CHAPTER 4

Business growth and decline

4.1 Introduction

Businesses are similar to people in that:
• no two are identical
• each has its own identity
• they are referred to by name or brand
• they possess individual personalities and physical appearances
• they are confronted by life’s challenges
• they sometimes succeed and at other times fail
• they rely on each other for survival.

However, the most striking similarity is that, like people, a business will pass through a number of distinct stages as it develops. This is referred to as the business life cycle. The business life cycle is a model; that is, a simplified version of ‘real-life’ situations. Using a model makes it easier to understand the complexities of the business world. The four main stages in the life cycle of a business are shown in figure 4.1.

**BizWORD**

The business life cycle refers to the stages of growth and development a business can experience.

**FIGURE 4.1** The four stages of the business life cycle. The graph shows a smooth line with sales increasing up to the post-maturity stage. In reality, the growth in sales will usually show minor increases and decreases within each stage. The line we have drawn represents the average sales changes.
In each stage of the cycle a business is confronted with new challenges — as well as being presented with different opportunities. The nature, operation and organisation of the business changes as the business progresses from one stage to the next. As this occurs, the business owners need to constantly develop strategies to deal with its expansion. To do this successfully, owners must continually assess the business’s position on the life cycle. This is important, otherwise inappropriate strategies will be put in place and jeopardise the ‘life’ of the business. However, the reality is that it can often be difficult for owners to determine their position on the life cycle because they fail to recognise the changes taking place.

There is one very important difference between the human and business life cycles — with the business life cycle, there is no set time limit for each of the stages. For example, some businesses can reach maturity in a short period of time, whereas another business may take decades to move beyond the establishment stage.

Some businesses are able to constantly renew themselves over a long period of time. As they do so, they continually grow and expand, often becoming dominant within their specific market.

Some Australian businesses have also expanded to become global businesses. Often these businesses are forced to compete with foreign suppliers as well as attempting to sell their products overseas. The Australian company PaperlinX Limited, the world’s leading global fine paper seller and retailer of the Reflex brand, is an example of how one business has responded to these influences. Its diverse range of businesses distribute paper, sign and display materials, and provide graphics solutions and industrial packaging to a wide range of customers in Australia, New Zealand and Asia, Europe and North America. PaperlinX, with its global headquarters in Melbourne, also operates regional management teams in Amsterdam and Los Angeles. Cardboard and paper products are bought in bulk from paper mills around the world and sold in smaller quantities and custom sizes to customers. It has operations spanning five continents and 26 countries, and employs approximately 5800 people. PaperlinX is now truly ‘global’ in the distribution of its operations, and derives approximately 75 per cent of its sales revenue from foreign transactions.
Occasionally businesses run into financial difficulty and are forced to restructure. Some of Australia’s large businesses, such as Coles, have followed this pattern (see the following Snapshot).

The life of Coles — a constantly renewed business

Consider the variety of stores located in your local shopping complex. There will probably be a Coles, a Kmart or Target variety store, and perhaps a Liquorland outlet or Officeworks shop. All of these businesses were once part of the Coles Group.

Coles: early beginnings

For almost one hundred years, Coles has had a rich history in Australia. Coles, one of Australia’s largest retailers, traces its origins back to a small business retailer.

The first G. J. Coles variety store was opened in Collingwood, Victoria, in 1914 by Mr GJ Coles and his brother Mr JS Coles. It employed six staff. A particular feature of the store’s pricing policy was that no item on sale would cost more than one shilling (equivalent to ten cents). Over the ensuing years both businesses expanded and prospered.

By the mid 1920s Coles had opened its Bourke Street, Melbourne, store. The business developed successful marketing strategies and offered a wide range of products that satisfied the tastes and preferences of their customers.

During the Great Depression of the 1930s Coles continued to grow. Sales increased as their products were offered at affordable prices to a large range of customers. Its success reflected the philosophy of its managing director of the time, Sir AW Coles, who wrote, ‘A store has no right to succeed just because it is open for business and has a bright display. The goods must reflect the wishes of the community in which the store is located.’

Post–World War II growth

After World War II, Coles consolidated its position within the Australian retail industry by acquiring a number of department, chain and grocery stores in other states.

• In 1960 Coles opened Australia’s first supermarket.
• In 1969 Coles established Australia’s first discount store, Kmart.
• By 1975 Coles, with 559 stores and 36 000 staff, became the first Australian retailer to achieve more than $1 billion of sales in a single year.
• In 1978 Coles became the second largest private employer of labour in Australia, with more than 50 000 employees.
• In 1982 Coles developed the discount store concept further: it opened its first Super Kmart store.

Coles–Myer merger

In 1985 Coles and Myer — a major retailer that had started in Melbourne in 1900 — merged to form one company — Coles Myer Limited. After the merger the business continued to grow, introducing new retailing strategies such as EFTPOS and Fly Buys, and developing a number of concept stores such as Officeworks and Harris Technology.

At its peak, Coles Myer Limited was Australia’s biggest retailer with 1900 stores throughout Australia and New Zealand, and was Australia’s largest single employer with 165 000 employees.

During the late 1990s and early 2000s, Coles Myer Limited encountered trading difficulties and was underperforming due to senior management difficulties, IT and supply problems, and too much of an overlap between each division, resulting in...
them competing for the same market share. For example, Target and Kmart attracted a similar type of customer, as did Myers and Grace Bros. (Myer bought Grace Bros Holding Limited in 1983.)

**Wesfarmers takeover**

In 2006 the Coles Myer Limited board finally accepted that the mega-merger had failed and sold the Myer chain to a consortium led by private equity firm Texas Pacific Group Capital, with Blum Capital and the Myer Family Company Pty Ltd.

Following the de-merger, the Coles group continued to struggle against its main rival, Woolworths Limited. Its financial performance deteriorated with a resultant fall in profits. It was ripe for a takeover (acquisition), which occurred in late 2007 when the Perth-based conglomerate Wesfarmers — one of Australia’s largest public companies — paid $22 billion to buy the Coles retail empire. At the time, this was the largest takeover in Australian history.

Over the past few years, Wesfarmers has been successful in turning around the performance of the Coles division, largely due to improvements in the performance of Target and the Coles supermarket chain. It has streamlined the supermarket division by selling 45 Coles stores and eight Liquorland outlets to the independent grocer FoodWorks for $35 million. The sale was part of Wesfarmers’ five-year plan to improve its network of over 700 supermarkets and more than 600 Liquorland stores.

Today, Coles is a leader in Australian food retailing, with more than 100,000 employees and over 18.6 million customer transactions a week.

**Snapshot questions**

1. **Identify** the main reasons for the success of Coles up to the 1920s.
2. Many businesses failed during the 1930s Great Depression. **Clarify** why Coles was able to not only survive but prosper.
3. **Describe** the term ‘merger’.
4. **(a) Outline what new**
   (i) retail strategies and
   (ii) concept stores were introduced after the merger with Myer.
   **(b) Propose** the reasons for the introduction of these changes.
5. **State** the main reasons for the merged company’s underperformance.
6. **Describe** the term ‘takeover’ (acquisition).
7. **Outline** the strategies Wesfarmers used to improve the performance of Coles.
8. **Use the Wesfarmers weblink in your eBookPLUS and access the Wesfarmers group structure. Explain** the benefit for Wesfarmers in having such a diversified range of business operations.

**Summary**

- The business life cycle refers to the stages of growth and development a business can experience.
- The stages are: establishment, growth, maturity and post-maturity.
- In each stage of the cycle, a business is confronted with new challenges and presented with different opportunities.

**Revision**

1. Examine figure 4.1 (page 86) and then answer the following questions.
   **(a) Identify** the four stages of the business life cycle.
   **(b) Propose** why the size of a business is directly related to the amount of sales.
2. Figure 4.1 is referred to as a model. **Explain** how using models can help our understanding of the real world.

**Weblink**

Use the Coles and Wesfarmers weblinks in your eBookPLUS to discover more about the history and ownership of Coles.
3 **State** why it is important for business owners to assess the business’s position on the life cycle.

4 **Explain** why PaperlinX is considered a ‘global’ business.

**Extension**

1 There are daily examples of businesses that have suffered because they failed to manage their growth satisfactorily.

   (a) **Identify** two businesses you are aware of that have suffered because they failed to manage their growth.

   (b) **Investigate** the main reasons for both their rise and decline.

2 According to Edward De Bono, ‘Success in business would seem to depend much less on natural talent and a lot more on thinking and personality factors. Certainly success in business often seems spurred by a desire to make things happen.’

   (a) **Justify** this statement.

   (b) **Investigate** the ‘thinking and personality factors’ a successful businessperson would possess.

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**4.2 Business life cycle — stages and responding to challenges**

Each stage of the business life cycle has its own special features and challenges. This section will examine the main features of each stage before considering the challenges experienced at each stage. This information will be presented in a table format to help you to compare and contrast the different stages. We will also identify actual businesses at different stages in the business life cycle and observe how they respond to the different challenges of each stage.

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**Establishment stage**

The first stage in the life of a business is its birth — or establishment. Like human babies, recently established businesses are also vulnerable as their hold on ‘life’ is quite precarious. The overriding concern is to get the business on a solid foundation. This requires enough sales to be generated to bring in the much needed income, which will be used to pay expenses and to generate a positive cash flow.

The main features and associated challenges of the establishment stage are outlined in table 4.1.

Establishing a business is not always easy. A number of challenges need to be responded to at the establishment stage. To overcome these challenges, the aspiring business owner needs to become involved in some basic planning. Detailed planning undertaken when establishing the business can help greatly reduce the risk of failing and becoming just another business failure statistic. (Business planning will be examined in detail in later chapters.)

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**BizWORD**

**Cash flow** is simply the money coming into the business in the form of cash receipts, and the money leaving the business as cash payments.

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**TABLE 4.1 Establishment stage: main features and associated challenges**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative names</td>
<td>Start-up, birth, beginning, commencement</td>
</tr>
<tr>
<td>Goals</td>
<td>Survival, and setting a firm foundation for future growth</td>
</tr>
<tr>
<td>Sales</td>
<td>Normally begin slowly and are somewhat erratic</td>
</tr>
<tr>
<td>Marketing</td>
<td>Highlight product advantages by accentuating the product’s strengths. Undertake inexpensive promotion strategies</td>
</tr>
<tr>
<td>Feature</td>
<td>Challenges</td>
</tr>
<tr>
<td>----------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Profit</td>
<td>Usually slow to begin with, occasionally a loss. Sometimes all the profits are put back into the business to ensure its survival.</td>
</tr>
<tr>
<td>Financial management</td>
<td>Greatest source of start-up capital is from the owner’s personal savings. This can be supplemented with a loan from a financial institution, although such finance is often difficult to obtain because of the high risks involved.</td>
</tr>
<tr>
<td>Cash flow</td>
<td>Sometimes erratic, with a period of constant cash outflow in the early stages.</td>
</tr>
<tr>
<td>Costs</td>
<td>Very high fixed costs. Major cost items include premises, equipment, raw materials and insurance.</td>
</tr>
<tr>
<td>Customers</td>
<td>Establishing a customer base large enough to sustain future viability is important. Need to develop a positive relationship with customers. Attempt to accurately forecast customers’ needs.</td>
</tr>
<tr>
<td>Management</td>
<td>Informal, with all decisions being made by just one or two people. Decisions are often made ‘on the run’.</td>
</tr>
<tr>
<td>Employees</td>
<td>Normally only a few. Owner establishing work routines and building up relationships.</td>
</tr>
<tr>
<td>Failure rate</td>
<td>Very high, up to 33 per cent within the first year of trading.</td>
</tr>
<tr>
<td>Main problems</td>
<td>Lack of money with possible cash flow shortages.</td>
</tr>
<tr>
<td>Risk level</td>
<td>Extremely high, especially within the first few months. High degree of uncertainty.</td>
</tr>
<tr>
<td>Business entity</td>
<td>Usually sole trader or partnership.</td>
</tr>
</tbody>
</table>

**Cavalicious — establishment stage**

The Cavallaro brothers had a good understanding of what was required to own and operate a patisserie café. With over 15 years’ experience as a pastry chef from the eldest brother Andrew, and more than 15 years’ hospitality and customer service experience from the other two brothers, Michael and Matthew, the boys decided to combine these skills to start a business together.

After completing some market research and preparing a comprehensive business plan, the Cavallaro brothers organised a bank loan to help fund their venture. They used the funds obtained from the loan to purchase a rundown pizzeria in the heart of Gladesville. With the carpentry skills of Michael, the shop was revamped into a modern looking patisserie.

The boys decided to form a private company as opposed to a partnership so that they would benefit from the protection given by limited liability. The brothers did not want to be personally liable for the financial obligations of the business and put their personal assets at risk. While all the owners play an equal role in management decisions, they each contribute their own specialist...
skills, knowledge and talents and have their own unique role to play within the business.

The first few months were very hard. They opened the doors in January and found it quite slow because many people and businesses in the local area were on holidays. It took a few months for sales to pick up and for the business to generate a positive cash flow. Their biggest challenge, however, was getting to know the needs of their target market, determining what pastries and foods were popular and forecasting the correct quantity of each food item they should supply, since everything is made fresh on the premises daily.

The owners didn’t have a lot of funds to spend on marketing, so they organised letter box pamphlet drops in the local area, as well as a write-up about their business in the local newspaper to attract interest. They also undertook other inexpensive forms of promotion, such as daily specials, to draw customers in.

After those initial months, their sales and profits steadily increased and the business soon began to acquire a reputation for excellent cakes, pastries and light meals. Just a few years on, their cake orders continue to increase and they have almost outgrown their small premises. Their skills, experiences and delicious produce have put the business on a firm foundation.

Snapshot questions
1. Outline why the Cavallaro brothers decided to form a private company.
2. Summarise the challenges faced by the owners during the establishment phase.
3. Deduce the factors that have contributed to the business’s success.

Summary
- The main challenge at the establishment stage is to get the business on a solid foundation by generating enough sales to create a positive cash flow.
- Detailed planning can help greatly reduce the risk of failing.
- Small businesses, such as a sole trader or partnership, have unlimited liability: when the business owner is personally responsible for all the debts of his or her business.

Growth stage
The second stage is a time of accelerating growth. Sales increase and the cash flow is normally positive. A customer base has been established with regular clients accounting for a large percentage of total sales. The business undertakes the development of new products to satisfy different market segments. More emphasis is placed on marketing and the use of complex computerised accounting procedures. In family owned businesses, other members of the family usually take up specialised supervisory and management roles. The business has somewhere between 10 and 15 employees. Loyalty to the business is strong, with many of these businesses taking on the culture of an extended family. The business has a good reputation in the community, and owners develop a sense of pride in the products and personal service on which the business has built and flourished. However, with growth comes complexity, responsibility and the need for long-term planning.

The main features and associated challenges of the growth stage are outlined in table 4.2.

BizFACT
During the growth phase it becomes essential for the business owner to develop long-term plans.
<table>
<thead>
<tr>
<th>Feature</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative names</td>
<td>Take-off, growth spurt</td>
</tr>
<tr>
<td>Goals</td>
<td>To constantly increase the average level of sales; to continue growing through mergers and takeovers; to diversify business activities</td>
</tr>
<tr>
<td>Sales</td>
<td>Rapid increase, especially in the early stages of the growth phase. New products introduced and some slow-selling products deleted</td>
</tr>
<tr>
<td>Marketing</td>
<td>Development of new products to satisfy market niches. Price discounts due to lower production costs. Extensive promotional activities and a widening distribution network. Desire to increase market share by using mass-marketing techniques</td>
</tr>
<tr>
<td>Profit</td>
<td>Should increase due to rising sales and falling production costs. As well, profits of other businesses acquired through acquisition (takeover) or merger are available for use.</td>
</tr>
<tr>
<td>Financial management</td>
<td>Use of sophisticated, computerised accounting procedures and systems. Raising of finance tends to be easier. Main sources of finances are from financial institutions, the selling of shares or taking on more partners.</td>
</tr>
<tr>
<td>Cash flow</td>
<td>Difficulties can be experienced if the growth is too rapid. Adequate cash flow must be maintained to continue expansion. A credit policy needs to be organised. Forecasting of sales and expenditures becomes more crucial.</td>
</tr>
<tr>
<td>Costs</td>
<td>Production costs tend to decrease due to economies of scale — that is, cheaper unit costs due to larger production runs. Business becomes more efficient in areas of administration, finance and production.</td>
</tr>
<tr>
<td>Customers</td>
<td>Concentration on satisfying existing customer base while at the same time tapping into new market, both domestic and overseas. Mass markets become a possibility.</td>
</tr>
<tr>
<td>Management</td>
<td>Delegation of some responsibilities. Development of a formalised organisational structure. Introduction of line managers (supervisors). Clear lines of communication become essential. Specialist departments are established. Some functions may be outsourced.</td>
</tr>
<tr>
<td>Employees</td>
<td>Increased specialisation of workforce requiring formal and informal training. Human resource strategies need to be implemented, especially in compiling job analyses and descriptions.</td>
</tr>
<tr>
<td>Failure rate</td>
<td>Lessened, especially after successful mergers or takeovers, which result in increased diversification and reduced competition</td>
</tr>
<tr>
<td>Main problems</td>
<td>Expanding too rapidly and therefore losing control of the business’s direction. Moving away from the core business activities — that is, what the business originally produced. Business may not have enough experience in the new areas. The need for finance to continue with the growth</td>
</tr>
<tr>
<td>Risk level</td>
<td>Reduced, due to diversification and less competition. However, if borrowings increased too rapidly the business may leave itself exposed — that is, with liabilities far greater than its assets.</td>
</tr>
<tr>
<td>Business entity</td>
<td>Usually some form of incorporated entity; private or public company</td>
</tr>
</tbody>
</table>
Trudy Croad decided to enter the wedding industry after working in events most of her life, including as the marketing director of Australia’s leading bridal magazine *Bride to Be*. Her previous experience, strong marketing background and her sister’s wedding provided the inspiration to set up a business in 2007, Events by Design, which offers brides-to-be wedding planning, styling and fashion advice.

Keen to grow, Trudy purchased another business called Maleny Weddings in 2010 and ran the two brands side-by-side. This acquisition allowed Trudy to expand her business from Noosa into the Hinterland of the Sunshine Coast. In that same year, another business launched in Sydney also called Events by Design. This led to some confusion as many customers thought they were the same business. Trudy was also finding it difficult to run two businesses simultaneously. She considered these problems carefully and decided to merge her two businesses together and create a new brand, Lovebird Weddings.

Even though the business has been faced with increasing competition and has been operating in a tough economic environment, Lovebird Weddings has experienced increasing sales and profits each year. As a result, Trudy has hired more employees to help her keep up with the increasing demand.

Trudy believes that that the following factors are integral to sustaining growth and achieving business success:

- **Business planning and budget analysis:** Trudy updates her business plan each January. This provides her with a crucial analysis of the business’s performance and allows her to set goals for the year ahead. ‘Without this, we travel blindly.’
- **Relationship management:** Lovebird Weddings places a strong emphasis on managing and improving relationships with their venues and suppliers.
- **Media and marketing:** Trudy employs a social media expert to update and manage this aspect of her business on a regular basis.
- **Product development:** Trudy always ensures Lovebird Weddings are leaders in new trends in styling.
- **Systems management:** Trudy is always finetuning the business’s internal systems to ensure smoother and more efficient client management.

Lovebird Weddings has continued on its growth path through diversifying its business activities. Trudy initially started out as a wedding planner, but she recently spotted a gap in the market for high-end furniture for weddings. She therefore decided to branch out into reception décor and launched her own Lovebird Weddings signature furniture range, which has doubled her annual revenue. This diversification has proved to be fruitful and now equates to 75 per cent of her total revenue.

While Trudy Croad has been successful so far, she is still keen to keep growing her business through increasing sales as well as through diversification. She is planning on launching a book in 2014 and is always looking into other revenue generating opportunities.

**Snapshot questions**

1. **Identify** the characteristics that indicate that Lovebird Weddings is in the growth stage of the business life cycle.
2. **Outline** the challenges that Trudy Croad has faced while in the growth stage.
3. **Summarise** the factors Trudy Croad believes have been integral to achieving growth.
4. **Propose** some strategies you think the business should adopt to guarantee future growth and success.
During the growth stage the business must continually improve its competitive edge. Failure to do so will see competitors take away customers and the growth will stall. Owners tread a fine line in attempting to do this — a desire not to radically alter a successful formula while at the same time restructuring sufficiently to match what the competitors are doing.

Business growth and expansion can occur in a number of ways. One method frequently used is to integrate with other businesses through a merger or an acquisitions (takeover) (see figure 4.4).

**FIGURE 4.4 Methods of business expansion: merger and acquisition (takeover)**

A **merger** occurs when the owners of two separate businesses agree to combine their resources and form a new organisation. An **acquisition** (takeover) occurs when one business takes control of another business by purchasing a controlling interest in it.

Sometimes a merger or acquisition is motivated by the desire for a business to continually expand its range of products. No product will last forever; eventually, it will become obsolete. A merger or acquisition is often an effective way a company can quickly increase its range of products. At other times, a merger or acquisition is undertaken to eliminate competition in the marketplace.

There are several different types of mergers or acquisitions. Three types are described below.

- **Vertical integration** occurs when a business expands at different but related levels in the production and marketing of a product.
  
  When a business integrates with one of its suppliers this is referred to as backward vertical integration; for example, if a bakery acquires a wheat farm. Forward vertical integration is when a business integrates with a firm it sells to. For example, the bakery could merge with a supermarket chain that sells its bread (see figure 4.5).

- **Horizontal integration** occurs when a business acquires or merges with another firm that makes and sells similar products; for example, if a bakery merges with or is acquired by another bakery (see figure 4.5).

- **Diversification** (or conglomerate integration) occurs when a business acquires or merges with a business in a completely unrelated industry. For example, diversification occurs if a bakery merges with a furniture manufacturer (see figure 4.5).
Summary

- During the growth stage the business has increased sales, a regular customer base, develops new products and improves its cash flow.
- With growth comes complexity and responsibility, which creates the need for long-term planning.
- Growth and expansion can occur either through a merger or acquisition (takeover).
- A merger occurs when the owners of two separate businesses agree to combine their resources and form a new organisation.
- An acquisition (takeover) occurs when one business takes control of another business by purchasing a controlling interest in it.
- Vertical integration occurs when a business expands at different but related levels in the production and marketing of a product.
- Horizontal integration occurs when a business acquires or merges with another firm that makes and sells similar products.
- Diversification (or conglomerate integration) occurs when a business acquires or merges with a business in a completely unrelated industry.

Revision

1. **Explain** why generating a positive cash flow is crucial for the survival of a business at the establishment stage.
2. **Examine** table 4.1 (page 90). **Construct** a mind map to show the main features of a business at the establishment stage.
3 One-third of all small businesses fail within the first year of operation. Propose why the failure rate is so high.

4 Outline three challenges that you believe to be the most serious for a business to confront while at the establishment stage. Justify your selection.

5 Clarify why the growth stage can be a difficult stage to manage effectively.

6 Examine table 4.2 (page 93). Construct a concept map to show the main features of a business at the growth stage.

7 Outline three challenges that you believe to be the most serious for a business to confront at the growth stage. Justify your selection.

8 State what often motivates businesses to merge or make acquisitions.

9 You are the owner of Elite Furniture, a business that makes specialty furniture. Construct a diagram to show how your business could expand using:
   (a) vertical (backward) integration
   (b) vertical (forward) integration
   (c) horizontal integration
   (d) diversification/conglomerate integration.

**Extension**

1 Arrange an interview with a local business owner. Create a two-page written or five-minute oral report. You might wish to develop your report under the following headings:
   (i) reasons for establishing the business
   (ii) brief history of the business
   (iii) success and failure along the way
   (iv) financial record keeping.

2 Are the advantages of small business really advantages? Wouldn’t every small business owner like his or her business to grow into a large firm? Discuss.

3 Investigate a recent merger or acquisition. Outline the main objectives for the merger or acquisition.

4 ‘Mergers and acquisitions reduce competition in the marketplace. They may be a successful business tactic, but they leave the consumer worse off.’ Evaluate the accuracy of this statement.

**Maturity stage**

This third stage of the business life cycle presents unique challenges to the owner. It requires a great deal of rethinking about how the business should be operated to guarantee survival. At this time, the owner realises that the business could easily lose the energy, enthusiasm and vitality of its earlier times. A sense of complacency often envelopes the business, affecting both management and staff. What is now required is a more formal, professional approach to planning.

With such a realisation may come the need to completely restructure and reorganise the business, which can sometimes be quite a painful experience. The business might lose its ‘family’ atmosphere and be replaced with a more clinical, professional culture. The size of the business dictates a more formal organisational structure. The difficulty is to introduce these changes without destroying the entrepreneurial spirit that laid the foundation for the business’s success.

However, as figure 4.1 reveals (page 86), sales are still increasing but at a slower rate. The growth stage has slowed. This is an early warning signal of imminent
danger — possible decline. The main features and associated challenges of the maturity stage are outlined in table 4.3.

**TABLE 4.3 Maturity stage: main features and associated challenges**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative names</td>
<td>Market saturation, market hardening</td>
</tr>
<tr>
<td>Goals</td>
<td>To maintain profits at pre-existing levels</td>
</tr>
<tr>
<td>Sales</td>
<td>Rate of growth slows and eventually flattens out; plateauing.</td>
</tr>
<tr>
<td>Marketing</td>
<td>Maintain customer and brand loyalty through extensive advertising. Due to increased competition, relative market share may decline. Need to improve quality of products</td>
</tr>
<tr>
<td>Profit</td>
<td>Rate of growth slows, eventually flattening out. Reflects what is happening to the level of sales</td>
</tr>
<tr>
<td>Financial management</td>
<td>All the correct procedures are in place, but their efficiency needs to be improved to protect the profit margin. Finances should be devoted to advertising and development of new products.</td>
</tr>
<tr>
<td>Cash flow</td>
<td>If costs are not able to be controlled, then the cash flow position starts to deteriorate.</td>
</tr>
<tr>
<td>Costs</td>
<td>Keeping costs under control is now essential. Need to improve efficiency to keep costs down, otherwise profits will start to fall even further</td>
</tr>
<tr>
<td>Customers</td>
<td>Due to the size of the business, customers may sense a degree of impersonality. Business is in danger of losing the personalised service that gave the business success in previous stages.</td>
</tr>
<tr>
<td>Management</td>
<td>Leadership is crucial. Need to redefine the business’s objectives and vision. The organisation’s hierarchy becomes too entrenched and unable to quickly adapt to new conditions. Many new regulations and ‘red tape’ that will strangle any initiative</td>
</tr>
<tr>
<td>Employees</td>
<td>Introduce a work team approach, devolving responsibility to employees to avoid complacency. Introduce quality programs such as total quality management or quality circles.</td>
</tr>
<tr>
<td>Failure rate</td>
<td>Will increase the longer the business takes to react and reverse plateauing sales</td>
</tr>
<tr>
<td>Main problems</td>
<td>Rate of increase in sales begins to falter, sometimes flattening out. Loss of initial enthusiasm. Air of complacency starts to dominate.</td>
</tr>
<tr>
<td>Risk level</td>
<td>If costs are not controlled and management becomes slow to respond to market demand, then cash flow falls and the level of risk increases.</td>
</tr>
<tr>
<td>Business entity</td>
<td>Normally, no change in the beginning although, if the situation deteriorates, parts of the business may be sold off. Program of downsizing and selling off non-core business activities</td>
</tr>
</tbody>
</table>
The rate of increase in profits has begun to plateau.

SNAPSHOT

David Jones — maturity stage

The iconic department store, David Jones, began in 1838. The company is the oldest department store in Australia as well as one of the oldest in the world. One hundred and seventy-five years later, David Jones has pioneered many advances in retail and currently has 38 stores across Australia.

After years of continued growth, a disturbing trend has been noticeable for the past few years. The rate of increase in profits has begun to plateau. Their underlying profit for the 12 months to the end of July 2013 was $101.6 million, almost unchanged from $101.1 million the previous year. David Jones has been affected by the ongoing weakness in the retail sector characterised by consumer uncertainty, intense price competition, heavy discounting and a warmer winter. They’ve also been affected by changes in consumer shopping habits, such as the increase in online shopping, as well as the new competitors that have entered the Australian market.

In response, David Jones has decided to focus on managing those parts of the business they can control such as costs, inventory and gross profit margins. They have established a cross-functional ‘innovation’ team and have created a new role dedicated to customer innovation in an attempt to innovate in line with changing consumer shopping habits. They’ve rolled out new technology in an attempt to transform themselves from a bricks and mortar retail model. David Jones is focusing on lifting online sales, and improving margins and customer service by increasing staff hours and improving the visibility of staff on the shop floor. The company is also investigating the possibility of developing a high rise apartment building, hotel or office block above their Sydney store.

David Jones has changed over the years and is in a crucial stage of its development. In an attempt to renew themselves the company has refreshed their future strategic direction and sought the assistance of an international consulting firm.

Snapshot questions

1. Recall why David Jones’s rate of growth has slowed.
2. Outline the strategies David Jones has proposed to help respond to the challenges it faces.
3. Propose other strategies David Jones could implement to help increase sales.

Summary

• The maturity stage requires a more professional approach to planning.
• In the maturity stage, the rate of growth slows and eventually flattens out; an early warning sign of possible decline.
• A sense of complacency often envelops the business.
• Managers may need to restructure or reorganise the business.

Post-maturity stage

Once a business reaches this, the final stage, it is faced with three possible outcomes, these being:
1. Steady state — the business continues to operate at the level it has been during the maturity phase
2. Decline — falling sales and profits ultimately resulting in business failure
3. Renewal — increasing sales and profits due to new growth areas.

The post-maturity stage represents many opportunities but also many threats. The decisions made by the owner will be crucial for the future survival of the business. By constantly monitoring the business environment, the business owner should be able to select the most appropriate path for the business to take.
Steady state

A business in a steady state is neither declining nor expanding. It is much like an aeroplane flying in a holding pattern. Such a business is satisfying customer demand and maintaining profit levels. It displays some of the characteristics of a business in the maturity stage. One significant difference, however, is that it does not continue expenditure on research and development. The owner is more content to produce what it has in the past and rely on marketing replacement products.

However, just as an aeroplane cannot maintain this position forever, neither can a business. Eventually the business environment will change and the business will be adversely affected. Perhaps customers’ tastes change or new competitors enter the market with superior products, or more efficient methods of production and cheaper products. Ultimately, this steady state becomes very unstable and the business stagnates. It eventually loses sales and its competitive edge. When this occurs, the business enters another stage of the business life cycle — decline.

Decline

As customers stop buying the business’s products the cash flow will be seriously affected. Eventually profits will also decline. This process of decline becomes difficult to reverse for the following reasons:
1. It becomes difficult to borrow money because financial institutions are reluctant to lend money to high-risk businesses.
2. Suppliers will restrict their credit facilities and may insist on cash payments.
3. Products become obsolete, leaving the business with unsold stock.
4. Well-qualified employees may begin to leave and seek better opportunities.

The longer the business attempts to ‘stagger on’, lurching from one crisis to the next, the greater the risk of failing and ceasing operations — cessation. We will examine the procedures involved in voluntary and involuntary cessation at the end of this chapter.

FIGURE 4.6 To reverse a decline in sales, a business may offer discount prices to attract more customers. This strategy rarely succeeds in saving the business from further decline.
Renewal

Business decline can be avoided by carefully planned strategies that result in new markets being tapped and satisfying previously unmet demand. The business undergoes a revival. Sales, cash flow and profits all begin to increase once again. Even a business in decline can be turned around and placed on a path of renewal. It is very difficult to accomplish and takes an enormous effort by both owners and employees, but it is possible.

The key to achieving a long-term, sustainable recovery in sales is to focus production on what the customers are presently demanding — even if this means abandoning once-successful products. As well, an extensive market research program needs to be undertaken to assist in the forecasting of future consumer trends. The more successful the forecasting, the more able the business is to be proactive; that is, it can anticipate and plan for future changes. Businesses that tend to be reactive; that is, respond to changes after they have occurred, usually respond too late and lose valuable market share. Renewal is as much about planning and timing as it is about successful marketing strategies.

The main features and associated challenges of the post-maturity stage of renewal are outlined in table 4.4.

| TABLE 4.4 Post-maturity stage — renewal. Main features and associated challenges |
|---------------------------------|------------------------------------------------------------------------------------------------|
| Feature                        | Challenges                                                                                     |
| Alternative names              | Regeneration, revival                                                                          |
| Goals                          | To increase sales, cash flow and profits. Seek out and exploit previously unmet demand in new markets. Undertake further diversification and integration. Sell off any unprofitable non–core related activities or assets. |
| Sales                          | Increase over time, especially as newer products are brought onto the market and new markets exploited |
| Marketing                      | Conduct market research analysis to determine customers’ wants and identify any changes. Advertise in new market areas. Identify new market niches. |
| Profit                         | Will improve over the long term, reaching higher levels than previously achieved |
| Financial management           | May need to issue new shares to raise finance to assist with research and development            |
| Cash flow                      | May decline in the short term as money is spent on research and development of new products and markets |
| Costs                          | Research and development, marketing, integration and restructuring costs will be high in the short term. |
| Customers                      | New markets exploited; explore possibility of exporting                                          |
| Management                     | Implement an organisational development program to realign the objectives, vision statement and organisational structure so it fits in with the new environment. |
| Employees                      | Open and honest communication is essential. Employees need to be fully aware of where the business is headed, how the new goals are to be achieved and how individual jobs may be affected. Need to overcome possible resistance to change |

(continued)
TABLE 4.4 (continued)

<table>
<thead>
<tr>
<th>Feature</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure rate</td>
<td>Has been lessened compared to the maintaining or steady state phase</td>
</tr>
<tr>
<td>Main problems</td>
<td>Anticipated sales may not eventuate due to inaccurate forecasts, poor timing or inappropriate marketing strategies. Initial costs are high, with cash flow shortfalls in the short term. Employees may become disenchanted with the restructuring and having to adapt to constant change.</td>
</tr>
<tr>
<td>Risk level</td>
<td>Undertaking any new strategy involves some degree of risk. Risk minimisation techniques can help reduce the exposure to risk.</td>
</tr>
</tbody>
</table>

Fairfax Media Ltd — post-maturity stage: renewal

Fairfax Media Ltd is a leading multi-platform media company in Australasia. More than a decade ago, 80 per cent of its revenue came from two newspapers — the Sydney Morning Herald and The Age. A few years ago, the company realised that print media was declining and digital viewership was growing. The company had to work out how to adapt from print to digital.

Fairfax made the decision to diversify around 2009, after reporting its first net loss since the company was floated on the Australian stock market in the 1990s. There was a general agreement that the business needed to begin planning for renewal if profits were to increase in the future. As a result, Fairfax restructured its business model and began investing in digital media as well as radio brands.

Fairfax recognised both the technology trends as well as its customers’ preferences for news content and adapted its business to match. Fairfax didn’t ignore these changes in the external environment which could have destroyed the business. It was proactive: Fairfax recognised the need for change and renewed the business by developing strategies to deal with the changes. Fairfax now has a portfolio of tablet and smartphone apps as well as leading websites, including news sites and classified and transaction websites.

While the audience for its print media has declined, Fairfax’s total audience numbers have actually increased due to its rapidly expanding digital channels. Fairfax now captures its audience via print, web and mobile platforms. Today, revenue from its two main newspapers makes up only 15 per cent of the company’s total revenue, while more than 20 per cent of its revenue comes from digital channels.

Snapshot questions
1. Outline the external factors that prompted Fairfax Media Ltd to implement changes.
2. Recall Fairfax Media Ltd’s strategies for renewal.
3. Predict what could happen to the business over the next five years.

Summary
- There are three possible outcomes at the post-maturity stage: steady state, decline or renewal.
- Steady state: the business is neither declining nor expanding.
- Decline: fall in sales, cash flow and eventual business failure.
- Renewal: new products are developed and new markets are created, leading to increased sales and a positive cash flow.
Revision

1. **Clarify** why you think business owners and staff may become complacent in the maturity stage of the business life cycle.

2. **Construct** a concept map to show the main features of a business that is in the maturity stage.

3. **Outline** three challenges that you believe to be the most serious for a business to confront at the maturity stage. **Justify** your selection.

4. **Explain** why a business might need to restructure in the maturity stage.

5. **Demonstrate** how you could tell whether a business is in the:
   - (a) steady state stage of the maturity stage
   - (b) decline stage of the maturity stage.

6. **Construct** a concept map showing the main features of a business that is undergoing renewal.

7. **Outline** three challenges that you believe to be the most serious for a business to confront at the renewal stage. **Justify** your selection.

8. **Recall** the key to achieving a long-term, sustainable recovery in sales in the renewal stage.

9. **Calculate** at which stage of the business life cycle you think the business has to undergo the most radical change. Provide reasons to support your answer. **Compare** your answer with other members of the class.

10. Use the **NSW Small Business Commissioner** weblink in your eBookPLUS to answer the following questions.
   - (a) **Clarify** why you think the government provides this information.
   - (b) After viewing the introductory video, select an area that interests you and **evaluate** the information presented.

11. Complete this exercise by placing the appropriate letter in the space provided. Choose from the letters: **A** = Establishment, **B** = Growth, **C** = Maturity and **D** = Post-maturity. The first question has been done for you.
   - (a) ____ **A** Selecting a suitable location to commence trading
   - (b) ____ **B** Sales increase, but at a decreasing rate.
   - (c) ____ **C** Establishing a customer base
   - (d) ____ **D** Renewal may involve a merger or takeover.
   - (e) ____ It is sometimes difficult to keep up with the demand for the product.
   - (f) ____ If there is no improvement in sales then voluntary cessation is an option.
   - (g) ____ The business owner may become complacent.
   - (h) ____ It is in this stage that many businesses fail.
   - (i) ____ A cash flow crisis is most likely to occur.
   - (j) ____ Specialised managers are appointed and tasks delegated.
   - (k) ____ Product development is important.
   - (l) ____ The business owner is content to keep the business just the way it is.

Extension

1. Visit your local shopping centre and **identify** any businesses that appear to be in the establishment stage of the business life cycle. Arrange to interview one of these owners and **investigate** what challenges he or she experienced in starting the business.

2. Arrange to visit a local business that is in the post-maturity stage. Interview the owner and **create** a report outlining the:
   - (a) history of the business
   - (b) business organisation and structure
   - (c) strengths and weaknesses of the business
   - (d) future developments.

3. **Investigate** and **create** a report on the business renewal strategies undertaken by organisations such as KFC, McDonald’s and Subway.
4.3 Factors that can contribute to business decline

Business decline (and possible) failure is not usually caused by just one single factor but rather a combination of several. Figure 4.7 outlines several factors that could contribute to business decline.

![Factors that can contribute to business decline](image)

**However, two main causes of business decline, particularly of SMEs, are:**

1. **Lack of management expertise.** When a business either fails to prepare a business plan or fails to keep on modifying an existing plan as the environment changes, the stage is set for imminent failure. It is this situation that gives rise to the often-quoted saying: ‘Businesses don’t plan to fail, they fail to plan.’

2. **Lack of sufficient money — undercapitalisation.** Many small businesses start out on a ‘shoestring’ budget. Without sufficient capital and a positive cash flow the business will not be able to purchase stock and materials. This inevitably results in lost sales and falling profits.

**Billabong — factors leading to its decline**

Billabong is a publicly traded surfwear maker. It is engaged in the marketing, distribution, wholesaling and retailing of apparel, accessories, eyewear, wetsuits and equipment in the outdoor boardsports sector.

Billabong was founded in 1973 by Gordon Merchant with his then wife Rena. Gordon, a keen surfer, was eager to create functional clothes that made surfing more enjoyable. As the clothes grew in popularity, the business diversified and expanded through licensees into global markets.

Billabong became a global brand appealing to the young, trendy, outdoor ‘cool’ market involved in outdoor activities. In 2009 Interbrand rated Billabong eighth in the highest ranked Australian brands, with a brand value of A$2.2 million.

After years of continued growth, Billabong’s profits plummeted as competitors such as Quicksilver and Roxy stole market share and Billabong took on too much debt to fund its expansion. As a result, the company reported a net loss of more than A$800 million in 2013, its worst financial results ever. Billabong closed 158 stores and cut jobs.
Social factors have also contributed to Billabong's decline. It isn't 'cool' any more for today's youth to wear Billabong and as a consequence the company has experienced weak demand for its products and a deterioration of its brand value. Consumers have ditched expensive surf brands for sportswear and are increasingly purchasing online. Broader economic conditions as well as weak retail conditions have also affected the company. This has had an impact on consumer confidence and spending patterns.

Billabong has recently appointed a new CEO and accepted a refinancing proposal in order to revitalise the company. As it continues to restructure its global operations, only time will tell if Billabong has what it takes to survive.

**Snapshot questions**

1. Outline the internal and external factors that have contributed to Billabong's decline.
2. Propose strategies Billabong could adopt in order to avoid failure.

### 4.4 Voluntary and involuntary cessation

As mentioned in chapter 1, the world of business is one of activity, challenges, excitement, change and rewards. Many people are attracted to such a world. They have dreams, make plans, and are enthusiastic and optimistic. Because the majority of businesses are classified as small, they often reflect the character, skills and personalities of their individual owners.

A business may cease operating, either voluntarily or involuntarily. The difference between the two depends on who instigates the process (see figure 4.9 below).

**Voluntary cessation**

A business may cease operations and voluntarily wind up its affairs. Any assets owned by the business are sold. The business stops operating because the owner may wish to retire, wants a change of lifestyle or, in the case of a sole trader, has died.

However, most businesses cease to trade due to business failure. With debts increasing and a negative cash flow, a business owner will soon realise if their business is underperforming.
To prevent this accumulation of debt, the owner will need to cease operating the business of their own accord; that is, undergo voluntary cessation.

**Involuntary cessation**

Many businesses, however, finish involuntarily. The owner is forced to cease trading by the creditors of the business; that is, undergo involuntary cessation. Creditors are those people or businesses who are owed money.

Even though a business appears to be in financial difficulty, many owners continue operating in the hope that ‘things will get better’. In many cases they do not. As the business continues its decline, creditors become worried about the money they are owed and force the business owner into winding up the business.

Figure 4.10 displays the different methods available to wind up a business.

---

**BizWORD**

*Voluntary cessation* occurs when the owner ceases to operate the business of their own accord.

*Involuntary cessation* occurs when the owner is forced to cease trading by the creditors of the business.

Creditors are those people or businesses who are owed money.

---

**BizWORD**

Bankruptcy is a declaration that a business or person is unable to pay his or her debts.

Realisation is the process of converting the assets of a business into cash.

---

**Figure 4.10** Different methods available for a business to cease trading

**Bankruptcy**

Sole traders (businesses owned and operated by one person) and partnerships (businesses owned and operated by two to 20 people) may end up being declared bankrupt. Bankruptcy is a declaration that a business, or person, is unable to pay his or her debts.

Bankruptcy can be either voluntary or involuntary, with either the business owner or a creditor applying to a court for a bankruptcy order to be made. The court then appoints a representative to collect any money owed to the business. This money, along with money raised from the sale of any assets of the business (as well as some personal assets of the owner), is then divided between the creditors. The process of converting the assets of a business into cash is called realisation.
Voluntary administration

When a company is experiencing financial difficulties, it can be placed in voluntary administration.

**Voluntary administration** occurs when an independent administrator is appointed to operate the business in the hope of trading out of the present financial problems. The administrator usually has the combined experiences of a receiver, chartered accountant and investigator. The administrator’s main tasks are to bring the business and its creditors together, and examine the financial affairs of the business.

Appointing a voluntary administrator is becoming an increasingly attractive alternative, especially to small business owners. If successful, the business may resume normal trading. If unsuccessful, the business goes into liquidation.

Liquidation

If a company is in financial difficulty, its shareholders, creditors or the court can put the company into liquidation. **Liquidation**, commonly referred to as winding up a company, occurs when an independent and suitably qualified person – the liquidator – is appointed to take control of the business with the intention of selling all the company’s assets in an orderly and fair way in order to pay the creditors. Once the creditors have been paid, any surplus cash is paid to the owners of the company.

A company in liquidation can also be in **receivership**. Receivership is where a business has a receiver appointed by creditors or the Courts to take charge of the affairs of the business. Unlike liquidation, though, the business may not necessarily be wound up.

The main features of liquidation are that it:

- can be regarded as the equivalent of bankruptcy for a company (corporation)
- results in the life of a company coming to an end
- normally occurs because the company is unable to pay its debts as and when they fall due – it has become **insolvent**.

**BizWORD**

Voluntary administration occurs when an independent administrator is appointed to operate the business in the hope of trading out of the present financial problems.

**BizWORD**

Liquidation occurs when an independent and suitably qualified person – the liquidator – is appointed to take control of the business with the intention of selling all the company’s assets in an orderly and fair way in order to pay the creditors.

**BizWORD**

Receivership is where a business has a receiver take charge of the affairs of the business. Unlike liquidation, the business may not necessarily be wound up.

**Being insolvent** occurs when a company is not able to pay its debts as and when they fall due.
There are two types of insolvent liquidation:

1. **Creditors’ (voluntary) liquidation.** This is the most common type of liquidation process and can come about in one of two ways. The first method involves creditors voting for liquidation following a voluntary administration. The second method involves the company’s shareholders agreeing to liquidate the company and appoint a liquidator.

2. **Court (involuntary) liquidation.** In this situation a court appoints a liquidator to wind up the company, usually after an application has been made from either a creditor, a shareholder, a company director or, in some circumstances, the Australian Securities and Investments Commission (ASIC).

When a company is being liquidated because it is insolvent, the liquidator’s prime responsibility is to the company’s creditors. The liquidator’s main functions are to:

- take possession of and realise – convert into cash – the company’s assets
- investigate and report to creditors about the company’s financial and related business affairs
- determine debts owed by the company and pay the company’s creditors
- scrutinise the reasons for the company failure
- report possible offences by people involved with the company to ASIC
- finally, to deregister or dissolve the company.

A liquidator is not required to do any work unless there are enough assets to pay their costs.

**Problems for stakeholders due to liquidation**

Every year hundreds of Australian companies are placed into liquidation, creating a number of problems for the various stakeholders of the business. The full effect of a company being liquidated can be likened to the ripples on a pond; they radiate out, impacting on the wider community. Eventually the full impact of the liquidation is multiplied, involving many stakeholders. It is estimated, for example, that an average of 30 to 40 people are personally affected by one company insolvency. The main problems that arise for stakeholders are shown in table 4.5.

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Main problems arising from company liquidation</th>
</tr>
</thead>
</table>
| **Company directors** | • Possible loss of directorship position and/or disqualified as a director  
                         • Could lose personal assets to pay for the company’s debts  
                         • Possibility of a fine and/or imprisonment |
| **Creditors (unsecured)** | • May not recover any of the money owed  
                              • If there are funds left over after the payment of the costs of the liquidation and payments to other priority creditors such as employees, it may be possible to receive part payment for the money owed; for example, 5 cents for every dollar owed. |
| **Employees**          | • Loss of jobs  
                          • Have the right, if there are funds left over after payment of the liquidator’s fee, to be paid their outstanding wages and superannuation. |
### Stakeholder | Main problems arising from company liquidation
---|---
Shareholders | • Rank behind the creditors and unlikely to receive any payment  
• The liquidator can request that holders of unpaid or partly paid shares in the company pay the outstanding amount on those shares.
Society/economy | • Loss of production from the liquidated companies  
• Social and personal difficulties associated with job losses  
• Loss of economic confidence

### Summary
- The two main causes of business decline (and possible failure) are lack of management expertise or undercapitalisation.
- Voluntary cessation occurs when the owner ceases to operate the business of their own accord.
- Involuntary cessation occurs when the owner is forced to cease trading by the creditors of the business.
- Sole traders and partnerships may voluntarily or involuntarily go into bankruptcy: a declaration that a business, or person, is unable to pay his or her debts.
- A company has two options when facing financial difficulties:  
  (a) voluntary administration occurs when an independent administrator is appointed to operate the business in the hope of trading out of the present financial problems.  
  (b) voluntary or involuntary liquidation is the process of an appointed liquidator converting the business’s assets into cash.
- Liquidation normally occurs because the company is insolvent.
- It is estimated that an average 30 to 40 people are personally affected by one company insolvency.

### Revision
1. **Define** the term ‘undercapitalisation’.
2. Apart from undercapitalisation and lack of management expertise, **state** three other causes of business failure.
3. As a class, using the brainstorm technique, **propose** the reasons why so many small businesses are undercapitalised.
4. **Distinguish** between voluntary and involuntary business cessation.
5. **Construct** a flowchart showing what happens when a business is declared bankrupt.
6. **Discuss** whether, in your opinion, there is a social stigma attached to bankruptcy today. Should there be? Share your answer with the rest of the class.
7. **Outline** the role of an administrator.
8. **State** the outcome if the process of voluntary administration is:  
   (a) successful  
   (b) unsuccessful.
9. (a) **Define** the term ‘liquidation’.  
   (b) **Recall** the common term for liquidation.
10. **Identify** those who can put a company into liquidation.
11. **Distinguish** between ‘liquidation’ and ‘receivership’.
12. **Summarise** the two different types of liquidation.
13 Complete the statements in your notebook by recalling the correct word from the list below.

<table>
<thead>
<tr>
<th>dissolve</th>
<th>realise</th>
<th>debts</th>
<th>financial</th>
</tr>
</thead>
<tbody>
<tr>
<td>possession</td>
<td>failure</td>
<td>report</td>
<td>ASIC</td>
</tr>
<tr>
<td>pay</td>
<td>offences</td>
<td>deregister</td>
<td>cash</td>
</tr>
</tbody>
</table>

The liquidator’s main functions are to:
- take ___________ of and ___________ – convert into ___________ – the company’s assets
- investigate and ___________ to creditors about the company’s ___________ and related business affairs
- determine ___________ owed by the company and ___________ the company’s creditors
- scrutinise the reasons for the company ___________
- report possible ___________ by people involved with the company to ___________
- finally, to ___________ or ___________ the company.

14 Demonstrate the problems that arise for stakeholders when companies go into liquidation.

15 Use the Australian Securities and Investments Commission (ASIC) website in your eBookPLUS to:
- (a) Identify some of the signs that may indicate that a company is in financial difficulty.
- (b) Outline what managers should do if their company is experiencing financial difficulty.

Extension

1 In small groups, create a list of success strategies for a business that:
- (a) has just been established
- (b) is in the growth phase
- (c) is experiencing a decline of its sales.

2 Assume the Minister for Small Business has established a committee to investigate the granting of business licences. Propose the recommendations you would make to the committee regarding the criteria to be used.

3 Most people who start a small business know of the high failure rate.
- (a) Explain why, in spite of this, they do not take steps to protect their business from failure.
- (b) Determine the steps you would recommend they take.
TOPIC 1  SUGGESTED ASSESSMENT TASKS

Nature of business

Multiple choice questions
In the HSC examination you will be required to complete 20 multiple choice questions. Therefore, it is important that you become familiar with answering this type of question. For each question choose the best alternative:

1 Which of the following statements about profit is false?
   (a) Profits encourage risk taking.
   (b) Profit refers to the reward that employees receive for producing products.
   (c) Profit is the reward business owners receive for assuming the risks of ownership.
   (d) Profit is what remains after all business expenses have been deducted from sales revenue.

2 What is the person who risks his or her time, energy and money to start a business called?
   (a) A financier
   (b) An employer
   (c) An innovator
   (d) An entrepreneur

3 Which of the following would be an example of a business in the secondary industry?
   (a) Zenon Mining
   (b) Heritage Motel
   (c) Canberra Legal Centre
   (d) Plastics Manufacturing Ltd

4 Which business entity is owned and operated by more than two people and has unlimited liability?
   (a) Sole trader
   (b) Partnership
   (c) Public company
   (d) Private company

5 In which phase of the business life cycle does complacency amongst management normally occur?
   (a) Growth
   (b) Maturity
   (c) Establishment
   (d) Post-maturity

6 What does the business environment refer to?
   (a) The surrounding conditions in which the business operates
   (b) Those factors over which the business has very little control
   (c) Those factors over which the business has some degree of control
   (d) A group who has an interest in or is affected by the activities of the business

7 What type of business would National Foods Limited most likely be?
   (a) A partnership
   (b) A public company
   (c) A private company
   (d) A government business enterprise

8 Which of the following is false in relation to why businesses are important to the Australian economy?
   (a) They provide employment for millions of people.
   (b) They contribute to Australia’s gross domestic product.
   (c) They provide goods and services to satisfy consumers’ wants.
   (d) They import products, which generates income for Australians.

9 Which piece of legislation is designed to protect the interests of both consumers and business?
   (a) Small Business Act
   (b) Consumer Affairs Act
10 Georgia has a hairdressing salon that employs 18 staff. Which of the following is an accurate classification of the business?
(a) A small business in the tertiary sector
(b) A small business in the quinary sector
(c) A medium business in the secondary sector
(d) A medium business in the quaternary sector

Short response questions
In the HSC examination you will be asked a number of short response questions based on the HSC course.

A short response question generally contains a number of sections, starting with a low order activity and increasing in difficulty. How much you should write for each section is determined by how many marks it is worth. For example, a question that has a value of two marks will require double the amount of time and information than one with a value of one mark.

1 (a) State the main function of business. 2 marks
(b) Demonstrate the contribution businesses play within the Australian economy in terms of:
   (i) employment 4 marks
   (ii) incomes 4 marks
   (iii) choice. 4 marks

2 (a) Define the term ‘entrepreneur’. 2 marks
(b) Evaluate the role entrepreneurship plays in determining business success. 10 marks

3 (a) Distinguish two quantitative measures and two qualitative measures used to determine the size of a business. 2 marks
(b) Distinguish between a small and a large business. 5 marks
(c) Determine why small businesses, such as the local hairdresser or restaurant, are able to compete with large, transnational corporations. 10 marks

4 (a) Identify two advantages and two disadvantages of each of the following types of business ownership:
   (i) sole trader 3 marks
   (ii) partnership 3 marks
   (iii) company. 3 marks
(b) Distinguish between an incorporated and an unincorporated business entity. 6 marks

5 (a) Define the term ‘business environment’. 2 marks
(b) Distinguish between the internal environment and the external environment. 6 marks
(c) Factors within the internal and external environments can pressure businesses to change practices, policies or products. Referring to a business that you are familiar with, evaluate the accuracy of this statement. 12 marks

6 (a) Identify four external influences that can affect a business. 2 marks
(b) Demonstrate what impact the following internal influences can have on a business.
   (i) Product influences 4 marks
   (ii) Management influences 4 marks
(c) Assess the impact of technological influences on retail businesses. 10 marks

7 (a) Define the term ‘profit’. 2 marks
(b) Explain the relationship between sales revenue and profit. 6 marks
(c) Determine the role profit plays within our economic system. 11 marks
8 (a) ‘Wouldn’t every small business owner like his or her business to grow into a large firm?’ Discuss. 6 marks
(b) **Determine** whether the advantages of small business really are advantages. 12 marks

9 The business life cycle consists of four main stages.
(a) **Identify** the four stages. 2 marks
(b) **Propose** some strategies a business can implement to undergo renewal. 6 marks
(c) **Assess** the importance of the business owner having an understanding of the business life cycle. 10 marks

10 Your brother is thinking about starting a family business. He has invited you to be a member of the business and has asked you for your advice.
(a) **Clarify** two legal types of business structure that may be appropriate. 2 marks
(b) **Discuss** the legal requirements for setting up each type of business. 6 marks
(c) **Assess** the advantages and disadvantages of each type of business. 12 marks

11 Ezza and Jacinta are considering forming a partnership. They have worked for an architect for some time and now feel that they could do much better on their own. Imagine that Jacinta has approached you for advice.
(a) **Define** the term ‘partnership’. 2 marks
(b) **Discuss** the legal requirements for the formation of a partnership. 4 marks
(c) **Determine** the legal rights and responsibilities of each partner in a partnership. 10 marks

12 (a) **Identify** the key to determining whether or not a business’s actions are socially responsible. 2 marks
(b) **Outline** the main benefits to a business of conducting a sustainability report. 3 marks

13 (a) **Define** the term ‘stakeholder’. 2 marks
(b) **Explain** why some of these responsibilities are incompatible whereas others are compatible. 5 marks
(c) ‘Shareholders’ expectations should take precedence over the desires of other stakeholders’. **Evaluate**. 8 marks
(d) **Determine** the responsibilities a business has to each of its stakeholders. 12 marks

14 (a) **State** why it is sometimes difficult for a business to satisfy the expectations of all its stakeholders. 3 marks
(b) **Propose** a number of strategies a business can use to reconcile the conflicting interests of its stakeholders. 5 marks
(c) **Evaluate** the effectiveness of each of these strategies. 10 marks

15 (a) **Define** the term ‘undercapitalisation’. 2 marks
(b) **Distinguish** between voluntary administration and liquidation. 6 marks
(c) **Demonstrate** the main problems that arise for stakeholders when companies go into liquidation. 10 marks

**Extended response questions**

In the HSC examination you will be asked a number of extended response questions based on the HSC course.

One of the extended response questions will require a report style format, a style of writing used extensively in business. Report writing will require you to disregard much of what you have previously been taught when writing traditional essay style answers. Report answers use:
- short statements
- lists of main points followed with explanations when appropriate
- short paragraphs
Discuss the importance of business to the Australian economy. In your answer refer to:

(a) creating value
(b) social and economic roles
(c) relevant stakeholders.

The internal environment refers to influences that come from within the business itself and can affect business performance. Discuss.

Demonstrate how businesses contribute to our social and economic wellbeing.

‘Small business should not be taken for granted.’ Evaluate the accuracy of this statement. In your answer use some statistics to support your arguments.

‘To be effective, business strategy must take into account the interests, needs, and expectations of all the business’s stakeholders. Companies should have a strategy that combines business goals and broad social interests’. Discuss, using examples, the accuracy of this statement.

Natureland Organics is a public company located 280 kilometres from Sydney. It relies on fresh, organically certified farm produce to supply its three Sydney outlets and employs 238 people from the local area. The business has a strong reputation for nutritional value, reliability and support for the environment. The business has recently started exporting to Singapore and Hong Kong. This will require a new production facility to be built. The CEO has identified two areas of concern for future growth:

• Local residents are complaining that a new plant will cause environmental damage, especially pollution of a nearby river.
• Shareholders are complaining about the cost of the new plant needed for the extra production.

(a) Prepare a report that could be given to Natureland Organic’s management team. In your report, you should:
   (i) Identify Natureland Organic’s stakeholders.
   (ii) Outline three pressures affecting Natureland Organics.
(b) Natureland Organics contributes in many ways to the Australian economy. Demonstrate two economic contributions that would be lost if Natureland Organics was forced to close.

Discuss three challenges that you believe to be the most significant in each of the four stages of the business life cycle.

Outline the main reasons for business failure. Distinguish between bankruptcy, voluntary administration and liquidation.

Both the quaternary (information processing) and quinary (household services) industry sectors are becoming major contributors to Australia’s gross domestic product. Determine why you believe these two sectors are thriving.

Annika Schute and Gordon Wong, partners in Omega Home Renovations, have been operating their thriving business for five years. They now wish to expand, but cannot decide whether to become a private or public company. They have come to you for advice. Annika and Gordon wish to maintain some degree of control of their business, but they like the idea of gaining access to more funds to allow them to expand more quickly.
As a business consultant, prepare a report that could be given to Annika and Gordon. In your report, you should:
(a) Describe the main advantages and disadvantages of a private and a public company.
(b) Recommend which of the two options is best suited to their long term goal.

You have been employed as a business reporter with the local newspaper. You are asked to create an article that examines the external environmental factors that affect business. A major focus within your article should be an analysis of the impact of each factor on specific businesses.

‘Improving a business’s ethical performance depends on the values of its managers and employees, and the business culture’. Discuss.

Contrast the stages of establishment, growth and maturity in the business life cycle.

When a business is wound up, there are usually negative consequences for the many stakeholders. Determine the main problems arising from a company liquidation.