consumer Sentiment Index calculated?*

An average of five factors that reflect consumer opinions about:

- their household financial situation over the past year and the coming year
- anticipated economic conditions over the coming year and the next five years
- how affordable it is to buy major household items.

5. *How can economic activity impact on consumer confidence?*

If local and national economic activity is strong, people will feel secure in their jobs and believe they will have stable income. This increases confidence and spending. Consumers are more likely to use debt for purchases because they are confident they will be able to pay it off. If the economy is weak, people will be worried about their jobs and part time and casual workers may work fewer hours. This makes them less confident to spend money.

6. *How can social norms impact on spending?*

Norms also describe the lifestyle choices of people in a community, how they interact and their habits. For a person to be identified as being in a group or a target market they will conform to certain norms.

Examples of social norms that impact on spending include:

- Easter – chocolate gifts, travel and family meals
- Australia Day – parties, merchandise
- change to an anti-smoking attitude in the community
- aging population spending on retirement and health needs.

In the past the main motivators behind spending decisions were price and convenience. Now consumers spend their money based on decisions about such things as the ethics of the business, its environmental strategies and its involvement with the community.

CHAPTER 11: The legal framework of business

Content review

1. *What is the aim of equal employment opportunity legislation?*

Equal opportunity is about making sure that everyone has fair and equal access to employment, education and services and that our society is free from discrimination and victimisation.

2. *Consider the following case study information and apply this to the questions that follow.*

A selection panel in your business is discussing a candidate who has the required educational background, work skills and has performed well in selection testing. The candidate is a sole parent with three school aged children. The selection panel believes that she is not a suitable candidate as she is likely to need regular time off because of family responsibilities.

A. *What advice would you give the selection panel? What legislation applies to this and all selection processes?*

Their decision may be deemed to be discriminatory because they are making a judgement about a person based on their marital status and family situation, not merit. Equal Employment Opportunity (EEO) Act 1987.

B. *What actions could the candidate take?*

In WA the candidate could make complaint to the Equal Opportunity Commission which enforces the Equal Opportunity Act 1984. A complaint form can be downloaded from their website.

C. *What is meant by the term 'equal opportunity'? What is the purpose of the Equal Opportunity Act?*

That people are given the opportunity to achieve in the workplace regardless of their level of ability and discrimination based on a range of factors such as age, gender, disability, marital status is prohibited. To enforce the principles of equal opportunity, to set standards for the community and set penalties for breaches.

D. *Explain the ethical dilemma faced by an employee on the selection panel.*

They may be aware of the discriminatory judgement but not feel that they are in a position to protest or to tell the panel to change their minds. An employee may feel they have to go along with the decision even though they see it as discriminatory.

3. *What does the Occupational Safety and Health Act 1984 of WA aim to do?*

The OSH Act details legal duties for employers and employees. Its aim is to prevent workplace accidents and injury.

4. *What is the purpose of OSH Regulations?*

- Detailed safety rules including using equipment, high risk work and work tasks
- How to work to make sure the OSH Act is followed

5. *What are Guidance Notes?*

Guidance Notes provide detailed information on safety issues. They are based on research done by the OSH Commission.

6. How do trading hours policies impact on business profit?

Businesses face additional costs if they open for longer; staff wages, cleaning, electricity and buying stock. Other costs that may be impacted by changes to trading hours include:

- penalty rates for staff working longer hours and on weekends
- marketing to customers to advise them of longer trading hours
- increased costs paid to shopping centre owners such as cleaning, advertising and security.

7. What are two examples of information found on product labeling?

For example:

- ingredients and nutritional profile
- use by date
- manufacturer details
- instructions for use
- country of origin.

8. What are P and C programs?

TV programs aimed at Preschool aged and school aged children.

9. Why should advertising be regulated in P and C programs?

Discussion question, responses should discuss issues such as:

Young children do not have the cognitive ability and experience to understand advertising. Children 5 years old and younger don't understand that commercials are trying to sell them something but by 7 years of age they begin to understand that ads are not the same as news or programs. By the time children are 11 or 12 they are aware of the purpose of ads.

10. What is purpose of the OSH Act 1984? What are some of the employer and employee responsibilities?

The OSH Act details legal duties for employers and employees. Its aim is to prevent workplace accidents and injury.

Section 19
Duty of care of employers

- Do not expose employees to hazards in the workplace
- Provide information, instruction, training and supervision to maintain safe work practices
- Cooperate with safety and health inspectors
- Provide protective clothing and equipment

Section 20
Duty of care of employees

- Take reasonable care for their own safety and health at work and to avoid harming the safety and health of other people
- Employees must follow the safety and health instructions given by their employer
- Employees must report all workplace injuries and hazards
- Employees must use protective clothing and equipment as instructed when required

11. What is purpose of the EOA Act 1984? What are some of the employer and employee responsibilities?

The EOA Act 1984 establishes the Equal Opportunity Commission and gives it its powers. It details the grounds that are protected from discrimination, describes obligations for employers, complaint processes and penalties for breaches.

Employers

- provide a workplace free from discrimination and harassment
- have policies regarding EEO
- apply EEO principles
- provide advice and training about EEO in the workplace
- have a clear complaints and disciplinary process for discrimination
- take action when incidents are reported
- keep up to date with changes in EEO laws
- regularly review and update EEO policies

Employees

- treat all co-workers equally
- respect cultural and social diversity among employees and clients
- follow employer policies regarding EEO
- report incidents of harassment and discrimination to the employer
- participate in EEO inductions and training
- use an employer's complaints process

CHAPTER 12: Protecting intellectual property

Content review

1. *What is intellectual property?*

Intellectual property (IP) describes what comes from ideas, innovation and creativity. For example:

If a business has a manufacturing process, image, proprietary knowledge developed over years of experience and research, a device or a slogan and logo that is recognised globally it has a competitive advantage.

2. *What are three examples of IP?*

- A new invention
- A brand
- A design
- A process
- A recipe
- An artistic creation eg music, graphics, image

3. *What legislation regulates design IP?*

Design Act 1906 and the Design Act 2003

4. *Describe two methods that can be used to protect intellectual property.*

For example:

- copyright
- patents
- trademark
- domain name.

5. *Why would a business not want to patent their product?*

In the application the item being patented must be described in detail. Patents are public records so a competitor can look at the patent to see how your device or process works.

6. *Why is defending copyright important?*

If a business earns revenue from selling content, music, books or magazines their products need to be protected. If copyrights are not defended any business can take market share and sales away by making a copy and selling their own version.

7. *What are the advantages and disadvantages of using a patent to protect an innovation?*

Advantages:

- gives the right to stop others from manufacturing, using and/or selling innovation in Australia without permission
- can license another business to manufacture
- encourages research and innovation.

Disadvantages:

- making technical information publicly available
- time consuming process to apply
- expensive.

8. *A successful fast food business has a competitive advantage due to their recipe that has been a trade secret for years. The industry has become more competitive recently with some competitors challenging its hold on the market with very similar products.*

A. Describe what the business could do to protect its intellectual property.

B. Discuss any issues that may arise from the forms of intellectual property protection.

Discussion question. Responses will vary depending on property rights chosen and argument put forward.

SECTION E: MANAGEMENT

CHAPTER 13: Marketing strategy

Content review

1. *Identify the main features of a marketing strategy.*

- Brand
- Targeting
- Segmentation
- Positioning

2. *What is the purpose of a marketing strategy?*

To plan how to allocate the marketing resources of the business, outline the customer focus and guide the business on how to market to customers.

3. *Define 'product positioning'.*

Planning the unique benefits of the product and assessing how it differs from competitors.

4. *State the meaning of 'market segmentation'.*

The market segment is the group of customers that the business will sell to.

5. *Compare and contrast the four stages of the product lifecycle.*

Development

- Product launch
- Low introductory sales
- Poor customer awareness

Growth

- Increasing demand
- More market share

Saturation

- Growth may slow
- Want to maintain market share
- New competition

Decline

- Sales start to decrease

6. *Discuss different marketing strategies for a product at the maturity stage of its life cycle, under the headings:*

A. Packaging = make product easily identifiable

B. Branding = distinguish from competitors, reposition with a new design

C. Labeling = focus on keeping the business name known and emphasising features of product.

7. From a marketing perspective, what is the purpose of packaging?

Distinguish the item from other brands, make the product more easily identifiable for the customer, and be eye-catching and therefore more recognisable to consumers.

8. Explain how a business can use branding for product differentiation.

- Convenience
- Labelling information
- Quality service/warranties
- Better features
- Environmental features
- Value for money
- Improved results

9. Select two different food products that are currently in the marketplace. Using Table 13.1: Parts of a brand, outline how each part of their brand is used to market these products.

Responses will vary and should focus on:

- jingle
- font
- colour
- sound
- graphic.

10. Summarise five different branding strategies.

- Brand creation
- Customer values
- Brand establishment
- Advertising
- Feedback

11. Discuss how price, promotion and place change between the development and growth stages of the product life cycle.

Lifecycle stage	Price	Promotion	Place
Development	Low penetration pricing or niche skim pricing	Aimed at product awareness and education of consumers, high advertising costs	Cautious, selective distribution
Growth	Market pricing as demand should be increasing	Aimed at a wider market and to build a customer base	Increased distribution channels as demand increases

12. How can a product's marketing be extended beyond the decline stage of the product life cycle?

Retain the current customer base, or diversifying into a new market or customer base by:

- advertising to new customers
- reducing price
- adding new features or uses
- new markets
- changing packaging.

13. What options does a business have when a product moves into decline?

For example:

- reduce costs and distribution and just market the product to loyal niche customers.
- discontinue the product.
- extend the life of the product by extending the maturity stage.

14. Apply marketing strategies to each stage of the product life cycle for the products:

- A. *Sunglasses*
- B. *Online cloud storage*
- C. *Websites offering downloadable TV programmes and movies for hire*
- D. *Running shoes.*

Responses will vary and should apply strategies such as:

Stage	Product	Price	Promotion	Place
Development	Establish brand recognition and new/unusual packaging	Low penetration pricing or niche skim pricing	Aimed at product awareness and education of consumers, high advertising costs	Cautious, selective distribution
Growth	Additional features added, and potentially shown on labelling	Market pricing as demand should be increasing	Aimed at a wider market and to build a customer base	Increased distribution channels as demand increases
Saturation	Enhance features and differentiate from competitors through use of changed design and benefits	Competitor pricing to meet competition	Aimed at differentiating the product from others	Maintain distribution
Decline	Either maintain the product by making major changes or discontinue the product	No change if a niche market is now being met, or lower if discontinuing	Only for the brand that is being continued	Only distribute to profitable channels

CHAPTER 14: Business plans

Content review

1. Discuss the following quote.

‘Businesses do not plan to fail, but they can fail to plan’

Responses will vary, and should outline the importance of business planning as well as causes for business failure such as a lack of understanding or preparation in one of the key areas of the business goals, marketing, operations, finances or resourcing. For example:

- lack of market potential
- lack of capital
- no business plan
- unanticipated competition
- uncontrolled growth
- poor location.

2. Create a summary table which explains the purpose of each of the following sections of a Business Plan:

- A. Executive summary** = overview of the entire plan, as well as the purpose
 - B. Vision Statement** = long term focus, guiding beliefs and values, and reason for the businesses existence
 - C. Mission statement** = main products (goods or services) that the business is providing to the market and measures for the stakeholders within the business.
 - D. Business concept** = description of the product, market summary, customer description, potential income and profits, assessment of risks
 - E. Operations strategy** = how the business will undergo the production process
 - F. Marketing plan** = all the activities that must be undergone in order to meet the requirements of product, price, promotion and place
 - G. SWOT analysis** = Strengths, Weaknesses, Opportunities and Threats to the business
 - H. Financial plan** = estimates of earnings and expenses. Budgets
 - I. Human resource management** = planning for the current and future needs of staff.
3. Elena Par is developing a Business Profile for her new business which will create Internet and intranet websites for sporting facilities such as gymnasiums. Her previous experience in this area is a recently completed Graphic Design degree. Her friend Bob Incredible who is a qualified fitness instructor is considering joining the business. Research two likely competitors of this business, and complete a profile that includes the following:
- A. Business ownership
 - B. Vision and mission statement
 - C. Competitor outline

Research question. Responses will vary depending on businesses chosen.

4. *Complete a SWOT Analysis for a local business.*

Responses will vary depending on example selected and should analyse the following:

Strengths Areas internal to the business that are an advantage and will assist the business to function efficiently	Weaknesses Areas internal to the business that are of concern and that may lead to failure, or poor results
Opportunities External environmental factors that can be used to the advantage of the business	Threats External factors that could have a negative impact on the business. The owner wants to try to turn these into opportunities.

5. *Milo is planning to open a small manufacturing business, making gelato and icecream, selling this product through three retail shopfronts in Perth. Complete the Operations Management Strategy section of her Business Plan.*

For example:

- location
- pricing strategies
- internal controls over inventory
- risk management
- inventory needs – main suppliers, storage and display of stock, distribution needs.
- budget for turnover.

6. *Research the physical resources that would be required to set up a mobile car servicing business or a mobile pet washing business. Use the Internet to find out how much each would cost to either purchase new, purchase second hand or lease. Complete the Financial Plan section of a business plan for this business.*

For example:

- sales and purchases forecasts
- monthly cash flow
- projected income statement
- break even analysis.

7. *What is the purpose of a HRM Plan for a new business? Define each element of this plan, and create a brochure to explain to business owners the importance of this type of planning.*

To outline the main responsibilities relating to each individual employee, training, insurance, and new staff requirements. Elements to include:

- staffing requirements
- recruitment and selection
- training, development and induction
- performance management
- staff relations
- separation.

CHAPTER 15: Monitoring operations

Content review

1. *What is a financial statement?*

A formal, structured report detailing information about the financial activities of the business.

2. *Contrast the differences between:*

- A. Stability** = the financial position, reported using assets, liabilities and equities.
- B. Profitability** = the financial performance over time, reported using income and expenses. This shows the ability of the business to earn income from its investment in assets and equity
- C. Liquidity** = the ability of a business to repay short term debts on the date they fall due.

3. *What is the purpose of a Balance Sheet?*

To report on total assets and equities (liabilities and owner's equity) and give important information about the financial stability of the organisation, and financial position at a point in time

4. *Define the three main elements of a Balance Sheet, giving examples.*

- **Assets** are items of value owned by the business. For example, Inventory, Debtors/Receivables, Office Furniture, Machinery, Buildings.
- **Liabilities** are debts owed by the business to other entities. For example, Overdraft, Creditors/Payables, Loan, Mortgage.
- **Equity** is the owner's share of the business. It is calculated by subtracting Liabilities from Assets. For example, capital, drawings, profit/loss.

5. *Explain the features of a Balance Sheet.*

A Balance Sheet must always balance, and it should always be representative of the accounting equation. The simplified accounting equation can be expressed as the relationship between the total assets and total liabilities and equity of the business at a specific point in time, as follows:

$$A = L + Eq$$

6. *For each of the following, calculate the total owner's equity:*

- A. Assets = \$4 000 000, Liabilities = \$1 300 000.

$$\text{Owner's equity} = \$2\,700\,000$$

- B. CA = \$30 000, CL = \$4 000, NCA = \$120 000, NCL = \$111 000.

$$\text{Owner's equity} = \$35\,000$$

- C. Assets = \$20 500, Liabilities = \$11 000, Profit = \$500.

$$\text{Owner's equity (capital)} = \$9\,000$$

7. Using the following information, prepare a classified Balance Sheet and classified Income Statement for the business Sammi's Surf Products.

Sammi's Surf Products		
Income Statement		
For the year ended 30 June 20XX		
		\$
Sales		33 000
LESS: Cost of sales		<u>20 800</u>
GROSS PROFIT		12 200
ADD: Other income		
Interest		<u>1 260</u>
		13 460
LESS: Other expenses		
Selling and distribution		
Staff wages	3 500	
Advertising	<u>1 500</u>	5 000
Administrative		
Depreciation - furniture and fittings	400	
Rent	1 250	
Office supplies	<u>2 300</u>	3 950
Financial		
Interest		<u>800</u>
		9 750
PROFIT		\$3 710

Sammi's Surf Products		
Balance Sheet		
As at 30 June 20XX		
CURRENT ASSETS		
Cash		\$ 700
Accounts receivable		3 500
Inventories		4 000
NON-CURRENT ASSETS		
Prepaid expenses		150
Shop fittings		4 000
Computer		1 600
Furniture and fittings	6 000	
Less: Accumulated depreciation	<u>(400)</u>	<u>5 600</u>
TOTAL ASSETS		19 550
CURRENT LIABILITIES		
Accounts payable		3 500
GST clearing		140
NON-CURRENT LIABILITIES		
Loan		<u>4 680</u>
TOTAL LIABILITIES		8 320
NET ASSETS		<u>\$ 11 230</u>
EQUITY		
Capital		7 520
Add: Profit		<u>3 710</u>
TOTAL EQUITY		<u>\$ 11 230</u>

8. *Define: capital, drawings and equity.*

- **Capital** = the owner's investment of funds and other assets
- **Drawings** = the amount the owner has taken from the business for their personal use
- **Equity** = the owner's share of the assets of the business.

9. *Summarise the accounting equation.*

$$A = L + Eq$$

10. *Compare current assets and non-current assets, using examples.*

- **Current assets** are resources which the business expects to turn into cash (such as accounts receivable) or consume (such as cash at bank) within a 12 month period. For example, cash, accounts receivable/debtors and inventory/stock.
- **Non-current assets** are resources which the business intends to have the use of for a period longer than 12 months to help generate income. For example, investments, property, equipment and land.

11. *Outline the difference between current liabilities and non-current liabilities, using examples.*

- **Current liabilities** are amounts that the business owes other entities, which fall due within a 12 month period. For example, overdraft, accounts payable and provisions.
- **Non-current liabilities** are obligations which the business will be committed to for a period longer than 12 months. For example, long term loan and mortgage.

12. *How does an Income Statement (or Profit and Loss Statement) inform the business owner about the financial performance of the business?*

By showing income and expenses over a period of time.

13. *Define the two main elements of the Profit and Loss Statement. Use examples to illustrate your response.*

- **Income** = money received by the business. For example, sales revenue, fees, interest.
- **Expenses** = payments or costs incurred by the business. For example, cost of sales, rent, wages, Internet bill, water rates.

14. *How is an Income Statement classified?*

Expenses are classified into groups. For example:

- **selling/distribution:** petrol, vehicle repairs, advertising, maintenance, depreciation of vehicle
- **administrative/general:** office, rates, power, phone, Internet, rent, depreciation of furniture
- **financial:** interest, bad debts.

15. *Clarify the difference between profitability and liquidity.*

- **Profitability** is the ability of a business to earn income from its investment in assets and equity.
- **Liquidity** is the ability of a business to repay short term debts on the date they fall due.

16. *Compare the similarities and differences between cash inflows and cash outflows.*

Both are cash. Inflows are the amount of cash entering the business. Outflows are the cash and leaving the business.

17. What is the purpose of a Statement of Cash Flows?

To report whether the business is receiving cash in time to be able to pay out cash.

18. For each of the following, calculate the profit or loss.

A. Sales = \$45 000, Cost of sales = \$13 000, Rent = \$1 000, Utilities = \$550, Wages = \$3 200.

Profit of \$27 250

B. Gross profit = \$52 000, Selling expenses = \$13 000, Administrative expenses = 20 000, Financial expenses = \$500

Profit of \$18 500

C. Interest income = \$ 300, Sales = \$78 000, Distribution costs = \$20 500, Office expenses = \$34 000, Cost of sales - \$44 000

Loss of \$20 200

19. What is the missing figure in this list of Balance Sheet information?

Inventory	22 000
Creditors	13 000
Debtors	15 000
Loan	20 000
Profit	5 000
Drawings	?
Capital	10 000

Assets = Liabilities + Owner's Equity

$22\ 000 + 15\ 000 = 13\ 000 + 20\ 000 + (\text{Capital} + \text{Profit} - \text{Drawings})$

$37\ 000 = 33\ 000 + 10\ 000 + 5\ 000 - \text{Drawings}$

Drawings = \$11 000

20. What is the purpose of a budget?

- Forecast of the financial position and performance of the business
- Project the capital needs, income, expenses, or cash flows for a period of time
- For planning, monitoring and controlling

21. Summarise the budgeting process.

- Plan or Adjust Businesses Financial Goals
- Collect Information on Past, Current and Expected Results
- Create Budget or Forecast
- Monitor Outcomes or Results
- Analyse Variances
- Adjust Budget and Control Problems

22. Explain the meaning of a favourable and an unfavourable variance.

- **Favourable variances** occur when the actual result is better than the estimated amount. For example, if sales are higher than expected or if expenses are lower than expected.
- **Unfavourable variances** occur when the actual result is worse than the estimated amount. For example, if cash inflows are lower than predicted or cash outflows are higher than predicted.

23. Summarise the features of a:

- A. Budgeted Income Statement** = projected income and expenses for a period of time. Assists in monitoring profitability, predicted sales, and controlling costs.
- B. Budgeted Balance Sheet** = projected assets, liabilities and equity at a future point in time. To plan future capital requirements.
- C. Budgeted Cash Flow Statement** = Cash inflow and outflows over time. To plan for potential cash flow shortages or cash surpluses.

24. Explain why it is important for a business to institute control mechanisms. What will occur if these are not in place? Outline FIVE techniques that can be used to monitor operations, finance, customer satisfaction and human resources.

Control mechanisms are the policies and procedures in the business that are used to regulate activities. They allow the business and its managers to check, regulate and record how the business is performing against required standards. The business needs to undergo regular review, in order to ensure that it is meeting business objectives.

Control mechanisms such as ratio analysis, budgets, financial statements and key performance indicators can be used to measure and monitor performance.

25. Describe the importance and application of KPI's for a range of different business organisations, using examples.

Discussion question. Responses will vary depending on the examples chosen.

26. What is the function of a key performance indicator in the business?

To quantifiable measures that can be expressed in either financial or non-financial terms, used for determining the progress made toward business goals and to measure success.

27. Outline the characteristics of the following financial indicators:

- A. Profitability** = income, cost of sales, profit margins
- B. Cost reduction** = purchasing cost, selling, expenses, administration expenses, financial expenses
- C. Sales** = quantity, discounts, categories of sales.

28. Describe the characteristics of the following non-financial indicators:

- A. Quality** = Benchmark comparisons, quality checks, quality assurance, standards, inspections
- B. Customer satisfaction** = Surveys, interviews, sales, training

SECTION F: PEOPLE

CHAPTER 16: Management styles

Content review

1. *Compare and contrast the concepts of 'management' and 'leadership.'*

Leaders in a business organisation motivate and inspire their employees to achieve the businesses mission and goals. Management is primarily seen as a more organisational role, involving the coordination of employees and resources. A manager can take on a leadership focus as part of their role.

2. *Outline the managers role in each of the following areas:*

- A. *Planning*
- B. *Coordinating*
- C. *Controlling*
- D. *Leading.*

Plan

- Develop objectives
- Set business aims
- Decide how to meet goals and objectives

Coordinate

- Handle resourcing
- Distribute tasks
- Administer the flow of information
- Organise finance

Control

- Direct employees
- Monitor performance
- Assess results
- Correct problems and take action

Lead

- Have a vision for the business' future
- Motivate staff members
- Direct line managers
- Steer employees toward business and personal objectives

3. *Define reward power and coercive power.*

- **Reward power** comes from the leaders' ability to give bonuses or gifts to employees for their work.
- **Coercive power** is the ability to punish employees or withdraw benefits from them if they do not perform.

4. *What are the key features of the Autocratic management style, according to Taylor?*

- Likes to make all decisions by themselves
- Aim to benefit the business, not the employees.
- Dominate decisions
- Set all the goals of the business
- Communicate 'downwards'
- Direct supervision of employees.

5. *In what situations might a leader use autocratic leadership?*

For example: an emergency, combat situation.

6. *Explain the continuum of Lewin's leadership styles, using examples.*

- **Autocratic** = make all decisions by themselves, without consulting others in the business.
- **Democratic** = involve employees in decision making, and aim to benefit both the business and personnel as a result of the decisions that are made.
- **Laissez-faire** = avoid making decisions, leaving this up to other people in the business. There is very little communication.

7. *According to Elton Mayo, what are the key features of the Participative management style?*

- Employees have a psychological need to believe that their employer cares about them
- Employees should be asked about their feelings about the workplace
- Managers should not act like supervisors
- Employees should be consulted about changes in the workplace
- Job satisfaction depends on more than pay
- Informal relationships between employees and belonging to a work group is very important.

8. *In what situations would a manager find the participative leadership style advantageous?*

When employees need to buy-in to decisions and support decision making.

9. *Compare and contrast the autocratic and participative leadership styles using these criteria:*

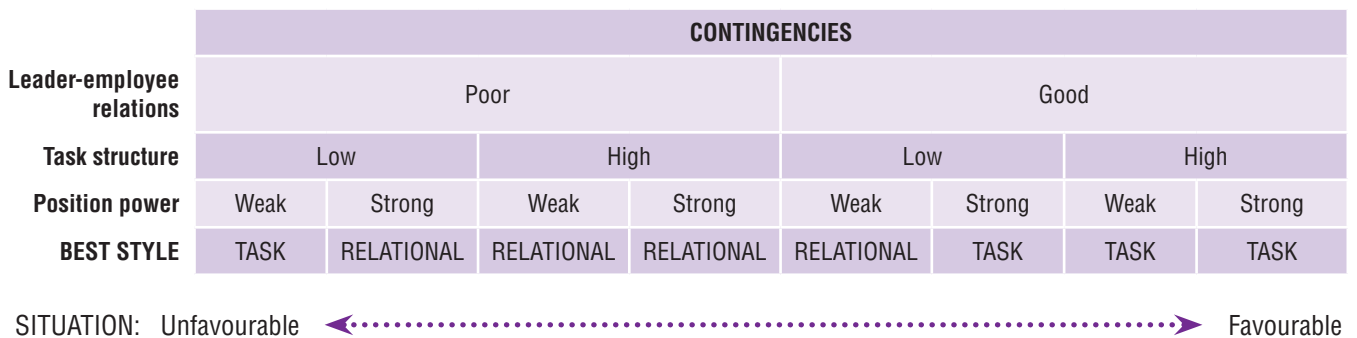
- A. *Control*
- B. *Decision making*
- C. *Motivation*
- D. *Guidance.*

Element	Autocratic style	Participative style
Control	Top-down	Bottom-up and two-way
Decision making	Centralised	Decentralised
Motivation	Extrinsic, reward power	Intrinsic
Guidance	Coercive	Collaborative

10. How do the following contingencies impact on the leadership style of a business owner:

- A. Position power** = the level of power that the leader has over employees. It can be strong or weak.
- B. Employee relations** = the amount of trust and confidence that employees have in the leader. It can be poor or good.
- C. Task structure** = the level of clarity about the task that has to be performed by the work group or the employee. It can be highly structured and clear, or be vague with low structure.

11. Summarise the contingency theory of leadership, using a diagram.

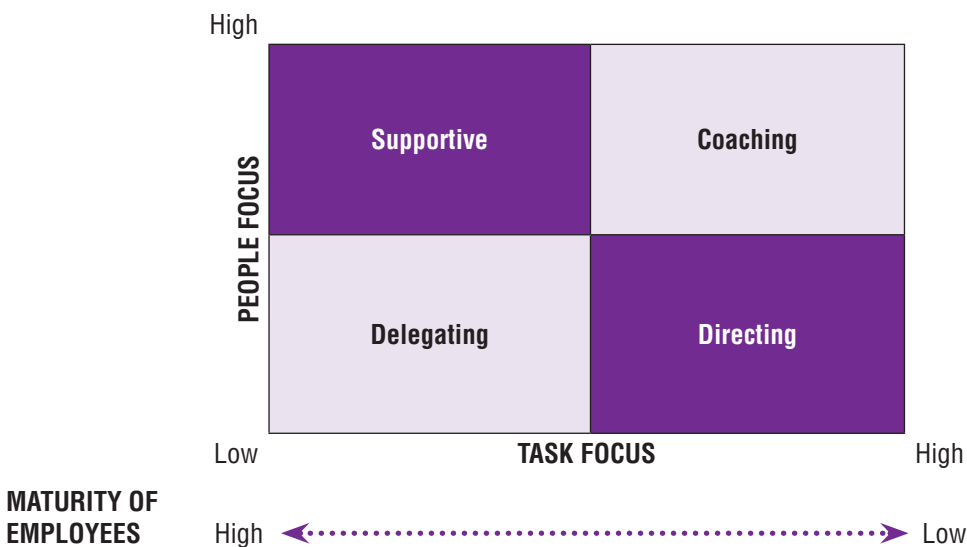


12. What is the effect of leadership style and the maturity of employees in the situational leadership model?

Depending on the situation, the leadership style can be:

- **delegating** = permits others to make decisions
- **supporting** = participative and shares
- **coaching** = explains
- **directing** = gives instructions and supervises.

13. Summarise the situational theory of leadership, using a diagram.



14. Describe the transformational leadership style, using examples.

- Inspire and motivate others
- Visionary
- Stimulate creativity
- Charismatic personality
- Employees follow because they admire the leader.

15. What are leadership traits?

Part of a person's personality.

16. Select three leadership traits, and outline how these can be beneficial for the manager of a national business.

Response dependent on traits chosen:

Emotionally mature	Able to deal with emotional highs and lows and stressful work place situations
Enthusiastic	Active and involved in the activities of the business
Future thinker	Able to speak passionately about vision and goals for the business
Honest	Open about errors and supportive when mistakes are made
Inspirational	Charismatic
Practical	Sensible and realistic about what can be achieved
Responsible risk taker	Able to take business risks that are not reckless or foolish
Resilient	Quick to recover from adverse business results or negative feedback
Self confident	Assured and secure about own abilities
Self-disciplined	Organised
Socially aware	Able to consider the needs of others and be unselfish
Thoughtful	Sympathetic and considerate

CHAPTER 17: Employee motivation

Content review

1. Compare and contrast the following motivations for work:

- Money
- Promotion
- Friendship
- Personal fulfilment

Maslow's Hierarchy of Needs – a general theory of human motivation stating that humans have an ordered approach to meeting their needs as follows:

- self-actualisation: personal fulfilment
- self-esteem: promotion
- belonging: friendship
- safety: money.

Summarise the main characteristics of four motivation theories in a table.

- Maslow's Hierarchy of Needs
- Herzberg's Motivation-Hygiene Theory
- Vroom's Expectancy Theory
- Adams' Equity Theory

2. Explain how the needs of an employee should be met using Maslow's Hierarchy of Needs.

- **Physiological needs** = pay employees appropriately and supply protective environment or clothing as required.
- **Safety needs** = provision of healthy working conditions, insurance plans and stable management.
- **Belonging** = using employee activities and social functions.
- **Self esteem** = management praise of good work, recognition of high performing employees, improving the level of responsibility attached to a position or the use of promotions.
- **Self actualisation** = challenging work, the encouragement of creativity and the reward of innovation.

3. Use Herzberg's Motivation-Hygiene Theory to discuss whether money is a short or a long term motivator for an employee.

Money is a hygiene factor, with short term motivation effect along with:

- security
- relationship with other employees
- status
- physical working conditions.

4. Why do employees want to maximise their happiness? Outline the main tenants of Vroom's Expectancy Theory in your answer.

Expectancy theory states that employees of an organisation will be motivated given they believe:

- more effort will result in better job performance
- better job performance will lead to organisational rewards and benefits
- these organisational rewards are valued by the employee.

These motivational forces have special terms: **expectancy**, **instrumentality**, and **valence**.

5. *How does Adams' Equity Theory build on other theories of employee motivation?*

- the influence of comparisons with other employee situations on the individual employee's motivation.
- employee will compare their inputs at the workplace with the inputs of their workmates, and expect to achieve similar outcomes
- if outcomes are not as expected, the employee will be less motivated.

6. *Summarise the main criteria to be considered when developing a recognition and reward system for a business. Using examples from your own part time workplace, describe effective methods of implementing each criteria.*

Responses will vary depending on the example selected. Responses should consider both extrinsic and intrinsic rewards and the following criteria, for example:

- skills and aptitude
- knowledge
- performance and results
- difficulty of work
- effort exerted.

7. *Why does performance management require a reciprocal relationship between the employer and employee? Explain using examples.*

- The performance of a staff member is directly related to their job satisfaction and the extent to which their expectations are met
- Employees expect they should be provided with safe working conditions, job security, good pay and fair treatment.
- Employers expect that employees will work to the best of their ability, communicate effectively and complete work as required.
- A common expectation is that communication will be effective and clear. This creates dependence between employers and employees in order for the workplace to function effectively. It should result in better working relationships.

8. *Summarise the main financial and non-financial incentives for employees.*

Financial incentives

- **Bonuses** – payments in cash if key performance indicators are achieved.
- **Pay rise** – staff can be rewarded with an ongoing pay increase based on their performance.
- **Share schemes** – employees are given shares in the business as rewards.

Non-financial incentives

- **Extra leave** – employees can get time off work or arrange to work from home based on their exemplary performance.
- **Skill improvement** – giving employees extra training to support their personal career goals.
- **Employee recognition** – publicly acknowledging good performance through awards such as employee of the month, at staff meetings, in newsletters or with annual awards.

9. *Some of the criteria for recognition and reward systems can be quite subjective. Consider the following criteria and respond to the questions that follow.*
- *Skills and aptitude*
 - *Knowledge*
 - *Performance and results*
 - *Difficulty of work*
 - *Effort exerted*
- A. *Which of these would be most difficult to measure?*
- B. *How would these criteria be used to set up a reward system in a nationally franchised café?*

Discussion question, dependent on examples chosen and arguments put forward.