

CHAPTER 1

Role of business

OVERVIEW

- 1.1 Introduction
- 1.2 The nature of a business
- 1.3 Other functions of business

1.1 Introduction

Think of all the different businesses that operate in your local neighbourhood. Now imagine what the world would be like if they did not exist. Ultimately we would have to become self-sufficient: providing for our own needs and wants. Fortunately, in our society, businesses of all sizes play a crucial role in providing us with a vast array of goods and services. Businesses are at the very core of our economy and our future wealth depends upon them.

Most people associate the word 'business' with large, multinational corporations, such as BHP Billiton, McDonalds, Apple and Westfield, operating in many countries, employing thousands of people and earning millions of dollars in profit. Although these types of businesses are well known, they are few in number. Small to medium enterprises (SMEs) make up about 98 per cent of all businesses in Australia. Take a look around your local area and you will see plenty of examples of businesses that are considered small or medium based on the number of people they employ.



FIGURE 1.1 As consumers, we rely on a large number of businesses to satisfy our needs and wants.

The one common feature shared by both the largest and the smallest business is that they produce a product — goods or service — which is sold in a market where buyers and sellers meet. There are approximately 2.1 million actively trading business entities in Australia, which respond to the needs and wants of around 24 million Australian customers and millions of overseas customers.

1.1.1 Why learn about business?

Business Studies is a very important subject. It is concerned with activities that affect us on a day-to-day basis. You only have to listen to the news or read the newspaper to find stories about business activity. Some of these stories will make you feel optimistic — for example, the developments of new products that have helped improve our standard of living. At other times, business activity may make us feel dejected and cynical — for example, when businesses have misled the public about safety standards or when companies have exploited weaker members of society. Therefore, when studying business, it is essential that you carefully examine business issues in order to make a balanced judgement.

Learning about business is both interesting and useful. It is also challenging and requires imagination.

In learning about business you will need to be creative and have a questioning mind. Business decisions are often open ended; there may be more than one way of going about things. Therefore, you will need to ask lots of questions and weigh up alternative ideas and proposals.



FIGURE 1.2 You're never too young to start a business. More and more young people are seeing the value of entrepreneurship as a rewarding career path. Take, for example, Ali Kitinas, Australia's youngest CEO, who started her first business when she was 11. Now the 16-year-old runs her own company producing an ethical body scrub made from recycled coffee grounds, with a portion of proceeds going to impoverished children.

Business Studies is not a totally new subject to you. In one sense you have been 'studying' business ever since you made your first purchase many years ago — perhaps an ice-cream or lollies. That simple transaction launched you on life's journey as a customer — and as an integral part of the business world. As a high school student, perhaps you have even operated your own 'business', mowing neighbours' lawns, washing windows or setting up a stall at a local community market. You may be employed on a part-time basis and work in a local store or fast-food outlet — both examples of business enterprises.

1.1.2 Importance of business to you

Undertaking this Business Studies course will give you a better understanding of how businesses are established, organised and operated. As well, it will give you an insight into the different roles you will play throughout your life — as consumer, employee, business owner and/or investor. Each of these roles centres around a business as shown in figure 1.3, on the following page.

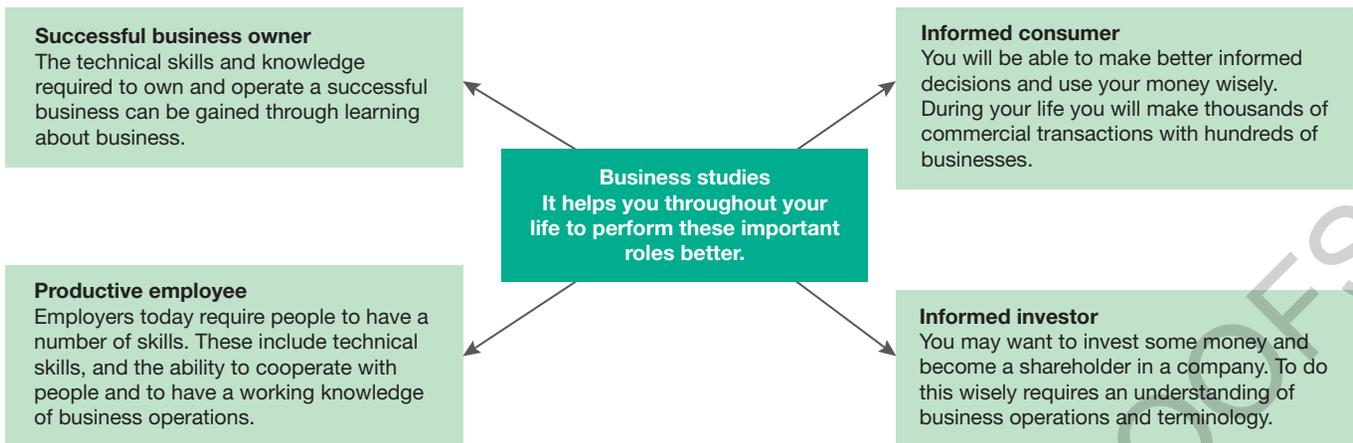


FIGURE 1.3 Developing an understanding of the world of business will help you in so many ways.

Businesses, through the many products (goods and services) they make and sell, have an enormous impact on our lives every day. They influence how we live, work and play.

SUMMARY

- Businesses play a crucial role in our society, largely determining our standard of living.
- Small to medium enterprises (SMEs) make up about 98 per cent of all businesses in Australia.
- The one common feature shared by both the largest and the smallest business is that they produce a product — goods or service — which is sold in a market where buyers and sellers meet.
- Businesses have an enormous impact on our lives every day.

1.2 The nature of a business

There is one thing people have in common — they all have needs and wants. They need food to eat, clothes to wear and houses to live in. Most of us also want handbags, video games, tablets, smart phones and cars — if only for the pleasure



FIGURE 1.4 Do you have oniomania? That means you are what might be referred to as a shopaholic or compulsive shopper. Market research company TNS found that Australian teenagers are spending an average of \$5000 of their parents hard-earned money per year. Young consumers spend an average of \$96 a week, with the most money being spent on clothes, transport, mobile phones, electronics and fast food.

they give to us. To satisfy these never-ending wants is the role of business. A **business** can be defined as the organised effort of individuals to produce and sell, for a profit, the **products (goods and services)** that satisfy individuals' needs and wants.

To satisfy the needs and wants of its customers, the business has to produce the products the customers demand. By producing these products for sale on the market, the business hopes to achieve a number of goals. Making a profit is perhaps the most basic of these.

1.2.1 Producing goods and services

When we go shopping we are choosing from a range of **finished products** — products that are ready for customers to buy and use. Rarely do we stop to think about all the operations that have occurred to transform raw materials into finished products ready for consumption. Business enterprises undertake many activities to provide the products demanded by customers, as shown in figure 1.5. However, by far the most important of all these activities is production. **Production** refers to those activities undertaken by the business that combine the resources to create products that satisfy customers' needs and wants.

BizWORD

A **business** can be defined as the organised effort of individuals to produce and sell, for a profit, the products that satisfy individuals' needs and wants.

A **product** is a good or service that can be bought or sold.

Goods are items that can be seen or touched.

Services are things done for you by others.

BizWORD

A **finished product** is one that is ready for customers to buy and use.

Production refers to those activities undertaken by the business that combine the resources to create products that satisfy customers' needs and wants.

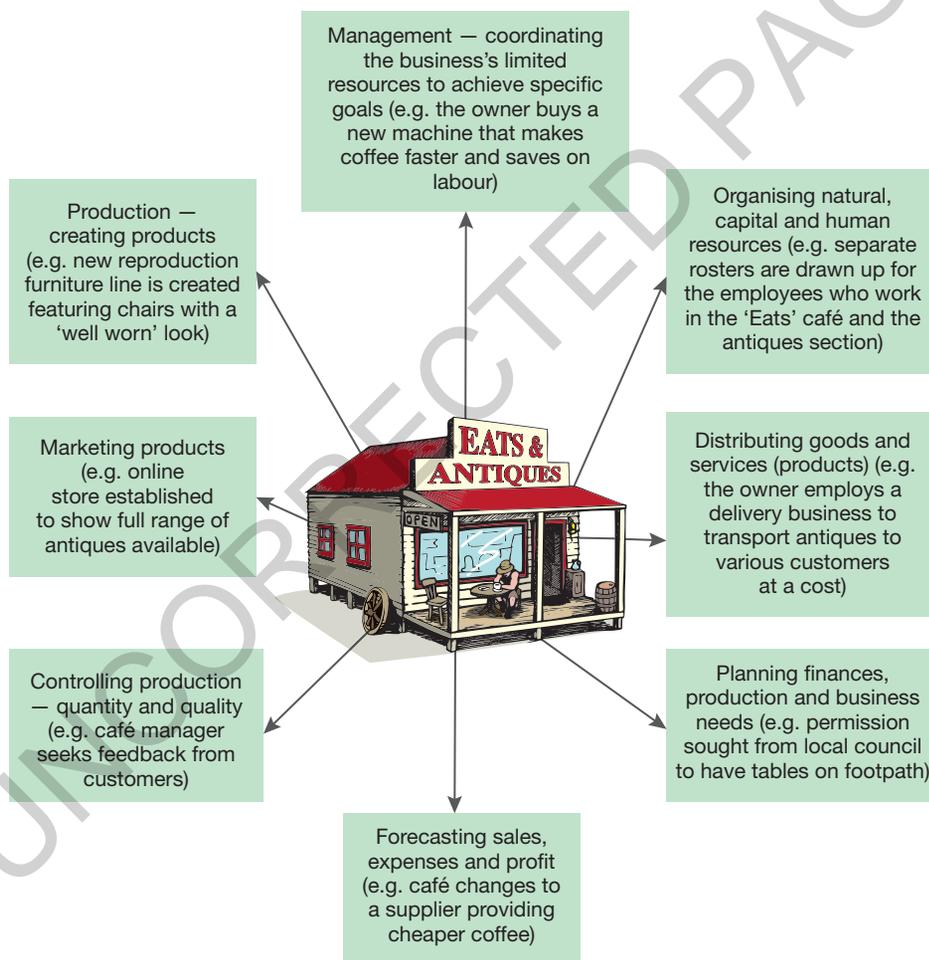


FIGURE 1.5 The main activities undertaken by this business, an antiques dealer with an on-site café, include more than selling furniture and serving coffee.

BizFACT

It is possible to calculate the value of production within an economy. The money value of all the finished products produced in Australia during one year is called the gross domestic product (GDP). This measurement is used as an indicator of Australia's economic growth. In 2016, Australia's annual GDP was \$1.67 trillion.

SUMMARY

- The main role of a business is to produce and sell, for a profit, the products that satisfy individuals' needs and wants.
- Business enterprises undertake many activities to provide the products demanded by customers, with production being one of the most important.
- Production refers to those activities undertaken by the business that combine resources to create products that satisfy customers' needs and wants.

EXERCISE 1.1 REVISION

- 1 **Identify** the one common feature shared by all businesses.
- 2 **Summarise** how Business Studies can help you better perform the roles of consumer, employee, business owner and investor.
- 3 **Outline** the role of business.
- 4 **Define** the term 'business'.
- 5 **Identify** two goods and two services you recently purchased to satisfy a need or a want. Next to each one write the name of the business from which you bought the product.
- 6 **Define** the term 'finished products'.
- 7 **Why** is production regarded as the most important business activity?
- 8 Gordon Su is the owner of a jewellery store specialising in handmade necklaces and bracelets. Read about his daily business activities (in the first column of the table below) then complete the table to **demonstrate** each business activity Gordon undertakes to operate his business successfully. The first example has been completed for you.

Activity undertaken by business	Example
Production — creating products	Making necklaces and bracelets
Organising natural, capital and human resources	
Marketing products	
Controlling production — quantity and quality	
Forecasting sales, expenses and profit	
Distributing goods	

- 9 Reflect on what you have learned so far. **State** how this information would influence you if you were intending to start a business.

EXERCISE 1.1 EXTENSION

- 1 As a class, **discuss** the statement: 'The one thing I've learnt about surviving in business is that it's important to learn from past mistakes — and the more mistakes you make the more you learn.' (Richard Branson, British entrepreneur, founder and CEO of Virgin Group)
- 2 **Construct** a clippings file of magazine and newspaper articles dealing with various aspects of business and its importance to the Australian economy. Select five articles and paste them onto a sheet of paper. Underneath each article prepare a 12–15 line summary.
- 3 **Construct** a series of flowcharts to show the interrelationship between producers and consumers.

1.3 Other functions of business

Businesses play an important role in our society. Some of the important functions of business are outlined in figure 1.6.

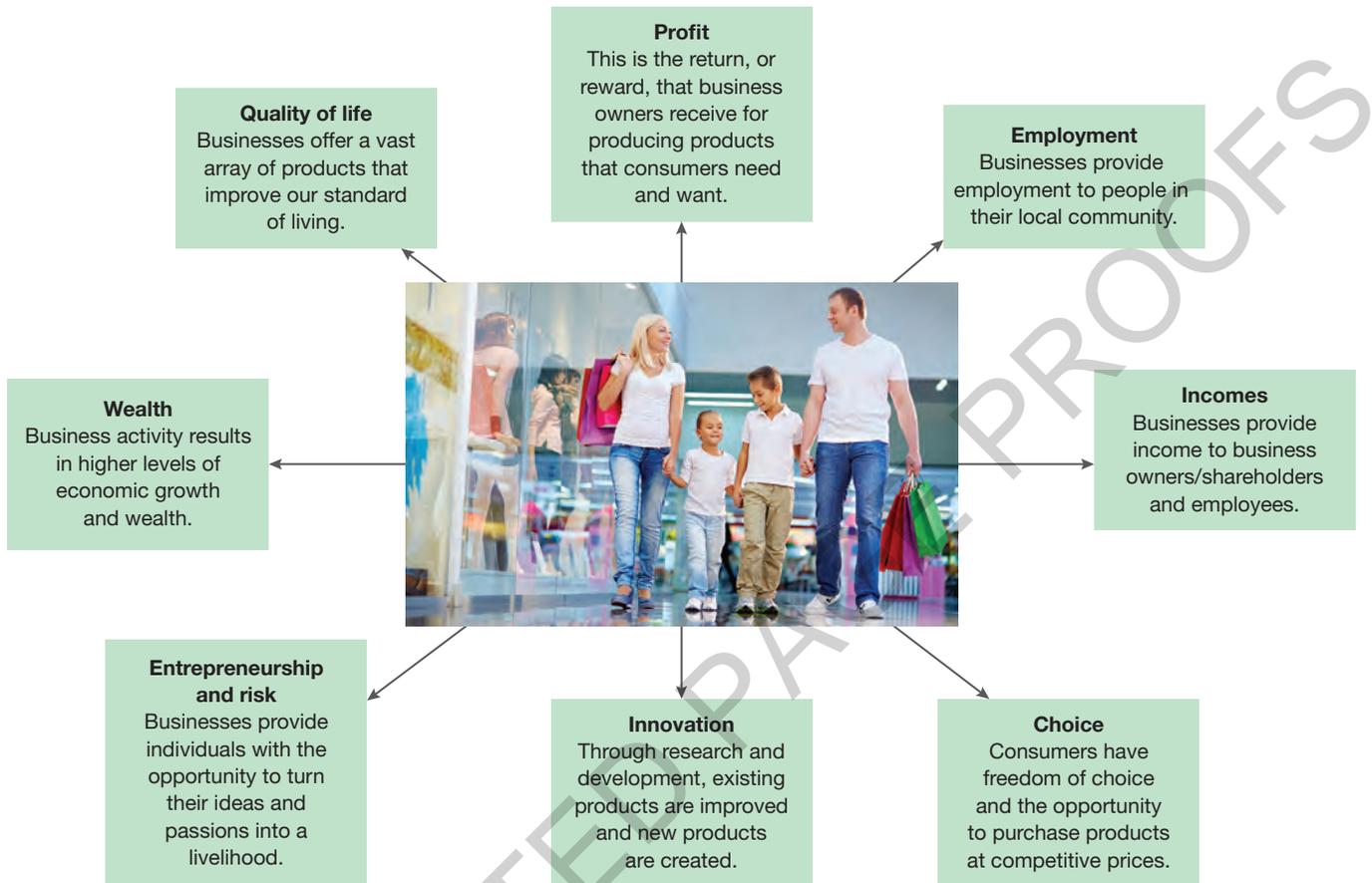


FIGURE 1.6 The economic and social importance of business

1.3.1 Profit

The main activity of a business is to sell products to its customers. A business receives money (sales revenue) from its customers in exchange for products. It must also pay out money to cover the numerous expenses involved in operating the business. If the business's sales **revenue** is greater than its **operating expenses**, it has earned a profit. More specifically, **profit** is what remains after all business expenses have been deducted from the business's sales revenue (see figure 1.7).



BizWORD

Revenue is the money a business receives as payment for its products.

Operating expenses are all the costs of running the business except the cost of goods sold.

Profit is what remains after all business expenses have been deducted from sales revenue.

FIGURE 1.7 A business must earn a profit to survive. Profit is the reward to business owners who have taken the risks involved in starting and operating a business.

BizFACT

A negative profit, which results when a business's expenses are greater than its sales revenue, is called a loss.

BizFACT

Around 61 per cent of businesses in Australia do not employ staff.

The business's profit becomes the property of its owners. For this reason, profit can be regarded as the return, or reward, that business owners receive for producing products that consumers want.

1.3.2 Employment

Employment keeps the economy healthy. To be able to purchase products, consumers need money. Employed Australians will use the money they have earned from working at jobs provided by businesses to buy goods and services to meet their needs and wants, supporting business and opening up further opportunities for job creation. People are employed in many different businesses, as can be seen in table 1.1.

TABLE 1.1 Employment in Australia by industry sector (2017)

Industry sector	Number	%
Health care and social assistance	1 562 600	12.9
Retail trade	1 228 400	10.1
Construction	1 108 300	9.1
Professional, scientific and technical services	1 018 500	8.4
Education and training	971 800	8.0
Manufacturing	906 500	7.5
Accommodation and food services	872 100	7.2
Public administration and safety	812 000	6.7
Transport, postal and warehousing	614 000	5.1
Financial and insurance services	436 100	3.6
Administrative and support services	411 000	3.4
Wholesale trade	391 000	3.2
Agriculture, forestry and fishing	296 700	2.4
Mining	235 800	1.9
Arts and recreation services	215 700	1.8
Rental, hiring and real estate services	212 800	1.8
Information media and telecommunications	211 400	1.0
Electricity, gas, water and waste services	125 500	1.0
Total labour force	12 133 300	95.1*

Source: Australian Bureau of Statistics, Labour Force, Australia, May 2017.

*Excludes 4.9% Other services

The number of employees hired by a business at any time will largely depend on the nature of the products and the number of customers who wish to purchase the products. Generally, the more that is sold the more employees a business will hire. Large businesses employ thousands of people within their organisations.

Businesses employ large numbers of people. However, the SME sector has driven employment growth in Australia, hiring more staff than large businesses do. The SME sector currently accounts for about 66 per cent of all private (non-government) sector employment — approximately 7 million people. During the last 20 years, the SME sector has been the major generator of new jobs in the Australian economy.

Large businesses also make an important contribution. ANZ, for example, employs 21 000 people in Australia. Businesses, therefore, have an important role to play in supporting employment growth in Australia and in reducing unemployment.



FIGURE 1.8 Jobs in the health sector have doubled over the past decade, making the sector the biggest employer in Australia. Two factors that have contributed to this are population growth and ageing demographics.

1.3.3 Incomes

Another important function of business is to provide **income**. For an individual, income is the amount of money received for providing his or her labour. A business's income is the amount it earns after covering all of its expenses: a return on its investments.

There are many different types of income that employees can receive. For example:

- **wage**: money received by workers, usually on an hourly or daily basis, for services they provide to an employer
- **salary**: a fixed regular payment, usually paid on a fortnightly or monthly basis but often expressed as an annual sum, made to a permanent employee of a business
- bonuses: a sum of money added to a person's wages as a reward for good performance
- overtime: time during which work is done outside regular working hours. Such time is usually paid at higher rates.
- commission: the percentage of a sales price received by a salesperson for her or his services
- fringe benefits: an extra benefit supplementing an employee's money wage or salary; for example, a company car, private health care, etc.

A business receives money from the sale of its products. As previously outlined, this is called sales revenue. From this revenue, all the expenses incurred in operating the business must be deducted. The amount that remains is the business's profit. This becomes the business owner's property and consequently their income.

If the business is a private or public company, it will have many owners referred to as **shareholders**. Usually, some or all of a company's profit is divided among shareholders. This type of income is called a **dividend** (see figure 1.9).

BizWORD

Income is money received by a person for providing his or her labour, or a business from a return on its investments.

BizWORD

A **wage** is money received by workers, usually on an hourly or daily basis, for services they provide to an employer.

A **salary** is a fixed regular payment, usually paid on a fortnightly or monthly basis but often expressed as an annual sum, made to a permanent employee of a business.

BizWORD

Shareholders are people who are part owners of a company because they own a number of shares.

A **dividend** is part of a business's profit that is divided among shareholders.



2014 Interim Dividend

Dear Shareholder(s),

This payment represents an interim dividend of 10 cents per share for the half year ended 31 December 2014 for 1,450 shares registered in your name and entitled to participate as at the record date of 11 March 2014. This payment is subject to a corporate tax rate of 30%.

Please register at www.investorcentre.com/au in order to update your TFN, bank account and other details online.

Sean Simmons
Company Secretary

Class Description	Amount per Security	Number of Securities	Franked Amount	Unfranked Amount	Gross Payment
Ordinary Shares	10 Cents	1,450	\$145.00	\$0.00	\$145.00
Net Payment					\$145.00
Franking Credit					\$62.14

Note: You should retain this statement to assist you in preparing your tax return.

Your Payment Instruction

ANZ	Amount Deposited
BSB: 014-211 Account number: XXXXXXX72	AUD\$145.00

FIGURE 1.9 Since shareholders are part owners of a company, they are entitled to a share in the company's profits. Paying a dividend is one way to reward shareholders. A dividend is a distribution of a portion of the company's profit to its shareholders. Let's say Company X generates a profit of \$1 million and has a total of 1 million shares on issue. If they wanted to distribute all their profit to shareholders, they could declare a dividend of \$1 per share. Most companies, however, prefer to retain at least some of their profits to reinvest in the business.

The amount of income a business can generate to pay wages and salaries, profits or dividends, depends largely on how successful it is in selling its products. A business that is aware of what consumers desire and attempts to satisfy this demand will experience increasing sales. This provides the business with the opportunity to offer higher income payments to employees, business owners and shareholders.

BizWORD

Choice is the act of selecting among alternatives.

BizFACT

Most businesses usually offer a range of products as this will increase profits in the long term.

1.3.4 Choice

Choice is the act of selecting among alternatives. For instance, you decide to purchase a new toothbrush. At the local supermarket you find a bewildering array of brands, designs, colours, shapes, textures, packaging, bristle arrangements, sizes and prices. A vast assortment of options — and all for the simple task of brushing your teeth.

In our society, consumers have freedom of choice and the opportunity to purchase a variety of products at competitive prices. An average supermarket will have on display approximately 20 000 product lines, with some hypermarkets carrying in excess of 40 000 lines. Freedom of choice exists when consumers can 'shop around' and select from a range of competitors' products. The more competition there is, the greater the choice available to consumers. Businesses competing with one another are responsible for the wide range of products in the shops. Every day thousands of businesses are producing products for specific sections of the overall market.

SUMMARY

- Profit is what remains after all business expenses have been deducted from sales revenue.
- Profit is the reward that business owners receive for assuming the considerable risks of ownership.
- SMEs provide employment for about 66 per cent of Australia's private sector.
- Businesses generate income for:
 - employees — from wages, salaries, bonuses, overtime, commissions and/or fringe benefits
 - business owners — from profits
 - shareholders — from dividends.
- The amount of income a business can generate as wages, salaries, profits or dividends depends largely on how successful it is in selling its products.
- In our society, consumers have freedom of choice and the opportunity to purchase a variety of products at competitive prices.

1.3.5 Innovation

The definition of **innovation** may vary, but it generally refers to the process of creating a new or significantly improved product, service or process (way of doing something). Invention refers to the development of something that is totally new, but innovation and invention both result in something unique being created.

Ideas for new products, or development of and improvements to existing products, will often provide the opportunity for the establishment of a new business. Many small business concepts are an innovation on an existing product. Blu-ray players and tablet computers, for example, came into existence in the same way as light bulbs and car tyres — that is, through people making technical advances with established products. Sometimes, a person has an idea for a totally new product, an invention, which will satisfy a need that is not presently being satisfied. Patents are legal protection for the exclusive right to commercially exploit an invention.

The way we listen to music has been the subject of innovation over the last century or more. Prior to the invention of the first phonograph by Thomas Edison in 1877, the only way people had been able to listen to music was through live performance. Edison's invention involved playing music that had been recorded on cylinders, but these were eventually superseded by discs in the 1920s. Tape recording was developed in the 1930s and 1940s, with the cassette tape appearing in 1964. Compact discs came onto the market in 1982. Since the 1990s digital recording techniques have allowed for music to be downloaded from the internet, stored on computer hard drives and on solid-state devices such as iPods and USB flash drives. New technological developments soon lead to new products, new markets and new business opportunities.

Many businesses undertake **research and development (R&D)** in order to expand their knowledge of products and processes. According to the ABS, Australian businesses spent \$18.9 billion on R&D from 2013 to 2014. Of the \$18.9 billion spent, large businesses contributed \$11.1 billion, medium-sized businesses contributed \$4.6 billion and small businesses contributed \$3.2 billion.

SMEs have produced many new products that we take for granted. This is because SMEs generally display a consistently positive attitude towards innovation. They constantly research, develop and test new ideas and products. Many SMEs are built on product innovation.

BizWORD

Innovation is either creating a new product, service or process, or significantly improving an existing one.

BizFACT

Each year TIME magazine publishes a list of what it considers to be the year's 25 great inventions. Some inventions that made the list in 2016 include an artificial pancreas, artificial limbs, Wynd (a portable air cleaner that monitors the air around you and purifies where needed), a levitating light bulb, a folding bike helmet, shoes that tie themselves (Nike Hyperadapt) and tyres that spin in every direction.

BizWORD

Research and development (R&D) is a set of activities undertaken to improve existing products, create new products and improve production.

BizFACT

Businesses in the manufacturing and professional, scientific and technical services industries were the major contributors to the R&D spending.

BizFACT

While Ford closed down their manufacturing facilities in Australia, they retained an Engineering Centre in Broadmeadows, a R&D centre in Geelong and a test facility at Lara. The CEO believes that the Australian R&D facilities are instrumental as part of the company's capability as an innovator and centre of excellence for the Asia-Pacific region. In 2015 alone, Ford spent around \$300 million on R&D, bringing to \$2 billion the amount of money spent on R&D over the past six years.

Finding new and better ways of doing things has resulted in improved efficiency and increased productivity. Studies confirm that the level of innovation among SMEs employees is much higher than among employees of larger businesses. This is perhaps because Australians have traditionally been a very innovative people, constantly recording the most number of new products per head of population (see the following Snapshot).

SNAPSHOT



‘... world-changing inventions that have come out of Australia...’

Great Aussie innovations

How would you describe a country that has invented the Victa lawnmower, Esky, Hills Hoist, Speedo swimwear, StumpCam (a small camera hidden in a cricket stump to provide action replays), wine cask, surf life-saving reel and insect repellent? You might describe it as a sports-loving nation that enjoys an outdoor lifestyle. Of course, the country is Australia! Some other world-changing inventions that have come out of Australia include: black box flight recorders, spray-on skin (to help treat burns victims), the electronic pacemaker, Google Maps, penicillin, polymer bank notes, IVF freezing technique, cochlear implants (for hearing loss), the electric drill, Wi-Fi technology and an ultrasound scanner.

What these lists reveal is that Australians are very innovative. According to the Global Innovation Index, Australia placed 23rd out of 311 countries on the 2017 index on measures of innovation development.

Converting an innovative idea into a business concept often requires the creativity and risk taking of an entrepreneur. Success is something the following Australian business owners achieved due to their innovations:

- Andrew Terry and Michael De Nil began Morse Micro in 2016 based on the development of a new Wi-Fi chip. The pair built a prototype wireless chip called the ‘Wi-Fi HaLow’ that reaches up to one kilometre, yet only needs one per cent of the power consumed by traditional Wi-Fi chips. This new technology, which is expected to hit the shelves in the next 18 months, is set to power a new generation of smart devices that can talk across neighbourhoods and run for years on a single battery. While the business will initially focus on industrial and agricultural applications, it is hoped the technology will also make its way into smart cities and smart homes by 2020.
- Scott Millar, a seventeen-year-old from Brisbane, began BOP Industries when he was in year 9. The original concept was developed as part of a Year 9 assignment based on running a business. While researching his assignment, he discovered a ‘simplistic’ form of hologram technology online. From then, it took him just seven days to develop the technology and launch his first product: a holographic entertainment display which is used by event managers, theatre companies and educational facilities.
- The need to solve a problem often leads to a new innovation, as was the case with Hayden Cox who was inspired to develop world-leading surf technology after trying to fix his own broken surfboard. Cox started his business, Haydenshapes, when he was just 15 to build on his passion for surfing and his desire to achieve a better ride. His popular Hypto Krypto boards won the prestigious Surf Industry Manufacturers Association Surfboard of the Year and the surfboard technology he invented has changed the face of the sport.

SNAPSHOT QUESTIONS

1. **Identify** some well-known Australian inventions.
2. **Outline** what is required to convert an innovative idea into a business concept.
3. Select an Australian innovation and **explain** the benefits of that innovation to both the creator and society.

1.3.6 Entrepreneurship and risk

Most of us have seen something advertised and thought, ‘That is just what I need’. Someone, somewhere, had the idea to provide this product. Not all inventors or innovators will seek to use their idea as the basis for a business. In many cases

they will be happy to sell their idea to an existing business and let someone else manufacture and market that product. To be willing to take the risk of starting up and operating a business and then working to build that business requires qualities of **entrepreneurship**.

People who transform their ideas into a new business are called **entrepreneurs**. They are prepared to take the **risk** of starting and operating a business venture; of turning their dreams and passions into a livelihood. Entrepreneurs have to take risks because usually they explore untapped markets with no track record of proven consumer demand or guaranteed returns. They cannot be certain that anyone will buy what they plan to sell. But for those whose ideas translate into a successful business venture, the profits are often huge.

If a business fails, its owner may lose all or part of the money he or she has put into it. If people are to take this risk, they must be encouraged by the hope of some reward for success. In our economic system, profit is the return (reward) or payment that business owners receive for assuming the considerable risks of ownership. One of these risks is the risk of not being paid. Everyone else — employees, suppliers and lenders — must be paid before the owners. And if there is no profit, there can be no payment to owners. A second risk is that if the business fails, its owner may lose all or part of the money he or she has put into it.

Bill Gates, co-founder of Microsoft Corporation — the world's most successful computer software company — is a classic example of an entrepreneur (see figure 1.10). While he was a teenager, he decided to take the risk of establishing his own business to market a computer operating system that he and a friend had developed. Today he is one of the world's wealthiest individuals. Entrepreneurs often display flair and creativity. They will frequently find new and innovative ways of promoting their products or services. They will regularly upgrade and adapt their business objectives and recognise new opportunities to expand or diversify their business operations.



FIGURE 1.10 Bill Gates topped the *Forbes* list of the Richest People in the World again in 2017 with a net worth of \$85.2 billion. He has held the top spot for 18 out of the past 23 years.

BizWORD

Entrepreneurship is the ability and willingness to start, operate and assume the risk of a business venture in the hope of making a profit.

An **entrepreneur** is someone who starts, operates and assumes the risk of a business venture in the hope of making a profit.

Risk refers to the possibility of loss.

BizFACT

While Bill Gates topped the *Forbes* 2017 Billionaires List, the next four entrepreneurs on the list (in order) were Warren Buffett (CEO of Berkshire Hathaway, which owns more than 60 companies, including Duracell and Dairy Queen), Jeff Bezos (CEO of Amazon), Amancio Ortega (co-founder of Zara) and Mark Zuckerberg (CEO of Facebook).

BizFACT

Every new business starts with an idea. Describe a business idea that you could provide and that is, to your knowledge, not already available.

SNAPSHOT



‘... good entrepreneurs should take only calculated risks...’

To be a successful entrepreneur you don't need to be running a multi-million dollar company. Many people have achieved entrepreneurial success by running small to medium enterprises (see the following Snapshot).

Case study: Could you be a successful entrepreneur?

Do you have what it takes to be a successful entrepreneur? An entrepreneur is someone who undertakes a new business venture and assumes the risk of its success or failure. One important characteristic many entrepreneurs share is the ability to be highly motivated. Amanda Wong is an example of an entrepreneur with plenty of motivation.

At age 15, Amanda Wong was already turning a profit. In her spare time, she designed brochures and posters for local rock bands and concert events. Today, aged 29, Amanda is the driving force behind Eclipse Publishing & Design, a graphic design business specialising in advertising, brochures, digital photography, logos and publication design. Amanda started the business in 2014, and at the time had no idea it would eventually employ 15 people and have nine overseas clients. Amanda believes ‘the business is successful because we offer a diverse range of unique designs not available from many other graphic design businesses’.

In the beginning, cash flow was tight and Amanda had little experience in operating a business. However, she was highly motivated and keen to learn. ‘Creating an idea in my head and then seeing it actually appear out there in the world, that's huge to me,’ Amanda says. ‘I get enormous satisfaction from creating products that delight my clients.’

‘If you want to go into business, then you have to realise there will be good days and bad days,’ she says. ‘I understood there would be risks but good entrepreneurs should take only calculated risks, which is what I did.’ In addition to Amanda's self-confidence is her ability to identify business opportunities when they arise. ‘If I become aware of an opportunity that will be profitable and help grow the business, it is my responsibility to act. That's the life of an entrepreneur.’

‘I knew that commencing a business would require hard work and long hours, but I was totally committed to the idea. I was determined to succeed. Ultimately, it comes down to self-belief. If you want it to work, you've got to believe it will.’

Amanda's venture into the business world has been financially and personally rewarding. She says ‘successful entrepreneurs are motivated and passionate about what they do and where they want to go’.

SNAPSHOT QUESTIONS

1. **Identify** the main entrepreneurial characteristics exhibited by Amanda Wong.
2. **Outline** whether you agree with Amanda when she says that good entrepreneurs should take only calculated risks.
3. **Account** for the success of Eclipse Publishing & Design.
4. **Outline** the disadvantages of running your own business.

Entrepreneurial qualities, however, are not confined to adults. For example, at a recent swimming carnival, Yolanda Zurack, a Year 8 student, arranged to take along an Esky filled with cold drinks. To keep her costs down Yolanda bought the drinks through a local wholesaler. During the very hot day she sold all the drinks and made a reasonable profit.

Yolanda Zurack, Bill Gates and Amanda Wong are all entrepreneurs. They organised their business, undertook the necessary arrangements for it to operate and were prepared to take a risk. The size of the profits may differ but they possess identical entrepreneurial qualities: courage, motivation, determination and energy. Without such entrepreneurs and their activities, many of the products we purchase would not exist.

BizFACT

An entrepreneur's drive and motivation to establish and operate a business lies at the heart of our private enterprise economic system.



FIGURE 1.11 At just 12 years old, Bella Tipping started her business Kidzcatanz — a website designed to run alongside TripAdvisor which allows kids to get an avatar and rate and review hotels, theme parks and attractions. The business idea started with a brainwave after returning from a family holiday. She saw her mum giving a great review on a hotel that she didn't really like as it was too adult-focused.

1.3.7 Wealth

The more that is produced the more wealth is generated within the Australian economy. The thousands of individual businesses operating every day act as the 'engine room' of society, helping drive the economy forward to achieve greater levels of economic growth and wealth.

During normal operations, a business receives money from its customers in exchange for products. At the same time it must also pay out money to other businesses to cover operating expenses. Operating expenses are the costs involved in the day-to-day operation of the business. The difference between the two amounts, the value added, represents the wealth (profit) created by the business. This wealth is then redistributed to employees, governments, lenders, owners/shareholders and the business itself (see figure 1.12).

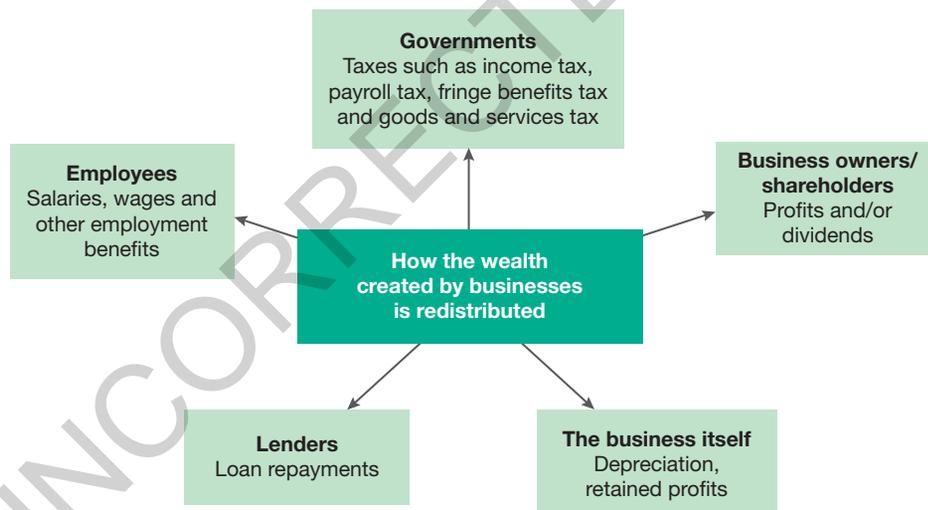


FIGURE 1.12 The distribution of the wealth created by a business

As previously outlined, businesses need to employ people to assist in the production process. These employees receive an income (wage or salary) that can be spent to satisfy their needs and wants. Both the money received and the products purchased add to the wealth of individuals and households. Imagine if all the businesses within your local community were to close down overnight. People would lose their jobs and source of income, fewer products would be available for

purchase, and the flow of money would quickly contract. The end result would be an increase in the levels of poverty, the opposite of wealth creation.

The total output of the country's diverse collection of businesses, ranging from large multinationals to the family-owned local corner store, makes a significant contribution to the wealth of the national economy.

1.3.8 Quality of life

In our society most people want more than the bare necessities; they want to achieve the highest standard of living possible. Overall, we have high expectations about what our economy should provide for us. However, we often want more than simply to have our material wants satisfied. We also desire a high degree of quality in our lives. **Quality of life** refers to the overall wellbeing of an individual, and is a combination of both material and non-material benefits.

For example, we desire to have leisure time for hobbies and recreation. Our quality of life is improved by having access to a number of non-material products such as fresh air and clean water, unpolluted earth, conservation of wildlife and protection from toxic sources. Consumers have become increasingly concerned about waste disposal, the greenhouse effect and the destruction of unique habitats.

Many businesses have responded to quality-of-life issues and are implementing environmentally friendly procedures, for example recycled materials, cleaner cars, less energy-consuming production and 'green' food products. Because business activities play a vital role in our lives, businesses have a responsibility to help provide what consumers want and to minimise what they do not want.

SUMMARY

- Research and development (R&D) leads to innovation (the creation of new products, services or processes, or the improvement of existing ones).
- People who transform their ideas into a new business are called entrepreneurs. They are prepared to take the risk of starting and operating a business venture in the hope of making a profit.
- An entrepreneur's drive and motivation to establish and operate a business lie at the heart of our private economic system.
- Business is a major creator of wealth within the Australian economy.
- Businesses produce a vast range of products that enable us to satisfy many and varied wants, which results in a higher standard of living.
- Quality of life refers to the wellbeing of an individual, and is a combination of material and non-material benefits.

EXERCISE 1.2 REVISION

- 1 **Recall** the main activity of a business.
- 2 **Describe** the relationship between revenue, operating expenses and profit.
- 3 **Calculate** which of the following businesses has made a profit.
 - (a) Sally's Pet Shop has expenses of \$2000 per week and revenue earned is \$3500 per week.
 - (b) Ben's Gardening Supplies takes revenue of \$6000 each week for a month, but has weekly expenses of \$7000 the first week, \$8000 the second and third week, and \$3000 for the fourth week.
- 4 **Evaluate** the significance of the SME sector's contribution to total employment within the Australian economy.
- 5 **Outline** the three ways in which businesses provide income.

BizWORD

Quality of life refers to the overall wellbeing of an individual, and is a combination of both material and non-material benefits.

BizFACT

Sanofi is an Australian pharmaceutical company focused on improving people's health and quality of life. Through investment in medical research and development, the company has developed leading prescription medicines across a range of therapeutic areas, as well as a diverse portfolio of vitamin and mineral supplements. Sanofi are the world's largest vaccine manufacturer and have also produced a range of transformative therapies for people affected by rare and debilitating diseases.

BizFACT

Australia is still seen as one of the best places to live but is sliding in global rankings when it comes to the environment and press freedom. In the 2017 Social Progress Index, which measures quality of life and the wellbeing of society independent of wealth, Australia dropped from 4th to 9th place.

6 **Recall** the correct term and complete the table below.

Term	Meaning
A. Income	
B. Wage	
C.	A fixed amount of money paid on a regular basis to a permanent employee of a business.
D. Shareholder	
E.	Part of a business's profit that is divided among shareholders.

- 7 **Define** the term 'choice'. **Explain** how businesses encourage freedom of choice.
- 8 **Outline** the role innovation plays within our economy.
- 9 **Outline** the role of the entrepreneur in our economic system.
- 10 **Explain** why people take risks.
- 11 **Describe** the two main risks associated with operating a business.
- 12 **Identify** the entrepreneurial characteristics that Yolanda Zurack, Bill Gates and Amanda Wong have in common.
- 13 **Assess** your own entrepreneurial ability by completing the following questionnaire.

Question	Yes	No
(a) Are you willing to take moderate risks?		
(b) Are you easily motivated?		
(c) Do you get on well with people?		
(d) Is your health excellent?		
(e) Do you set realistic goals?		
(f) Are you prepared to accept responsibility?		
(g) Can you tolerate failure?		
(h) Do you have a positive self-image?		
(i) Are you well organised?		
(j) Are you a hard worker?		

Someone with an entrepreneurial personality would answer 'Yes' to most of the questions. Write a self-evaluation report based on your answers. **Compare** your response in class.

- 14 **How** do businesses create wealth within the economy?
- 15 **Identify** the ways in which the wealth created by a business is redistributed.
- 16 **Justify** which is a more important contributor to a person's quality of life — material or non-material benefits. Provide reasons for your answer.

EXERCISE 1.2 EXTENSION

- 1 A profitable business is one that returns to its owners *more* than they could earn by working for someone else. According to this definition, many businesses operating today would not be considered profitable. **Determine** why their owners continue to run them. Share your answer with the rest of the class.
- 2 **Construct** a three-minute presentation titled 'How businesses contribute to our economic and social wellbeing'. Prepare some multimedia materials to supplement the oral presentation.
- 3 'The mother of invention/innovation is necessity.' **Justify** this statement.
- 4 In small groups, **predict** the social consequences of an economy that is experiencing a large number of business failures. **Compare** your answer with other groups.
- 5 In small groups, **identify** someone who successfully runs a small business. **Critically analyse** the personal qualities this person possesses that contribute to the success of the business.
- 6 The Entrepreneur Network for Young Australians Ltd (ENYA) is a not-for-profit public company that 'promotes the active participation of young people in enterprise, in an ethical and sustainable manner'. **Examine** the main functions of this organisation. The ENYA weblink in the Resources tab may assist.

on Resources

-  **Digital doc:** Chapter summary (doc-26093)

on Resources

-  **Weblink:** ENYA
-  **Interactivity:** Chapter crossword (int-7211)
-  **Interactivity:** Multiple choice quiz (int-7212)