Contents

3 Business decisions

3.1 Overview

3.1.1 Cosmetics entrepreneur

Jellaine Ross started her business Cherry Blooms at the age of 24. The Brisbane-based company sells cosmetic products, particularly brush-on eyelash extensions. Ms Ross started selling the brush-on eyelash extensions after seeing them being used when she was on a holiday in Korea. She thought the idea would work in Australia so she repackaged and remarketed the product and created her own brand. Her business earned $100 000 in its first year and now sells close to $10 million worth of product a year both online and in retail stores across the world.

Figure 1 Founder and Chief Executive Officer of Cherry Blooms, Jellaine Ross

Different forms of business ownership

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3.2 What are the three main ways in which a business can be owned?

3.2.1 Structures of business ownership

There are a number of structures, or forms of ownership, that a business owner can choose from when starting a business. The three most common forms of ownership are **sole proprietorship**, whereby an individual runs a business on their own, a **partnership**, whereby a group of people will run a business together, and a **corporation**, which is owned by shareholders. These are discussed below.

3.2.2 Sole proprietorship

A sole proprietorship, or sole trader, is a business that is owned and operated by one person. A sole proprietor business can operate in almost any field. Usually, however, they are small businesses such as cafés, newsagents and hairdressers and trades such as plumbers and electricians. A sole proprietor may employ other people to work for the business, or to operate and manage the business.

The sole proprietor receives all the **profit** that the business makes, but is also responsible for any losses. He or she has **unlimited liability**. This means he or she can be forced to sell personal assets such as a house or car to pay off business debts. A sole proprietor business usually has only one person's name in the business name, for example, *Maria's Café*.

Individuals who establish a sole proprietor business are often referred to as entrepreneurs. Entrepreneurs are those people who assume the financial and personal risk of establishing a business with the hope of making a profit. These people normally exhibit enterprising behaviours.

You may know somebody or you yourself may be the kind of person who demonstrates enterprising behaviours. Some of these enterprising behaviours and characteristics include:

- demonstrating initiative
- having good problem-solving abilities
- being creative and innovative
- being able to plan and complete complex tasks
- being a reflective thinker
- being willing to take measured risks
- predicting the consequences of a decision
- communicating clearly and effectively with different types of people
- analysing alternatives and selecting appropriate courses of action.

Figure 1 A sole trader is a business that is owned by one person, even though it may employ other people to operate and manage the business.

Advantages and disadvantages of sole proprietorship

A sole proprietorship is a good form of ownership for a person who is just starting a business because it is very simple and low cost. It allows the owner to maintain full control of the business and to keep all the profits. There will be no disputes with any partners and there are minimal government regulations. However, the owner does have unlimited liability. It can be difficult for the sole trader to find finance to commence the business or expand and there is a large burden on the owner to perform a wider variety of tasks.

3.2.3 Partnership

A partnership is a business usually owned and operated by two or more people, called partners. The partners share their profits and losses, usually equally. Together they decide how best to operate the business. It is common for people with similar skills, such as doctors, accountants, solicitors and dentists, to form a partnership. Partnerships tend to have the names of the partners in the business name, for example, *Kennedy & Lee Lawyers*. As with sole proprietors, partnerships also have unlimited liability.

A partnership can be formed with a verbal agreement, but using a formal written partnership agreement is worthwhile. This usually outlines who is in the partnership, how profits will be shared, how decisions will be made, how disputes will be settled and what will happen when the partnership ends.

Figure 2 A partnership is a business usually owned and operated by two or more people, called partners.

Advantages and disadvantages of partnership

A partnership is an inexpensive and simple form of ownership. It allows responsibility for decision-making and risk, as well as workload, to be shared. The partners can pool their finances and their expertise together and there is minimal government regulation. On the other hand, a partnership has unlimited liability. It can be difficult to find suitable partners and disputes between the partners can arise. If one partner decides to leave the business, the future of the business can become complicated.

3.2.4 Corporation

A corporation, or company, is owned by **shareholders**. In Australia, all corporations undergo a process known as incorporation. This involves creating a business as a legal entity in its own right and treating it as a separate entity from its shareholders. In other words, the corporation (rather than individual shareholders) is liable for the debts created through its operation.

Corporations have **limited liability**. This means that if the business cannot pay its debts, a shareholder loses only the money she or he has invested in the business. A shareholder cannot be forced to sell personal assets to pay the corporation's debts.

However, there are some exceptions to this situation. In some instances, the directors of the corporation will be asked to give a personal guarantee when seeking a loan from a financial institution. In such cases, the person who offered the personal guarantee might lose their own assets to pay the debts of the business.

If directors of the corporation engage in misleading behaviour or recklessly borrow money, they can be held personally responsible. Criminal charges may follow, and lawsuits may also be brought under the code of civil law.

Corporations can be organised as either public or private. The general public may buy and sell shares in public corporations and these corporations may be listed on the Australian Securities Exchange (ASX). Private corporations can not be listed on the stock exchange and tend to be family-owned businesses. They have restrictions on who can buy their shares. A public corporation must have the word ‘Limited’, or the abbreviation to ‘Ltd’, after its name. A private corporation must have the words ‘Proprietary Limited’, or the abbreviation ‘Pty Ltd’, after its name.

In the aftermath of the Global Financial Crisis (GFC) of 2008, many large corporations in the banking industry were ‘bailed out’ by their governments, with large amounts of taxpayers’ money helping them to stay afloat. Some people have argued that these companies should not be ‘too big to fail’, and that by bailing them out it could encourage more reckless behaviour in the future. What do you think? [Ethical capability]

Figure 3 A corporation is owned by shareholders and can be structured as either a public or private company.

Advantages and disadvantages of a corporation

A corporation is a very good form of ownership for attracting more finance. Capital (finance) can be obtained by selling shares. Corporations have limited liability, which means that the owners can only lose the value of their investment if the corporation goes into debt. The life of a corporation can continue if an owner of the business sells their shares. However, corporations are very complex and expensive to set up. There are very strict laws regulating corporations including how they are registered, how they need to report their financial results and how they will be closed down. Corporations can grow very large, resulting in inefficiencies.

Your turn

Working with a partner or by yourself, visit a shopping centre. Record information about the businesses you find there in a chart like the one below.

Name of business	Nature of business activity	Form of business ownership
Carol's Café	Meals, tea, coffee, snacks	Sole proprietorship

Collect data for at least ten different businesses. Analyse your results to find out what is the most common form of business ownership. Use a bar graph or a pie chart to present your results. Suggest reasons why this form of ownership is the most popular.

3.3 Are there other ways to own or operate a business?

3.3.1 Alternative ways to own a business

Sole proprietorship, partnership, and corporation are not the only forms of business ownership available when starting a business. A business can also be structured as a **cooperative** — a business owned and controlled by the group of people it serves, and a **trust**, where another person or company holds property or carries out business on behalf of the members of the trust. After choosing a form of ownership, a business owner may decide to run their business as a **franchise**.

3.3.2 Cooperative

In a cooperative, a number of people combine resources for a particular purpose. Typical cooperatives involve farmers, community education centres and credit unions.

The benefit of a cooperative is that people who work in one industry can join together to manage their own affairs, drawing on their combined expert knowledge of the specialist aspects of their work. They also reduce costs by streamlining their operations to ensure maximum efficiency in the delivery of goods and services.

An example of a cooperative is the Best Western international hotel chain whose members are hotel operators. The members own and operate their own businesses but work together and pool funds and resources through Best Western, which operates as a non-profit organisation. Pooled funds are used to advertise their businesses and the Best Western brand, and to generate greater buying power.

Figure 1 The Best Western hotel chain is an example of a cooperative.

There are many different types of cooperatives used for a wide range of purposes, including cooperatives for housing, building, consumers, workers and credit unions. Retailers' cooperatives buy in bulk on behalf of their members to obtain discounts from manufacturers and to pool marketing. This type of cooperative is common for locally owned grocery stores, hardware stores and pharmacies. However, their members are businesses rather than individuals.

3.3.3 Trust

A trust is a form of business ownership where a **trustee** holds property or assets for the benefit of another person or a group of people. These other people are known as **beneficiaries**. They are often members of a family. Setting up a trust can be expensive and complex because a formal deed needs to be created and there are administrative tasks that the trustee is required to complete annually. Trusts are often used to preserve family assets and to reduce tax. Family businesses can be set up as trusts so that every family member can be made a beneficiary without having direct involvement in the running of the business.

Figure 2 A family business can be set up as a trust so that family members can be made beneficiaries.

3.3.4 Franchise

While it is not actually a form of business ownership, operating a business as a franchise is becoming increasingly popular. A **franchisor** is the individual or organisation that grants, under certain conditions, the right to use a business name and the right to produce or distribute the franchisor's product. The **franchisee** is the person who purchases the franchise, usually by paying a fee to the franchisor. Franchisees can operate their business as a sole proprietorship, partnership, corporation or trust.

The benefit to the franchisee is that he/she is granted an instantly recognisable business name, for example Subway and Hungry Jack's. The business owner can immediately start to benefit from the reputation of the franchise. The franchisee also receives training in the technical aspects of operating the business from the franchisor, as well as assistance with business management principles. In return, the franchisee provides the start-up fees and labour, and agrees to uphold the terms and conditions of the franchise agreement. This can mean, for example, that a franchisee is obliged to market and sell the products specified under the franchise agreement. The franchisee may also need to conform with any required production and distribution processes and requirements.

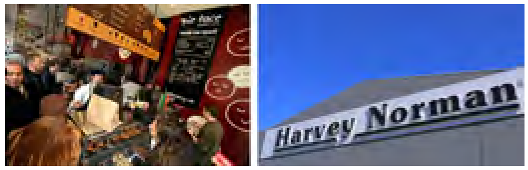
Just as there are many advantages for businesses operating as franchises, there are also disadvantages for both the franchisee and franchisor.

Operating a business as a franchise limits the freedom of the franchisee. The franchisor controls the operations, the product and the marketing. For example, when you enter a McDonald's restaurant, the décor looks the same, the staff act the same and wear the same uniform, and the food tastes the same as in any other McDonald's anywhere in Australia. Operating a franchise limits the owner's ability to innovate and individualise their stores.

All advertising and promotional campaigns are determined by a centralised office and must be run in all franchise stores in exactly the same way. An owner of a franchise may not agree with a particular TV commercial or a 'Scratch and Win' promotion, but they must do what the franchisor tells them.

The responsibility is on the operator/franchisee to follow all of the strict guidelines set by the franchisor or they may be reprimanded, receive a fine or even lose the rights to their business.

Figure 3 Some franchise operations in Australia include Pie Face, a café and bakery business specialising in pies, and Harvey Norman, which sells products for the home and office.



When Pizza Hut and Domino's started to offer $5 pizzas in 2014, many of their franchisees claimed the strategy would make their business unprofitable, with 80 Pizza Hut franchisees applying for a court injunction to stop the promotion. The Federal Court ultimately rejected the injunction, leaving many franchisees having to sell their goods at a lower price than they wanted to. Do you think this decision was correct? [Ethical capability]

3.3.5 Choosing the best form of ownership

As we have seen, there are several structures, or forms of ownership, that a business owner can choose from when starting a business. When choosing the most suitable structure, the business owner needs to consider their personal preferences, as well as the advantages and disadvantages of each type of business. For example, someone who prefers to work alone and is wishing to start a business that is easy to set up might choose a sole proprietorship. A person who wants to raise the finance to grow a business selling products around Australia, and perhaps overseas, might consider a company structure. A person wishing to preserve the assets of their family and reduce tax might choose a trust. The form of ownership used by the business can change over time. It is quite possible that after a business is started, it will grow. As the business grows, its goals might change, which means the owner might need to review the most appropriate structure as well.

Figure 4 Business owners must consider a range of factors when deciding on which form of ownership best suits their business.

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3.4 Opportunities for businesses

3.4.1 Factors influencing opportunities

A business will always be searching for opportunities, including ideas for new products, new customers and new ways of running the business. There are many factors that influence opportunities for businesses, including demographics, competition, location and target market. Successful businesses will be very quick to seize opportunities.

3.4.2 Demographics

Being aware of **demographics** can create opportunities for businesses. Demographics are characteristics or statistics relating to population, including age, gender, ethnicity, employment, income and education. This information can be used by businesses to work out what products consumers prefer or to determine their buying behaviours. Let's have a closer look at some of these characteristics.

Age

The age of a country's population can influence business opportunities. The products that a business sells will usually appeal to a certain age group. The Australian population is ageing which means that there is more demand for, for example, health services, further education and training, and travel. Some businesses may choose to focus on these opportunities or to target their products at younger consumers. Younger people aged under 35 are more likely to be the first consumers to purchase new technologies like mobile phones and computer games.

Gender

Males and females demand different products. Businesses will sell different hygiene and clothing products based on the gender of consumers. Women make the majority of the buying decisions in Australian households. This presents an opportunity for businesses. For example, businesses might target women with new home improvement products.

Income

Income can affect business opportunities. The products that a business sells will usually appeal to a certain income group. A premium product, such as designer clothing, will normally appeal to higher income groups. Lower income groups tend to purchase discount products. A business owner may decide to focus on higher income groups by starting a fashion boutique, or focus on lower income groups by opening a discount fashion store.

Figure 1 Demographics are the characteristics or statistics relating to population, including age and gender.

3.4.3 Target market

By focusing its efforts on the most appropriate demographic, the business can begin to determine its **target market**. This is a specific group of customers with similar characteristics, for which a business will produce goods and services. A business working out its target market will do so by 'segmenting the market'. People can be grouped according to demographic characteristics, geographical characteristics (where people live; for example, in urban, rural or suburban areas, or the country they are located in), behavioural characteristics (the way that customers purchase products; for example, are they a regular user or a first-time user of a product, do they have loyalty to a brand?) and psychographic characteristics (people's personalities, values, attitudes, interests, and lifestyles).

A business selling car products may determine that its target market is males, aged 30−50 and living in urban areas, who like cars and who have time and money to spend working on them. A business selling make-up may have a target market of customers who are female, aged 25–50, living in the city and who like to buy 'brand name' products. Defining a target market allows a business to decide who will demand their products, what products they want, and if there are actually enough potential customers to make the business profitable.

Figure 2 By identifying a target market, a business may be better able to satisfy the demands of its customers.

3.4.4 Competition

Competition can make life very difficult for a business. Depending on the market that the business is operating in, there may be several competitors or very few competitors. Competition can drive prices down and can restrict the opportunity to make profit.

However, competition can also create opportunities for businesses. It can force a business to improve the way they do things or to innovate, either through using technology, altering the product or by improving customer service. Competition can force a business to examine their target market closely to make sure that they are selling to the right consumers and perhaps to change the group of customers to whom they are attempting to sell.

3.4.5 Location

The location that a business chooses can create opportunities or restrict them, according to the nature of the business. A business needs to consider how important passing trade will be, whether visibility is important, how important access to resources will be, or whether cost will be the most important factor. For example, a business that is hoping to sell to young people or young families would find limited opportunities if they located in an area whose population has an average age of over 60; a boutique fashion store would struggle to find customers if it located in an industrial area; and a business that manufactures goods might encounter difficulties if it located in an area that was not easily accessed by its suppliers.

Case study

GameZone

Two friends, Jake and Ashley, established their small business, GameZone, in 2010. They didn't have much money of their own, but they managed to convince their parents to lend them enough to get started.

Their first problem was the location. Rents were very high in the local shopping centre. They opted for a disused shop in a local street. Next door was an abandoned warehouse, and on the other side was the Pensioner World shop. They thought they might do all right in the area though, because another computer games store, eGames was located just around the corner.

Ashley thought it would be best to sell to anyone and everyone who would buy their games. He put a couple of advertisements in the local newspapers, and left some leaflets in the Pensioner World shop.

On the opening day, the stock had arrived and games were piled high on the shelves. One elderly customer walked up to the counter.

‘Do you have any touch-typing programs please?’ asked the customer.

‘Dunno about that,’ said Mez, the shop assistant. Jake emerged from the back office and stubbed out a cigarette on the counter. He told the customer that the store sold games, not computer programs.

‘Well then, could you please order a copy for me?’ asked the customer.

‘Maybe, but until our internet is fixed, nothing's happening. Sorry,’ replied Jake.

Figure 2 GameZone in action — how not to play the business game!

Interactivity: GameZone in action — how not to play the business game!

Your turn

In a magazine, newspaper or online, find images that show an example of each target market characteristic. Paste the pictures onto a page under appropriate headings (demographic, geographic, behavioural and psychographic) and add labels explaining why each picture represents that characteristic.

3.5 How can businesses respond to opportunities in the market?

3.5.1 Developing a new product

After identifying opportunities in the market, a business owner will need to respond to those opportunities in some way. This may involve developing new products to satisfy demand or changing the way the business delivers its products or services to consumers.

A business might respond to opportunities in the market by developing a new product to satisfy demand. **Product development** can involve modifying an existing product or the way in which it is presented, or creating an entirely new product that meets the demands of a newly defined customer or market. Starting with an idea for a new product, or an idea to modify a product, a business will go through a series of steps to bring the product to market.

The product will need to undergo a design process and then a prototype or mock-up will need to be created. The product will then go through beta and market testing. The testing will confirm if the product is on the right track or if improvements need to be made. After the technical needs of the product are planned for, including materials needs, suppliers, and final production requirements, the product will be launched onto the market.

Figure 1 The process for new product development

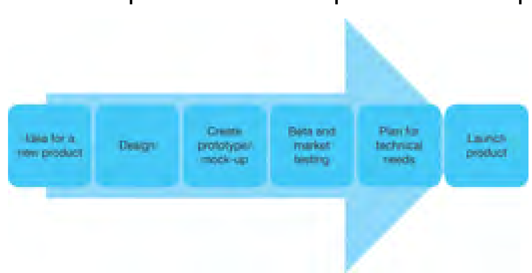

Figure 2 Gelato Messina, a Sydney-based gelato maker, introduced a 'whitebait' flavour — a combination of salmon and white chocolate with lemon cream cheese, dill and caper jelly. Co-owner Donato Toce said that the business would not have introduced the flavour if they did not think it would work.

3.5.2 Changing the way products are delivered to consumers

A business might respond to opportunities in the market by changing the way they deliver their products to customers. Products can be delivered in many ways, including by road, rail, ship, pipelines, power lines and computer networks. Most goods are produced at a point of production, for example a farm or factory. They are then distributed to warehouses and moved to points of sale, for example retail stores, where customers will then purchase them. A business can change the way it delivers products to customers by modifying this process.

Online shops have drastically altered the way that products are delivered to customers. Instead of going to a physical store, millions of customers around the world visit businesses such as Amazon.com, and eBay online. After purchasing a product, customers can specify or negotiate delivery details, including delivery direct to the customer's home. Some of the ways in which a business can change the way in which it delivers its products can be seen in figure 3.

Figure 3 Ways in which a business can change the way it delivers its products

Interactivity: Ways in which a business can change the way it delivers its products

Crowdsourced delivery

Online networks and marketplaces, including Zipments and Deliv in the United States of America and PluckNGo in Australia, connect couriers with customers who want to have goods delivered. A business owner wanting deliveries can make the request on the **crowdshipping** service's site or app. Those wanting to deliver products can browse available delivery orders, then pick up and make the delivery. Couriers range from professionals to students to people looking for some extra income.

Improving customer service

A business can improve its customer service by seeking feedback from customers and reacting to the suggestions. One way to collect feedback is through a customer survey. Many businesses use customer loyalty programs. Discounts and giveaways can be used to reward customers. Loyalty programs allow businesses to build a database of their customers and to stay in contact with them. Another way that businesses can provide quality service is by training staff in how to provide good service.

Figure 4 Blake Davies, a barista employed by Casualties Espresso in Port Macquarie, delivers coffee and food to customers on his skateboard.

Case study

Apple responds to an opportunity

Apple pioneered a hands-on, immersive in-store technology experience when it originally opened a retail store in 2001. When the first store opened, people were very sceptical. There was a recession and Apple had been reporting losses. But Apple saw an opportunity to improve its relationship with its customers and better present its brand. Led by then Chief Executive Officer (CEO) Steve Jobs, Apple took a risk in opening Apple Stores. It now has more than 400 retail stores located around the world, and rivals including Microsoft and Samsung have since emulated the retail stores.

Apple's retail stores allow the company to connect with customers in ways that other technology companies cannot. Customers, both new and existing, can experiment with Mac and iOS products. Apple learns lessons from what customers do in the retail stores and applies these lessons to its product development, including its iTunes and Mac OS applications stores, as well as its hardware. Having retail stores allows Apple to take further risks with its products. It knows that if its products break down, customers can simply pop into an Apple Store and have the fault repaired or replaced by a technician at the Genius Bar. This excellent customer service builds a positive relationship between the consumer and Apple so that customers keep coming back and tell other people about their products. Apple also uses its retail stores to support the launch of its new products, so that they become events. The launch of a new iPhone or iPad becomes a media frenzy because of the lines of people waiting outside Apple Stores.

Figure 5 Apple saw a business opportunity to improve its relationship with customers and build its brand by launching Apple Stores.

Your turn

Use the product development process to launch an imaginary new product. Complete a report by responding to the following questions.

a. Outline your idea. What is your product and who do you think would be interested in buying it?

b. Design your product. Draw or sketch rough plans for your new product.

c. Create a prototype or mock-up. You could draw a final sketch, make a model or produce a video or animation showing what the product will look like.

d. If you were to test the product on the market, what would be the results? Write a paragraph suggesting what beta and market testing might reveal about your product.

e. What technical needs will your product have? Write a paragraph outlining what will be needed to produce your product, including materials, employees, factory, plant or warehouse, transport, packaging and any other needs.

Launch your product by presenting your report to the class. You could do this in the form of a PowerPoint, Keynote, video or a combination of presentation technologies.

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3.6 SkillBuilder: Cost–benefit analysis

3.6.1 Tell me

Using a cost–benefit analysis

A **cost–benefit analysis** is a detailed examination of the strengths and weaknesses of different alternatives in order to see whether the benefits outweigh the costs. The principle behind a cost–benefit analysis is that you should only decide to act on an alternative if the benefit from taking it is greater than the cost.

Why is a cost–benefit analysis useful in economics and business?

A cost–benefit analysis is important for determining if an option will be a good decision or investment. It is also useful for comparing alternatives or projects, as well as estimating the resources needed to complete the alternative or project.

A good cost–benefit analysis:

- identifies opportunities
- proposes alternative ways to take advantage of these opportunities
- calculates the costs and benefits
- compares the costs and benefits to determine if the benefits outweigh the costs

- makes a decision about the best alternative to recommend.

3.6.2 Show me

We can apply the five elements of a good cost–benefit analysis to a case study, to see how this works in practice.

Case study

Olando's opportunity

Step 1: *Identify opportunities in the market*

Olando is the general manager of a large soft drink manufacturer. He and his team are looking at the market to identify opportunities.

The manufacturer has spent a great deal of time looking closely at its business and the local market that it sells to. By asking a wide range of questions they have determined that there are two business strategies that could meet the changing needs of the soft drink market.

Olando's team believes that there is an unmet need in the Australian market for low-sugar alternatives to cola flavours. There are currently some products available, but customer feedback suggests some frustration with the lack of widespread access to these options. These options also suffer from poor quality.

Step 2: *Propose alternative ways to take advantage of these opportunities.*

The company thinks that there are two possible alternatives. Firstly, they can introduce a new range of low-sugar soft drinks based on the unmet need. The other alternative is to select suitable products that other companies are selling overseas and offer these, or copies of these, to local customers. This would involve buying the rights to distribute these soft drinks.

Step 3: *Calculate the costs and benefits of each alternative.*

Olando's team conducts a cost–benefit analysis of the alternatives proposed. This means that they add up all the costs and all the benefits of each alternative, and then they compare the costs and benefits to decide if the benefits outweigh the costs. A summary of the costs and benefits of each alternative can be seen in table 1 and table 2.

Table 1 A summary of costs and benefits for a new range of low-sugar soft drinks

	Costs	Benefits
Monetary	Total (including raw materials, factory overheads, transportation, packaging, research and development, salaries): $20 million	Total (including sales): $30 million
Non-monetary	Extra workload for staff	New research and development which could benefit the business in the future A positive image built up among customers and potential customers

Table 2 A summary of costs and benefits for selling or imitating overseas products

	Costs	Benefits
Monetary	Total (including raw materials, factory overheads, transportation, packaging, salaries): $15 million	Total (including sales): $20 million
Non-monetary	Staff dissatisfaction with using ideas from overseas Customer dissatisfaction with using products designed for overseas markets	Research and development team will be free to look at other products

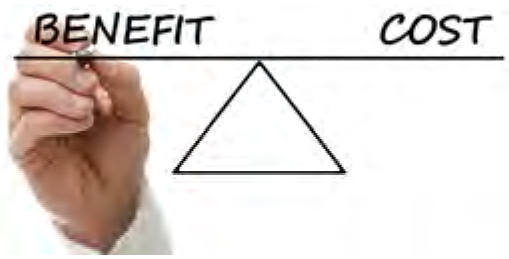
Step 4: *Compare the costs and benefits to determine if the benefits outweigh the costs.*

The team calculates that the benefits outweigh the costs when analysing the first alternative, introducing a new range of low-sugar soft drinks. The monetary costs are $20 million, while the monetary benefits are $30 million. This means that the monetary benefits outweigh the monetary costs by $10 million. They also consider that the non-monetary benefits considerably outweigh the non-monetary costs.

When analysing the second alternative, selecting or imitating overseas products and selling these to local customers, the team calculates that the monetary benefits outweigh the monetary costs by $5 million. The team feels that, even though the non-monetary costs of this alternative are high, the non-monetary benefits still outweigh the non-monetary costs.

Step 5: *Choose the best alternative.*

The team determines that the best alternative is the first one, introducing a new range of low-sugar soft drinks. This is because they believe that the benefits of this alternative far outweigh the costs when compared to the second alternative.



3.6.3 Let me do it

You can now carry out this five step process to complete a cost–benefit analysis using the case study below.

Case study

Uncle Bill's

Uncle Bill's is a global manufacturer of cereal products and snacks. Its marketing department has recommended that the business should respond to opportunities in the Australian market to produce products that meet different dietary needs, including low-salt, yeast-free and gluten-free products. It has proposed two alternatives. The first alternative is to introduce a new range of gluten-free cereals. The second alternative is to modify existing products already being used in other markets and sell these in the Australian market.

Bridie is the Australian regional manager for Uncle Bill's. She has asked you to be part of the team that will undertake a cost–benefit analysis of the alternatives proposed. Bridie has provided the team with a breakdown of the costs and benefits of each alternative (see table 3 and table 4).

Table 3 A breakdown of costs and benefits for Uncle Bill's: Alternative 1 — new gluten-free products

	Costs	Benefits
Monetary	Raw materials (ingredients): $12 million Factory overheads — salaries, insurance, power, repairs and maintenance: $8 million Transportation: $1 million	Improve market share by 5% Sales of $50 million

	Costs	Benefits
	Packaging/labelling: $2 million Selling/distribution: $3 million Research and development — salaries, other overheads: $4 million	
Non-monetary	Extra workload for staff	New research and development which could benefit the business in the future Building a positive image among customers and potential customers Empower staff (as they are involved in the development of the new product) and improve corporate culture

Table 4 A breakdown of costs and benefits for Uncle Bill's: Alternative 2 — modification of existing products

	Costs	Benefits
Monetary	Raw materials (ingredients): $12 million Factory overheads — salaries, insurance, power, repairs and maintenance: $8 million Transportation: $1 million Packaging/labelling: $2 million Selling/distribution: $3 million	Improve market share by 4% Sales of $40 million
Non-monetary	Some staff may be dissatisfied with using ideas from other countries when local ideas could have been used. Loss of customers who may be dissatisfied with products that are designed for overseas markets	Research and development team will be free to look at other products

Construct your cost–benefit analysis by completing the following steps:

Step 1: Identify the opportunities for Uncle Bill's.

Step 2: Identify the alternatives that have been proposed to take advantage of these opportunities.

Step 3: Add up the costs and benefits of each alternative. Write down the total costs and benefits for alternative 1 and the total costs and benefits for alternative 2.

Step 4: Compare the costs and benefits for each alternative. Do the benefits outweigh the costs for one alternative or both? In your opinion, which alternative has more benefits than costs?

Step 5: Make a decision about which alternative to recommend.

Complete the following questions.

1. How did you decide which alternative to recommend?
2. Compare your decisions to the decisions made by other people in your class. How do the decisions differ? Can you explain the variation in decisions?
3. What aspect of completing a cost–benefit analysis did you find relatively easy and what did you find more challenging?
4. Reading the Olando's opportunity case study, identify the opportunities in the market for Olando's soft-drink manufacturer.
5. How did Olando's company respond to opportunities in the Australian market?

3.7 Review

3.7.1 Summary

When starting a business, the business owner has several forms of ownership from which to choose. These include sole proprietorship, partnership, corporation, cooperative and trust. Some business owners choose to operate their business as a franchise. When selecting the most suitable form of ownership, the business owner will consider their personal preferences, as well as the advantages and disadvantages of each type of business. There are many factors that influence business opportunities in the market and a number of ways that businesses can respond to those opportunities.

- Entrepreneurs assume the financial and personal risk of establishing a business with the hope of making a profit. These people demonstrate abilities such as risk-taking, initiative, problem-solving, creativity, innovation, communication and planning.
- A sole proprietorship is a business that is owned and operated by one person.
- A partnership is a business owned and operated by two or more people.
- A corporation is a business owned by shareholders.
- A cooperative is a business that is owned and operated by the group of people that it serves.
- A trust is a business created to hold property or assets for the benefit of another person or a group of people.

- A franchise is the situation in which a business sells the right to distribute its products under its name to other individuals or businesses.
- Business opportunities are influenced by factors including demographics, target market, competition and location.
- A business can respond to opportunities by following a process to develop new products to satisfy demand or by changing the way products are delivered to consumers.

3.7.2 Your turn

1. What is a cost–benefit analysis?
2. Why is preparing a cost–benefit analysis useful?
3. Read the case study below and then answer the following questions:
    a. What form of business ownership does Food Orbit have? Explain your answer.
    b. Outline the advantages and disadvantages of this form of ownership.
    c. Explain why you think the founders of Food Orbit might have chosen to use this form of ownership rather than another.
    d. Identify the opportunities in the market for Food Orbit.
    e. Explain how James Nathan and Melissa Foster responded to opportunities in the Australian market.
    f. What has happened to Food Orbit since the launch of the website?

Case study

Food Orbit

In 2013 Food Orbit Pty Ltd started a website designed to connect local farmers and growers with wholesale buyers of food, including restaurant chefs. When the website launched, Food Orbit's founder and CEO James Nathan said, 'We're trying to change the food system. We're shortening the supply chain. We're cutting out the middleman. We're effectively doing this to be able to give farmers a fair price.' Food Orbit has a vision: 'To see every café, restaurant, school, canteen, caterer, hospital and hotel all using locally sourced, sustainable food.'

Figure 1 James Nathan, founder and CEO of Food Orbit

Mr Nathan and his co-founder, Melissa Foster, spoke to growers at farmers markets and toured properties, signing farmers up for their website. They also spoke to chefs. To raise awareness of local producers they staged a series of local produce dinners with Tom Walton, head chef of The Bucket List, a seafood restaurant in Bondi. They did this to showcase the farmers and to prove that their model of connecting farmers with restaurateurs worked.

Since launching the online ordering platform Mr Nathan has been seeking funding for the technical and sales resources needed to grow the business. In early 2014, Food Orbit partnered with Marketboomer, a business owned by Australian stock exchange listed Qanda Technology. Marketboomer supplies large hotel chains and Qantas lounges and has relationships with thousands of wholesalers. Food Orbit has now changed its focus from creating a 'one-stop shop' to connecting chefs with all of their suppliers.

'We started up quite small and tried to expand the amount of local produce restaurants were buying through us. But unless you are supplying a substantial portion of chefs' needs and making their life easier, you won't get much traction', says Mr Nathan.

The objective for Food Orbit now is to grow nationally and perhaps expand into New Zealand and the United Kingdom.

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