WHY IT IS IMPORTANT

You might be interested to know that in Victoria, an estimated 240 new businesses open each week. Some will fail and some will thrive. Making the right decisions in business is crucial. Decisions must be made about the type of business to start, whether to purchase a new or existing business, and types of marketing, just to name a few areas. One important point to keep in mind is that the business owner must always have a will to succeed: they may not achieve the desired goal with the first venture, so they need drive, determination and an ability to recover from poor decisions or mistakes. Dick Smith experienced difficult times when his first business nearly failed, and $18,000 worth of stock was stolen. Dick went on to be one of Australia’s most successful businesspeople.

WHAT YOU WILL LEARN

KEY KNOWLEDGE

Use each of the points below from the Business Management study design as a heading in your summary notes.

- The motivation behind starting a small business, including the desire for independence, to make a profit and to fulfill a market need
- Practices which contribute to ethical and socially responsible management with respect to decision making
- Business support services, including legal, financial, technological, community-based, formal and informal networks
- Major factors that influence decisions made when establishing a small business, including decisions concerning:
  - Business concept development and initial market research
  - Innovation and entrepreneurship as a source of business opportunity
  - Forms of business ownership and business structure
  - Purchasing an existing business or establishing a new business, including franchise operations
  - Location options: shopping centre, retail shopping strips, online presence, and home-based businesses, and the factors that affect that choice

KEY SKILLS

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Accurately use relevant management terms
- Research aspects of small business management using print and online sources
- Acquire and exchange business information and ideas
- Explain the importance of complying with legal and government regulations relevant to the small business
- Apply small business management knowledge to practical and/or simulated business situations
- Evaluate management practices with respect to decision making and planning.
Mocks: a successful cover story

Most of us have seen something advertised and thought, ‘that is just what I need’. Someone, somewhere had the idea for the product. From this original idea, a business was formed to develop, produce and market the product. All businesses begin when a person or group of people have an idea for a new or improved product. And so it was for Lara Solomon who, in 2004, launched the Mocks brand: protective sock covers for mobile phones, MP3 players, cameras and other mobile electronic gadgets.

The idea came to Lara while she was holidaying in Thailand. She came across stalls selling unbranded, different-sized and varying quality covers for mobile phones. With her marketing background, Lara quickly realised the potential of higher-quality branded products with designs more appropriate for the Australian market. Lara spent about six months researching different materials and designs while her family provided financial support.

Due to the product’s unique characteristics, Lara initially found it difficult convincing stores to stock her product. However, due to her persistence and passion for the brand, Fone Zone decided to trial Mocks in seven of its stores. The trial was so successful that the owners decided to sell Mocks in every one of their 115 stores.

Once Lara’s promotional campaign was underway, retailers started calling her to place orders. Lara feels proud to be identified as the ‘Mocks lady’, and believes the product’s quirkiness and usefulness are the reasons for their popularity.

Today, Lara’s company LaRoo Pty Ltd sells over 70 different designs, with new designs launched every three months. In 2008, Solomon was named one of Business Review Weekly’s Top 100 Fast Startups. Mocks are sold in Australia, the United Kingdom, and online. To date, over 1.6 million Mocks have been sold worldwide.
The success or failure of a small business depends largely on the owner’s abilities, resources, enthusiasm, initiative, level of management expertise, decision-making skills and, above all else, motivation. Two of the most crucial questions that a potential business owner has to ask themselves are:
• Am I motivated enough to want to do this?
• Do I possess the appropriate qualities required to operate a small business?

The desire for independence is a major reason for wanting to start a business. Often, a person will desire the freedom to choose when and where they work, with whom they work and whether to work from home. The great attraction is the belief that owners will have more control over their own destiny.

A second reason for wanting to start a small business is monetary reward. Someone willing to work hard may believe that they can earn much more by working for themselves than they would by working for someone else. They would expect their extra effort to be rewarded through the profits from their own business. These rewards may not come immediately — even the most successful businesses may lose money in their early startup phase — but the hope is that eventually the business owner will earn more from being self-employed.

A third reason for wanting to start a small business is the recognition of a market need. The potential business owner may have particular skills that can be the basis of a small business, or may recognise that particular products or services for which there is a demand are not available in a particular suburb or town. In some cases an invention or the development of a new product will inspire the developer of that product to set up a business to market it.

Qualities needed to commence a small business

The thousands of small businesses in Australia today are owned and operated by all types of people. These businesses all had a beginning, with a person or small group of people who decided to ‘have a go’.
Starting a new business requires courage, determination and energy, and it demands a wide range of skills. It is important for people to recognise their strengths and weaknesses, decide if they have the right personal characteristics to be a business owner, and learn the skills they don’t presently have. It is best for business owners to select a business opportunity that suits their personality and builds on their strengths. If people have an honest understanding of their own personal qualities, then failure can be minimised: the ‘square peg in a round hole’ problem can be avoided. Small business owners are a varied group. It is extremely difficult to categorise them or the qualifications they possess that make their business a success. As well, a variety of personal factors encourage individuals to go into business. However, two factors that are often mentioned are motivation and the ‘entrepreneurial spirit’. They combine to form a powerful desire to create a new business.

Personal qualities

There is no simple checklist of personal characteristics that guarantee success. However, many studies have shown that certain personal characteristics are helpful in operating a small business, and that the potential small business owner should be prepared to honestly answer the following questions:

1. Am I self-motivated, with a desire to succeed?
2. Am I self-disciplined enough to start and follow through long-term projects?
3. Am I healthy enough to withstand the extra workload and stress involved?
4. Do I have leadership qualities to assist in managing and motivating others?
5. Do I have good organisational and administrative skills?
6. Am I willing to take managed risks?
7. Do I have the ability and willingness to learn new skills?
8. Can I make decisions based on logic rather than emotions?
9. Am I able to listen to others’ advice as well as communicate my ideas to others?
10. Am I reasonably at ease in my relationships with people, and sensitive to the needs of others, especially employees and customers?
11. Am I prepared to work long hours?
12. Am I prepared to receive lower financial returns in the early years than I would receive if I worked for someone else?

TEST your understanding

1. What largely determines the success or failure of a small business?
2. Identify the two most crucial questions that a potential small business owner has to ask themselves.
3. Explain the three possible reasons for a person wanting to start their own business.
4. Why is it best for business owners to select a business opportunity that suits their personality and strengths?
5. What are the two main factors encouraging individuals to go into business?

APPLY your understanding

6. Choose a business you would like to own. Outline the personal qualities you think are needed to be successful in this business.
7. Write out the 12 questions regarding personal characteristics for successful small business ownership in order of importance, with most important first, and least important last. Compare your list with the rest of the class, and be prepared to justify your rankings.
8. Divide a page into two columns as shown. In the first column, list the skills that you presently possess and could bring to a small business. In the second column, list other skills that you would need to develop. On a separate sheet, outline how you would go about obtaining these new skills.
2.2 Business concept development and initial market research

KEY CONCEPT A business concept describes the core activities of the business and the specific features and value of the goods or services it provides. It also includes the target market and the means of distributing the product or service into the marketplace.

**Business concept development**

As well as determining whether or not they have the motivation and personal qualities to start a business, potential small business owners will have a clear idea of what they wish to sell. Sometimes it is an original idea for a product or service that is quite different from anything already on the market, or a distinct improvement on something already available. Or it may be a realisation that a particular product or service is unavailable in a particular area. All the businesses in the world must have started from an initial idea or concept and then grown according to their success within the market. Coke, for example, started as a medicinal tonic sold off the back of a travelling wagon. Now, Coca-Cola Amatil is an internationally successful business that dominates the soft drink market throughout the world.

The source of a business concept may come from a person’s own experiences, interests, abilities or imagination. Inspiration for ideas can be generated by:
- listening to people, particularly for ideas on the goods or services people want, but that may not be readily available
- reading magazines and books and researching on the Internet
- visiting displays and exhibitions in areas such as new technology or new products from overseas
- accessing government statistics and research information
- identifying a ‘gap in the market’ — that is, a demand not currently being satisfied
- determining improvements that could be made to an existing product.

The successful identification of a gap in the market is a key to establishing a lucrative business. It means that the new business provides something not already available. Breaking into a market that is already well served means that the new business has to do something exceptional to draw customers away from existing businesses.

**Linda Polosak — Sublime Designs**

Business owner Linda Polosak turned her ideas about interior design from an operation run out of her lounge room in 2006 into a highly profitable business employing eight people. Sublime Designs specialises in interior design concepts for small spaces. Linda’s market research showed that, due to more people living in apartments and townhouses, there was a growing demand for innovative ways to accommodate furniture in limited areas. Her business is renowned for small space decorating using compact, space-saving, modular furniture. ‘I studied the existing competition and their products, marketing techniques and unique selling points, and used this to create an exclusive offering with a unique look and feel. We listen carefully to our clients’ needs to make sure we provide solutions for their unique problems based on their budget and lifestyle. This has allowed us to establish a loyal customer base.’
Initial market research

There will always be a risk involved in starting up a new business. Will the proposed new product or service attract customers? Will it appeal to enough customers to generate sufficient sales to cover costs and make a profit? Anyone thinking about commencing a business should first gather some ‘facts and figures’, especially to determine whether the level of demand for the new or improved product is sufficient to generate a profit.

The process of information gathering is known as market research and it involves the following steps:

1. Identifying what information is needed to make a decision about the potential of the business. For example, someone wanting to set up a pet care business would want information about pet numbers in a particular area.
2. Gathering the relevant information from appropriate sources. This could involve surveys or interviews, or examining government statistics. Market research businesses can be hired to carry out this research.
3. Analysing and interpreting the relevant results to extract some clear information which will assist in decision making. This analysis can give the potential small business owner an idea of the market conditions that exist for the proposed product or service.

Market conditions for a particular product or service can often be determined by finding answers to the following questions:

- Is the business concept entirely new or does it already exist?
- Who will buy the product?
- Why will they buy the product?
- What needs and wants have to be satisfied?
- How big is the market?
- Where is the market?
- Who are the competitors?
- What makes this product different from what already exists?

In business terms, demand is the quantity of a product that consumers are prepared to purchase.

Market research is a process of systematically collecting, recording and analysing information concerning a specific market.

Market conditions are the features of a market into which a new product or service is to be introduced, and include factors such as the number of potential customers, level of competition and potential for growth.

TEST your understanding

1. ‘The business concept is the starting point for any new small business.’ Explain.
2. Select three possible sources of new business concepts and explain how each could provide ideas for a new business.
3. Briefly explain the value of market research to someone who is thinking of commencing a small business.

APPLY your understanding

4. Gerry has had an interest in antique and unusual children’s toys since he was a child, and has been collecting toys from the 1940s and 1950s for many years. He is interested in setting up a toy shop, incorporating a museum or similar display for his collection. His hope is that the display of antique toys will be a means of attracting customers.
   (a) Identify the source or inspiration behind Gerry’s business concept. How has he sought to differentiate his business from those of possible competitors?
   (b) Outline a step-by-step process that Gerry can undertake to determine whether or not there is sufficient demand for the type of business he is proposing.
   (c) Compile a list of six questions that a market researcher might ask to assist Gerry in making a decision about whether to implement his business idea.
   (d) List and explain four market conditions that would have to exist before Gerry could be satisfied that his business had a reasonable chance of success.
2.3 Innovation and entrepreneurship as a source of business opportunity

**KEY CONCEPT**  
Innovation can lead to the establishment of a business based on the development of new or improved products or services. Converting an innovative idea into a business concept often requires the creativity and risk taking of an entrepreneur for success to be achieved.

**Great Aussie invention**

How would you describe a country that has invented the Victa lawnmower, Esky, Hills Hoist, Speedo swimwear, StumpCam (a small camera hidden in a cricket stump to provide action replays), wine cask, surf life saving reel and insect repellent. You might describe it as a sports-loving nation that enjoys an outdoor lifestyle. Of course, the country is Australia! However, if we examine another list of inventions — penicillin, IVF freezing technique, cochlear implant (hearing implant), ultrasound technology, black box flight recorder, flu vaccine — then Australia could also be seen as a nation of scientists.

What these two lists reveal is that Australians are very innovative. According to the Australian Innovation System Report 2013, Australia ranks in the middle third of OECD countries on most indicators of innovation activities, including business expenditure on research and development (R&D), generosity of tax treatment for business R&D, patenting, and non-technological innovation.

Innovation and invention can lead to the establishment of a business based on the development of new or improved products or services. Converting an innovative idea into a business concept often requires the creativity and risk taking of an entrepreneur. Success is something the following Australian small business owners achieved.

- Entrepreneur John Parselle developed a system called Fingerscan, which allows people to make electronic transactions or gain access to high security areas by pressing a finger on a flat piece of glass. Everyone has a unique set of fingerprints, and Fingerscan can identify individual customers or employees.
- Greenspan Technology on Queensland’s Darling Downs has grown to rapidly become one of the world’s leading water quality monitoring instrumentation companies. It makes a wide range of sensors and water quality analysers for the water and wastewater markets. Patrick Harmon established Greenspan in 1991. Over the past years, Greenspan has established strong relationships with Australian universities and research institutes to access leading-edge technological innovations in water quality monitoring.
- About 15 years ago, Gary Leech started toying with the idea of producing hand-cooked potato chips. Using a domestic deep fryer, he experimented with varieties of potatoes, different oil temperatures and different slice thickness. From this humble beginning sprang the enormously successful Kettle Chips. When Gary Leech and his partners sold the business to Arnott’s Biscuits, Kettle Chips had a turnover of $18 million.
Innovation

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

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

The way we listen to music has been the subject of innovation over the last century or more. Prior to the invention of the first phonograph by Thomas Edison in 1877, the only way people had been able to listen to music was through live performance. Edison’s invention involved playing music that had been recorded on to cylinders, but these were eventually superseded by discs in the 1920s. Tape recording was developed in the 1930s and 1940s, with the cassette tape eventually appearing in 1964. Compact discs came on to the market in 1982, and soon became the preferred method for consumers to purchase recorded music. Since the 1990s digital recording techniques have allowed for music to be downloaded from the Internet, stored on computer hard drives and on smart phones iPods and USB flash drives. New technological developments soon lead to new products, new markets and new business opportunities. In the same way, small business owners undertaking research and development (R&D) have produced many of the new products that we take for granted. Many successful small businesses are built on product innovation.

Entrepreneurship

Not all inventors or innovators will seek to use their idea as the basis for a business. In many cases they will be happy to sell their idea to an existing business and let someone else manufacture and market that product. To be willing to take the risk of starting up and operating a business and then working to build that business requires qualities of entrepreneurship.

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

DID YOU KNOW?

Vegemite is an example of a great Australian invention. Food entrepreneur Fred Walker hired a food chemist to create an edible substance out of brewer’s yeast. Vegemite wasn’t an instant success though, and Fred tried a number of tactics to convince the consumer of the value of his product. By the late 1930s, Vegemite was accepted as an Australian product that was a valuable source of vitamins.

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

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

What does it really take to be a successful entrepreneur? You often read about entrepreneurs with no wealth or education becoming hugely successful. This can sometimes happen, but the latest research revealed in the book *The anatomy of an entrepreneur: family background and motivation* is that 90 per cent of 549 company founders were from middle-class or upper lower-class backgrounds, and were well-educated. The entrepreneurs in this study gave their insight into what influences success or failure, as shown below.

**Keys to success**
- Prior work experience in the field — knowledge of the business
- Ability to learn from mistakes
- Work with a strong team

**Barriers to success**
- Unwilling to take risks
- Not enough time or energy
- Difficult raising capital to finance the business venture

**Factors that affect success or failure in a business**

**TEST your understanding**
1. Explain what innovation is.
2. Give an example of innovation in business.
3. Outline the importance of research and development in business.
4. Why do you think prior knowledge of a business or work experience in a similar business can lead to greater success when starting a new business venture?
5. Why is entrepreneurship so important in the success of a business?
6. Identify a significant invention or innovation. In what way did this creation satisfy the need for a new product or an improved product? Did it form the basis of a new business or has it been produced by an existing business?

**APPLY your understanding**
7. Use the **Intellectual Property Australia** weblink in your eBookPLUS to answer the following:
   (a) What is a patent?
   (b) Identify and describe three examples of Australian inventions that have been successfully patented.
   (c) Explain the relationship between an innovation patent and an innovation step.
   (d) What is the purpose of an innovation patent, and what are its main advantages?
8. Use the **ENYA** weblink in your eBookPLUS to select two of the young entrepreneurs profiled by the Enterprise Network for Young Australians under ‘Inspiring profiles’. For each of them, answer the following:
   (a) What is the nature of that person’s business?
   (b) What motivated them to go into business?
   (c) What major obstacles or challenges have they had to face?
   (d) How have these challenges been overcome?
2.4 Forms of business ownership and business structure — unincorporated businesses

KEY CONCEPT A number of different legal ownership structures are available to a person wishing to establish a small business. The most common are unincorporated businesses such as sole traders and partnerships, and these carry particular legal requirements and responsibilities.

Different types of legal structure

A number of different legal structures are possible when deciding how to own and operate a small business. The five main types of privately owned business entity are shown in the following figure, and they can be further divided into:

- unincorporated business entities: sole traders and partnerships
- incorporated business entities: privately and publicly owned companies and cooperatives
- other types of privately owned business entity: trusts.

Incorporation refers to the process that companies go through to become a separate legal entity from the owner(s). An incorporated business has its own separate legal existence. Regardless of what happens to individual owners (shareholders) of the company, the business can continue to operate.

An unincorporated business has no separate legal existence from its owner(s), and will be either a sole trader or partnership. The most common legal structure for small businesses in Australia is the unincorporated enterprise (see the following diagram), because this structure is the easiest and cheapest to establish.

A business entity is any organisation engaged in the production of goods and services.

A business that is incorporated has a separate legal entity from the owner(s).

A business entity is...
Selecting the appropriate business ownership structure is one of the most fundamental and important decisions that a small business owner has to make. Each of the different legal structures is covered by different government regulations, and these will influence the operation of the business.

**Sole trader business**

A sole trader (proprietor) business has one person who owns and runs the business. The owner may employ other people to work in the business, but the owner or sole trader is the person who provides all the finance, makes all the decisions and takes all the responsibility for the operation of the business.

This type of business is easy to establish, as the only legal requirement specific to a sole trader is that the name of the business must be registered with the Australian Securities and Investments Commission (ASIC), but only if it is different from the name of the owner. A sole trader is not regarded as a separate legal entity — that is, the owner and the business are regarded as the same. This means that if the business is sued, then the owner is sued. Also, if the business enters a legal contract, then the owner is the one entering the contract. If the business runs into financial difficulties, then the owner has the financial problem and is personally responsible for any business debts. This responsibility is known as *unlimited liability*, and may involve the owner having to sell personal assets, such as property or motor vehicles, to pay for the liabilities of the business.

### Advantages
- Low cost of entry
- Simplest form
- Complete control
- Less costly to operate
- No partner disputes
- Owner’s right to keep all profits
- Less government regulation
- No tax on profits, only on personal income

### Disadvantages
- Personal (unlimited) liability for business debts
- End of business when owner dies
- Difficult to operate if sick
- Need to carry all losses
- Burden of management
- Need to perform wide variety of tasks
- Difficulty in raising finance for expansion

**Partnership**

A partnership is also an unincorporated business ownership structure. Most partnerships require a minimum of two and a maximum of 20 partners. There are exceptions to this number, including medical practitioners and stockbrokers (allowed up to 50 partners); veterinarians, architects and chemists (allowed up to 100 partners); and solicitors and accountants (allowed up to 400 partners). A partnership is similar to a sole trader in that the owners and the business are regarded as the same — that is, there is no separate legal entity. Like sole traders, the partners in a business are also subject to unlimited liability, and so may be personally responsible for the debts of the business.
A partnership can be made verbally or in writing, or by implication (that is, if two people set up a business together without a legally binding partnership agreement). A written partnership agreement is not compulsory, but it is certainly worthwhile if disputes arise. A partnership agreement usually has a standard set of conditions (see opposite).

Limited partnerships were introduced to allow one or more partners to contribute financially to the business but take no part in running the partnership. In this case, the partner is referred to as a silent or sleeping partner. The main reason for their investment is to add more capital or finance to an existing partnership.

A silent or sleeping partner contributes financially to the business but takes no part in the running of the partnership.

DID YOU KNOW?
A partnership agreement contains many points including:
• how long the partnership will exist
• the amount of money that each partner contributes
• how the profits and losses will be shared
• the duties of each partner
• limitations on the authority of the partners
• how the partnership may be dissolved
• methods of resolving disputes.

The advantages and disadvantages of a partnership

While a sole trader pays tax using his or her personal tax file number, a partnership has its own tax file number — separate from those of each of the partners — and lodges its own tax return. Once the ATO has assessed the partnership’s tax return and all taxes have been paid, the profits are divided among the partners according to the partnership agreement. Each partner then adds their share of the profit (or loss) to their personal income to be assessed by the ATO.

TEST your understanding
1 List the five main types of privately owned business entity.
2 Distinguish between an incorporated business and an unincorporated business.
3 Suggest why unincorporated businesses are the most common form of legal business structure.
4 Under what circumstances will a sole trader not need to register a business name?
5 Identify what you believe to be the three main advantages and three main disadvantages of a sole trader form of business ownership. Explain each selection.
6 Explain the difference between a sole trader and a partnership.

APPLY your understanding
7 Using a telephone directory, find:
(a) five examples of sole traders or partnerships that would not have to register their business name
(b) five examples of businesses that would have to register their name.
8 Adam operates a pizza and pasta shop as a sole trader and he employs two cooks, one full time and one part time. He decides to offer the full-time cook a 40 per cent partnership in the business.
(a) What advantages will the owner gain from this arrangement that he does not have as a sole trader?
(b) What disadvantages could the owner experience from the partnership arrangement?
(c) Explain the advantages and disadvantages to the cook of entering into the partnership.
(d) Prepare a list of questions the cook should ask the owner before entering into the partnership.
Incorporation allows a business to become a company, which is a legal entity separate from its owners, and which provides the benefits of limited liability to those owners.

Proprietary companies and public companies are the two major forms of incorporated business ownership. Other forms of business entities such as cooperatives and trusts can be created to perform particular types of business function.

**Incorporation**

Many small businesses which have begun as sole traders or partnerships may find that, as their business grows, there are advantages in changing the ownership structure to that of a company. This process is known as **incorporation**.

The process of incorporation is governed by the Commonwealth **Corporations Act 2001**, and is administered by the Australian Securities and Investments Commission (ASIC). In order for a business to become incorporated, a company name must be registered with ASIC, which will issue a certificate of incorporation and an Australian company number (ACN). Directors must be appointed to run the company on behalf of the owners. Once incorporated, the company has a separate legal identity to its owners, who are now known as **shareholders** (referred to in the Corporations Act as ‘members’).

Incorporation also brings to the shareholders the benefits of **limited liability**. In limited liability companies, the most money that a shareholder can lose is the amount that he or she paid for their shares. If the company goes into liquidation, the shareholders cannot be forced to sell their personal assets to pay for the debts of the business. This same protection does not extend to the directors of a company, as they have an obligation to ensure the company obeys the law and acts in the interests of the shareholders.

Financial institutions often ask directors to give personal guarantees for some business loans. Under some circumstances, therefore, directors can be forced to sell their personal assets to help pay for business debts. To offset this risk, companies can insure against such an event.

The letters ‘Ltd’ signify that a business is a company that has limited liability. A company can be organised as either a proprietary (private) or public company.

**Proprietary (private) companies**

A **proprietary (or private) company** is the most common type of company structure in Australia, and usually has between two and 50 private shareholders. Proprietary companies tend to be small to medium-sized, family-owned businesses. In many cases, one family owns most of the shares in a proprietary company.

Shares in a proprietary company are offered only to those people whom the business wishes to have as part owners. Shareholders can sell their shares only to people approved of by the other directors. This is why such a company is called a ‘private’ company. It is not listed on, and its shares are not sold through, a stock exchange. A private company must have the words ‘Proprietary Limited’, abbreviated to ‘Pty Ltd’, after its name.

Sometimes, the decision is taken to close a business. However, closing a proprietary company is much more complex than closing a sole trader business or a partnership. All shareholders of the company must agree to the company being wound up. A liquidator will manage the process of selling the company’s assets, paying its debts, and distributing funds from the asset sales among the shareholders.
Public companies

The shares for public companies are listed on the Australian Securities Exchange, and the general public may buy and sell shares in those companies. Whereas private companies tend to be small or medium-sized businesses, most public companies are large in size and market a large range of products — for example, Telstra, BHP Billiton, Woolworths, Virgin Blue and Westpac.

A public company has:
- a minimum of five shareholders, with no maximum number
- no restrictions on the transfer of shares or raising of money from the public via share offers
- a requirement to issue a prospectus when selling its shares for the first time
- a minimum requirement of three directors (of whom two must live in Australia)
- the word ‘Limited’ or ‘Ltd’ in its name
- a requirement to publish its audited financial accounts each year — the annual report.

Disadvantages

Advantages

Cooperatives

Cooperatives are another form of incorporated business. A cooperative is formed when a group of individuals and/or organisations combine for a common purpose, such as:
- to process and market their own produce — for example, a farmers cooperative
- to participate in educational courses — for example, a community education centre
- to pool their funds and be able to lend to each other — for example, permanent building societies and credit unions.

Cooperatives were originally set up by primary producers, such as farmers and commercial fishermen, as a means of sharing costs by jointly processing and marketing their produce. In recent years cooperatives have been set up in retailing, transport and manufacturing. Members receive a share in the profits, and as cooperatives are incorporated, there is the security of limited liability.

A cooperative is a democratic organisation owned and controlled by the people it serves, who join together for a common benefit.

DID YOU KNOW?

Devondale Murray–Goulburn was formed in 1950 when 14 dairy farmers decided to pool their resources. Today, with over 2500 dairy farmer suppliers, the Devondale Murray–Goulburn Cooperative is the largest dairy cooperative in Australia and the nation’s largest exporter of processed foods.

There are over 2000 public companies listed on the Australian Securities Exchange. The share price for each company changes according to demand and supply. If a company is considered a ‘good buy’, its share price is likely to rise (green indicates the stock or share price is rising, and red indicates the share price is falling).
Cooperatives have the following features:
- They are registered in Victoria under the Co-operatives Act 1996.
- A minimum of seven members is required to form a cooperative, and no member is allowed to hold more than 20 per cent of shares.
- Cooperatives are legal entities in their own right, and are managed and controlled by a board of directors.
- Profits can be reinvested in the cooperative rather than paid to shareholders, provided a majority agree to this.

Trusts

A trust is a type of business relationship in which a trustee either holds property or conducts business on behalf of another person or group of people, who are members of that trust. The trustee will usually be a company and thus is protected by limited liability in its own right, although the trust relationship itself is not a separate legal entity. Members of the trust are known as the beneficiaries, and are often members of a family. Trusts were initially developed in the 13th century to avoid taxes and to preserve family assets; today they have the same main aim. The legal document which sets up a trust is known as a trust deed.

Because the costs involved in establishing a trust are considerable, this form of business structure is not common. Further, the laws relating to trusts and taxation are extremely complex. Any small business owner thinking of operating under this structure would have to seek advice from an accountant and solicitor.

TEST your understanding

1. Explain the legal steps that are required to incorporate a business.
2. Why is limited liability a significant issue for shareholders in a company?
3. In what circumstances might directors be held personally responsible for debts incurred by a company?
4. Identify what you believe to be the three main advantages and three main disadvantages of a company form of business ownership. Explain each selection.
5. Explain the key differences between a proprietary company and a public company.
6. In what ways does a cooperative differ from a company?
7. What is the main purpose of a trust?

APPLY your understanding

8. You are planning to establish the following types of business. What form of business ownership would you prefer? In each case, explain why you would choose that form of ownership.
   (a) a bicycle shop offering professional and personal advice
   (b) a cattle stud specialising in a large-scale breeding program
   (c) a wheat farm, with a flour mill operated by you and eight other farmers
   (d) a travel agency that you wish to expand to five outlets within two years
   (e) a national retailer that would require $467 million to establish
   (f) a solicitor’s practice offering a range of legal services.

9. In your notebook, construct a table with six columns labelled as in the example below. From the list of businesses provided, write each name in the correct column for its particular legal structure/entity. An example has been completed for you.

<table>
<thead>
<tr>
<th>Sole trader</th>
<th>Partnership</th>
<th>Private company</th>
<th>Public company</th>
<th>Cooperative</th>
<th>Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ray Coulton Carpentry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fairfax Limited | M&M Communications | Tip Top Bakeries Pty Ltd | Management Trustees | Paul Banwell Motors | Bigga Wool Co-op | Ozemail Limited | David Tyler and Sons | Rural Services Co-op | Tynan Motors Pty Ltd | Jacinta's Newsagency | Newcrest Mining Ltd | Sue King Plumbing | R&R Antiques Pty Ltd
2.6 Purchasing an established business or commencing a new business, including franchise operations

KEY CONCEPT Purchasing an existing small business or commencing a completely new business is a common business decision. Buying a franchise to make use of an existing brand name and reputation is also a popular way of going into business.

Purchasing an established business

When an established business is purchased, the business is already operating and everything associated with the business is included in the purchase. That is, the stock and equipment, business premises, employees, an existing customer base, and reputation and goodwill.

When purchasing an existing business it is essential for the potential purchaser to know why the business is for sale. If the business has been struggling, it may not be a very good purchase. Not only should the prospective owner find out why the current owner is selling, it is important to examine detailed accounts for at least the previous three years to determine the financial health of the business. One aspect of the financial statements that is often hard to estimate is the true value of goodwill. The seller of the business may overestimate the value of the reputation of the business, so consultation with an accountant is important to confirm the accuracy of the value placed on goodwill by the seller.

Advantages and disadvantages of purchasing an existing business

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sales to existing customers generate instant income.</td>
<td>• The existing image and policies of the business may be difficult to change, especially if the business has a poor reputation.</td>
</tr>
<tr>
<td>• A good business history increases the likelihood of business success.</td>
<td>• The success of the business may have been due to the previous owner’s personality and contacts, so may be lost when the business is sold.</td>
</tr>
<tr>
<td>• A proven track record makes it easier to obtain finance.</td>
<td>• It may be difficult to assess the value of goodwill, with the likelihood of the new owner paying more than the goodwill is worth.</td>
</tr>
<tr>
<td>• Stock has already been acquired and is ready for sale.</td>
<td>• Some employees may resent any change to the business operation.</td>
</tr>
<tr>
<td>• The seller may offer advice and training.</td>
<td></td>
</tr>
<tr>
<td>• Existing employees can provide valuable assistance.</td>
<td></td>
</tr>
</tbody>
</table>

Setting up a new business — commencing from scratch

The most common reason for setting up a new business is the recognition of a gap in the market, where it is clear that existing providers are not catering for the demand for particular products or services. Also significant is the development of new products or services, when the person who has created something unique chooses to go into business to market their innovation or invention. Attempting to enter a market that is already well served by existing businesses entails having to attract customers away from competitors.

DID YOU KNOW?

Seventy per cent of all new businesses start from scratch, while 26 per cent are purchases of existing businesses. The remaining 4 per cent are businesses that have either been inherited from a family member, restarted from a previously failed business, or bought by employees from the original owners.

Goodwill is the monetary value attached to the reputation of a particular business.
Advantages and disadvantages of setting up a new business

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The owner has the freedom to set up the business exactly as he or she wishes.</td>
<td>• There is a high risk and a measure of uncertainty. Without a previous business reputation, it may prove difficult to secure finance.</td>
</tr>
<tr>
<td>• The owner can determine the pace of growth and change.</td>
<td>• Time is needed to develop a customer base, employ staff and develop lines of credit from suppliers.</td>
</tr>
<tr>
<td>• There is no goodwill for which the owner has to pay.</td>
<td>• If the startup period is slow, then profits may not be generated for some time.</td>
</tr>
<tr>
<td>• If funds are limited, it is possible to begin on a smaller scale.</td>
<td></td>
</tr>
</tbody>
</table>

Buying a franchise

Under a franchise agreement a person buys the rights to use the business name and distribute the products or services of an existing business. The business that grants the right to others to use its name and products is known as a franchisor, while the business that buys those rights is known as a franchisee. The franchisor supplies a known and advertised business name, the required training and staff development, a method of doing business, management skills and materials. The franchisee supplies the startup money and labour, operates the franchise business and agrees to abide by the terms and conditions of the franchise agreement.

People choose to buy a franchise in the hope of avoiding many of the problems of starting a new business. For a set fee, the small business owner receives the benefits of a successful business formula, a well-recognised name and established trademarks. Franchising has a success rate of almost three times that of independent businesses, largely because it involves an established business name backed up by managerial expertise. Franchising is the area of fastest business growth in Australia. Subway® (sandwiches and salads) is an example of a franchise. Other well-known
franchises include Tandy Electronics, McDonald's, Optus World, Dymocks Bookstores, 7 Eleven, Bakers Delight and The Athlete's Foot.

Ernst and Young Entrepreneurial Services, based in Melbourne, believes franchising is 'the key ongoing trend'. With busier lifestyles, and time often at a premium, Ernst and Young predicts that the demands for gardening, catering, car and home maintenance, and house cleaning will rapidly increase. Franchising lends itself to these business areas, especially as franchises are presently increasing at a rate of 14 per cent per year.

Advantages and disadvantages of buying a franchise

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Immediate benefit is derived from the franchisor's goodwill because the name is established.</td>
<td>• The franchisor controls the operations, with little scope for franchisee individuality.</td>
</tr>
<tr>
<td>• The franchisor often provides training and management backup.</td>
<td>• Profits must be shared with the franchisor through the payment of ongoing franchise fees.</td>
</tr>
<tr>
<td>• A franchisee can succeed despite having limited experience.</td>
<td>• The franchisor often charges additional service fees for advice.</td>
</tr>
<tr>
<td>• Equipment and premises design are usually established and operational.</td>
<td>• The franchisee is often required to purchase stock from the franchisor and cannot shop around for cheaper supplies.</td>
</tr>
<tr>
<td>• Well-planned advertising often exists.</td>
<td>• Contracts may be biased in favour of the franchisor.</td>
</tr>
<tr>
<td>• Volume buying is possible, often resulting in cheaper stock.</td>
<td>• The franchisee must share any burden of the franchisor's business mistakes.</td>
</tr>
<tr>
<td>• A business plan and proven business methods already exist.</td>
<td></td>
</tr>
</tbody>
</table>

TEST your understanding

1. Identify and explain the two most significant advantages and two most significant disadvantages of buying an existing business.
2. In what circumstances might someone choose to start a business from scratch?
3. Identify and explain the two most significant advantages and two most significant disadvantages of starting a new business from scratch.
4. List four different franchise businesses that operate in your suburb or town.
5. What does the franchisor receive in a franchise agreement? What does the franchisee receive? What does each party provide?
6. Suggest why businesses operating as a franchise have a success rate three times that of independent businesses.
7. Provide one main benefit of franchising for the: (a) franchisor (b) franchisee.
8. Identify the future prospects for franchise businesses.

APPLY your understanding

9. Create an information brochure on franchises. Include useful facts, organisations and websites that will assist a potential franchisee.
10. Bianca was bored working for someone else and decided to start her own business. She lives in a small Victorian country town with a population of approximately 2500. The town has no major shopping centre and no established franchises. Bianca decided to open a café in the town. Her mother provided the funding for the business and gave her what little advice she could. After only six months in business, Bianca realised that the business was not profitable. Her debts were increasing and she could see no way out of her problems. She wanted to sell the business but could not find a buyer.
   (a) Would it have been wiser for Bianca to purchase an established business rather than commencing from scratch? Give reasons for your answer.
   (b) What benefits would Bianca have gained if she had opened a franchise instead of an independently owned business?
   (c) What advice would you give to Bianca?
11. Select a small business that you buy from regularly and answer the following questions:
   (a) Why do you use this particular business?
   (b) What are the strengths and weaknesses of this business?
   (c) If this business were for sale, would you consider purchasing it? Give reasons for your answer.

DID YOU KNOW?

According to a report of the Franchise Council of Australia in March 2012:
• annual sales turnover of the franchising sector is estimated at $131 billion
• the franchising sector comprises over 69,900 business outlets
• there are approximately 1050 franchisors in Australia

Australia's largest franchise operation is LJ Hooker Real Estate.
An interview with Andrew Curry of Miracle Massage: remedial, sports and relaxation soft tissue therapy

Interviewer: Why did you want to establish your own business?

Andrew: After completing my Associate Diploma course, I wanted to work for a business that had employees who were all highly trained and whose training matched my level of training. Frustratingly, I was not able to find such a business, or one that supported their treatment with sound theoretical knowledge. That may sound a bit pretentious, but it was the main factor that prompted me to start my own business. Two other factors that further prompted me included the identification of a business opportunity and the existence of a potential customer base.

Interviewer: How did you identify a business opportunity?

Andrew: During the job interviews I asked a lot of questions — in a sense, I undertook some market research — to identify the markets being serviced, the range of therapies they offered, their price structure, and what strategies they used to achieve their business goals. The only business that offered a level of therapies and training that I desired was operating to maximum capacity. Therefore, I could see an opening for me to establish a business to satisfy unmet demand.

Interviewer: How did you identify a potential target market?

Andrew: While undertaking my course I worked part time at the local aquatic centre as a lifeguard and a swimming and fitness instructor. I therefore had a good following: a market of active, health-conscious people that I thought I could tap into.
**Interviewer**: As part of your course you were required to complete a business plan. How was this beneficial?

**Andrew**: It provided the basis upon which I was able to develop my business. Without it I would not have been aware of all the requirements of establishing a business. It forced me to undertake research, evaluate different business ideas and identify some long-term goals. But most importantly, I discovered that the single main cause for small business failure is inadequate cash flow. Consequently, I was determined to keep my cash flow positive. I did this by continuing with my work at the Australian Institute of Sport, which provided an external source of funds. This minimised the risk of early failure.

**Interviewer**: You once said that as a businessperson/entrepreneur, you take only moderate rather than high risks. Please elaborate.

**Andrew**: All businesses involve some degree of risk; and I enjoy such challenges. A great quote I came across recently sums up my approach: ‘Growth demands a temporary surrender of security’. However, the more calculated you make the decision and the more you take emotion out of the decision-making process, the more moderate the risk becomes. You minimise a high-risk strategy by approaching it objectively and gathering as much information as possible. I don’t like to take high risks, but I like to take high-risk situations and minimise the risks as much as possible. If this can’t be achieved then it is not worth following the idea.

**Interviewer**: What would you consider to be your main entrepreneurial skills?

**Andrew**: Being able to plan; confidence in my own ability, not because I’m arrogant but because I put a lot of time into developing my professional and business skills; being highly motivated; being honest and fair in all business dealings; being able to work well with people; being a competent communicator; being a lateral thinker; being prepared to take responsibility, especially for my employees; and being highly organised.

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**TEST your understanding**

1. Recall the factors that prompted Andrew to establish his own business.

2. Summarise how Andrew identified (a) a business opportunity and (b) a potential target market.

3. Outline whether you agree with Andrew when he says that an entrepreneur should take only moderate risks rather than high risks.

4. Explain the purpose of a business plan.

5. Account for the success of Miracle Massage.

**APPLY your understanding**

6. Compile a list of the relevant personal skills and qualities that should be considered before commencing each of the following businesses:
   (a) a take-away food store in a medium-sized country town
   (b) a child-care centre in an outer suburb of Melbourne
   (c) a house maintenance service operated from home
   (d) an accountancy practice in Geelong.

7. In groups of three or four, identify an opportunity for commencing a small business in your local area. Prepare a report, to be shared with the rest of the class, under the following headings:
   - Outline of business concept
   - Reasons for selecting this concept
   - Personal or other skills necessary to run the business
   - Likely demand for the product or service (is there a ‘gap in the market’?)
   - Innovation in product or service (or in the way these are delivered)
   - Existing competitors in the local area.

8. A friend has decided to establish a new restaurant. She asks you to advise her on the most appropriate legal ownership structure for this business venture. She asks you to advise her on the most appropriate legal ownership structure for this business venture.
   (a) Compile a list of the information you would need to have before making a recommendation.
   (b) Select two possible alternative ownership structures she could use and:
      (i) explain the advantages and disadvantages of each structure
      (ii) recommend one of the two structures, explaining why it would be the preferred option.
2.7 Location options and the factors that affect that choice

KEY CONCEPT One of the key decisions to be made by a prospective small business owner concerns the location of the business.

Different types of business location

Different types of businesses will be suited to different locations, and the business owner must consider a number of factors when determining the most appropriate location for their particular business. A suitable location might be a shopping centre or retail shopping strip, or the business owner may choose an online presence or prefer a home-based business.

Local government zoning determines where some types of businesses can operate. Zoning is designed to keep business activities separate from residential areas and prevent householders being disturbed by businesses operating late at night. The process sets aside commercial and industrial zones and it is in these areas that most small businesses will operate.

Shopping centres

The suburban shopping centre has been in existence in Australia for less than 50 years. Typical suburban shopping centres have one or more supermarkets and a number of small specialist stores such as hairdressers, clothing stores, pharmacies, cafes, newsagents, and often a post office and bank branches. They have parking for several hundred cars, and most of the shops are under cover, facing in to internal walkways. Larger regional shopping centres, such as Chadstone, Northland, Doncaster, Highpoint and Eastland often include major department stores and cinemas, as well as the full range of specialist retail outlets.

A well-established business in a busy shopping centre is an excellent option for a prospective small business owner wishing to purchase an existing business, although a new business in an established shopping centre is most likely to be successful if there are no existing competitors.

Retail shopping strips

In metropolitan Melbourne, shopping strips developed along major arterial roads during the second half of the 19th century. The busiest shopping strips were located near public transport, such as tram routes, and near suburban railway stations. Sydney Road, Glenferrie Road and Chapel Street are all examples of major roads in Melbourne with extended shopping strips.

Many shopping strips in the metropolitan area have struggled to compete with the growth of shopping centres offering off-street parking and an air-conditioned environment. Retail shopping strips offer the advantage of high visibility for passing traffic, but many shopping strips suffer from lack of parking, particularly those located on major arterial roads which are clearways during peak hours. Because many shopping centres close in the evenings, shopping strips have become popular locations for restaurants and ‘after hours’ entertainment. Lygon Street in Carlton is a good example of this.
Online presence
Most small business owners have the use of a computer and access to the Internet. This allows for the possibility of conducting business online, so the business is no longer limited to dealing with people who can physically visit its premises. Such online activities can include:
• using email to communicate with customers or suppliers
• using the Internet to find information, such as prices, business contact details, and different products and market trends
• setting up a website to provide information about available products and services, or as a means by which customers can order goods online
• using the Internet for online banking and payment of bills.

Home-based businesses
Many tradespeople and other service providers have traditionally run their businesses from home. Plumbers, electricians, painters and various other home service providers do not need a dedicated business location as they provide services in the customer’s own home or business premises. Increasingly, the development of information and communication technologies has allowed home-based businesses to use mobile phones, the Internet and computer applications. While home-based businesses have traditionally been service providers rather than goods retailers, online ordering and payment has allowed for the expansion of home-based retail businesses.

Factors affecting choice of business location
Different types of business will be influenced to make different types of location decisions. The factors influencing a retail business (such as a clothing store or café) are quite different from those influencing a non-retail business (such as manufacturing or wholesaling).

Visibility
Visibility is one of the most important factors for the success of businesses that are retail and service based, such as clothing stores and hairdressers. A business wanting high visibility would locate in a prime shopping area, such as a shopping centre or main street. Manufacturing businesses arrange to transport their goods to various retail outlets, so do not need a highly visible location to attract customers.

Cost
Cost is another factor to consider when determining the location of a business. Leasing or purchasing a central location in a busy shopping centre will be far more expensive than a location with lower levels of passing customer traffic. The business owner will need to be confident of generating sufficient business to justify the higher cost. If the business is a café or food outlet, passing traffic is a major source of customers, so cutting costs by selecting a less visible location may be counterproductive.

Proximity to customers and suppliers
Ideally, all businesses would choose to locate close to both customers and suppliers, both for the convenience of customers and to minimise costs of transporting...
2.7 Location options and the factors that affect that choice

DID YOU KNOW?

There are over 22,000 hectares of zoned industrial land across metropolitan Melbourne (although 5,145 hectares of this land are vacant). That’s over 4,500 times the area of the MCG (the MCG with stands is about 5 hectares). For comparison, in Sydney there are approximately 14,800 hectares of industrial land. Adelaide has 12,700 hectares, of which 1300 hectares are vacant.

materials or products from suppliers. In reality such an ideal is rarely possible, so this decision usually depends on the nature of the business.

Retail businesses must be convenient for their customers, so shopping centres or shopping strips with off-street parking will be the primary choice for businesses such as butchers, florists, bakeries or video hire stores. Unless the business has to transport bulky goods, proximity to suppliers is not an issue.

On the other hand, proximity to customers is generally not an issue for a manufacturing business. Access to transport networks is more important — for the movement of raw materials from suppliers, as well as to allow for distribution of completed goods to retailers. Industrial parks established in outer suburban areas such as Somerton, South Dandenong or Laverton North are zoned to provide convenient locations for manufacturing, transport and warehousing businesses. These industrial parks are close to major freeways and roads leading to interstate or provincial centres.

Proximity to competitors

Proximity to competitors is primarily an issue for retailers and service providers. It would be unwise to establish a new business in a shopping centre that already has one or more businesses of that type, unless existing businesses are not satisfying the level of demand. Being the first to establish a particular type of business in a shopping precinct, or otherwise ensuring there are no local competitors, is likely to increase the chances of success.

Complementary businesses

The proximity of complementary businesses can assist in bringing customers to a new business. Complementary businesses offer goods or services aimed at the same customers. For example, an electrical store and a furniture store will both be selling to householders. Many shopping centres in new suburbs contain homemaker centres with these types of businesses, as well as bedding stores, hardware, gardening and barbecue shops, all aimed at people building new homes. A pharmacy and a doctor’s surgery is another example of complementary businesses.

TEST your understanding

1. In what ways do local council decisions affect the location of different types of businesses?
2. What advantages do shopping centres have over traditional ‘main street’ shopping strips?
3. How can an online presence assist a business owner to operate from home?
4. Explain how each of the factors listed below can influence the location of:
   (a) a retail business
   (b) a manufacturing business.
   • visibility
   • cost of rent or purchase
   • proximity to customers and suppliers
   • proximity to competitors
   • complementary businesses

APPLY your understanding

5. Choose a small business with which you are familiar. Describe the ways in which this business has advantages or disadvantages in relation to:
   (a) visibility
   (b) cost (in terms of likely premises expenses and transport costs)
   (c) proximity to customers
   (d) proximity to suppliers
   (e) proximity to any complementary businesses.
6. In groups of two or three, discuss what factors need to be considered when choosing a location for the following businesses:
   (a) fast-food outlet
   (b) dentist’s surgery
   (c) agricultural machinery supplier
   (d) VCE coaching college
   (e) hair salon
   (f) panel beater.
   Choose a spokesperson to share the group’s comments with the rest of the class.
2.8 Business support services

**KEY CONCEPT** A variety of support services exist to provide assistance to a business owner who lacks expertise. Some of them are free, and some are in the form of other businesses which charge for their services and some are in the form of other businesses which charge for their services.

**Legal and financial advice**

While small business owners are immersed in the day-to-day operations of their businesses, solicitors, accountants and bank managers keep up to date with changes that occur in the business’s legal, economic and financial environment. Maintaining a good relationship and regular contact with these advisors is essential for business success.

**Solicitors**

Solicitors provide information concerning business formation and structures, registration, contracts, leases, partnership agreements, patents and legislation. Solicitors are up to date with any changes to company law and can advise the small business owner on how best to deal with such changes.

**Accountants**

Accountants provide valuable advice on all financial management issues and taxation obligations. They have access to the latest changes to taxation and financial reporting requirements.

**Bank managers**

Bank managers are another valuable contact who can provide information and advice on financial services, sources of finance, and basic business management. They usually have a wide range of experience to draw on and can access the resources of the bank.

Small business owners should regularly seek legal and financial advice from professionals.

Technological advice

Establishing an online business presence, networking a number of computers within the business premises, or making maximum use of mobile devices can all improve business efficiency. Purchasing equipment from a dealer who offers advice and backup support, or establishing a relationship with an ICT consultant, is another important decision to be made by the prospective business owner. As a technological support service for small business the federal government has established the digitalbusiness.gov.au website. This service provides free practical advice on how best to take advantage of the Internet.

Community-based services

Many small business owners are able to join service clubs such as Rotary, Apex and Lions. While the primary focus of the clubs is to provide businesspeople with an opportunity to engage in community service projects, membership can put the small business owner in touch with other local businesses. Advice, support and information can be accessed through such local networks.

Business Enterprise Centres (BEC) Australia

BEC Australia is a not-for-profit network of business enterprise centres which provide support to small business owners. These centres provide information, mentoring, training programs, workshops and seminars, referrals to accountants, solicitors and government programs, and access to networks of other businesspeople.

Formal networks — private

Small business owners can access information and support from a large number of professional organisations.

Chambers of commerce

These are local associations of businesspeople, usually centred around a suburb or region. They provide legal and financial help, taxation advice, an explanation of legislation, and industrial relations information. They also organise training seminars, arrange industry conferences and liaise with government departments.

Victorian Employers Chamber of Commerce and Industry (VECCI)

VECCI is the state’s main employer group and Australia’s largest multi-industry employer organisation. It is concerned primarily with human resources and industrial relations issues, and provides support for members who may be in dispute with their employees.

Small Business Association of Australia and New Zealand

This lobby group provides a forum for exchanging news and views relating to small business matters. It also organises training days and promotes the role of small business and its importance in the total economy.
Trade associations

Trade associations offer specific industry information and assistance. Examples include the Australian Retailers Association and the Australian Medical Association. Each association is made up of organisations in the same line of business, so it can provide specific details about product development and industry trends.

Formal networks — federal, state and local governments

All levels of government provide a range of services to businesses.

Federal government

The federal government operates a website, www.business.gov.au, as a service to businesses of all sizes, offering access to all government departments with advice on everything from fair trading to taxation. Government departments such as the Department of Industry provide specific advice and support to businesses on issues such as research and development of new products.

State government

In Victoria, the Department of Business and Innovation's Business Victoria website (www.business.vic.gov.au) provides entry and links to information and support on all aspects of starting and managing a business. Also, Victorian Business Centres offer a centralised range of business services from all levels of government and the private sector.

Local government

Local councils offer advice on land zoning, assist with subsidised land and consider development applications.

Informal networks

Businesspeople can use their network of friends and colleagues, as well as other local business owners to gain information and advice. Active membership of local chambers of commerce, trade associations and service clubs can lead to friendships and contacts that go beyond the formal activities of these bodies.

TEST your understanding

1. Identify and explain the type of support and advice that can be provided by each of the following:
   - solicitors
   - accountants
   - bank managers
   - BEC Australia
   - chambers of commerce

2. What benefits can a small business owner gain by joining a service club, such as Rotary or Lions?

APPLY your understanding

3. Irene wishes to set up a hot bread shop in her local shopping centre. Identify five different individuals or organisations she could approach for support, and outline the type of support she could expect to receive from each.
2.9 Practices which contribute to ethical and socially responsible management with respect to decision making

**KEY CONCEPT** If a business is to operate in an ethical and socially responsible manner, this must begin at the decision-making stage. Entering the business world with a determination to adhere to a set of standards provides the foundation for future business practices.

At every stage of the decision-making process there is an opportunity for the prospective business owner to act in an ethical and socially responsible manner.

**Motivation behind starting a small business**

While all businesses aim to make a profit and maximise their market share, to do so in an unethical manner is likely to be counter-productive — customers will soon realise if they are being cheated. Anyone who decides to start a business intending to exploit their customers is unlikely to continue in business for long. Customers have certain rights created by legislation. The Commonwealth *Competition and Consumer Act 2010* and the Victorian *Fair Trading Act 1999* protect customers from misleading and deceptive business behaviour. Businesses must comply with these laws.

**Business concept development and innovation**

The decision about which goods and/or services to provide, and to whom, is another area in which an ethical and socially responsible approach is essential. Businesses which conform to prevailing social values will have the greatest chance of success. For example, issues relating to recycling and the environment are at the forefront of public opinion. Any business concept that can cut waste and conserve resources will not only be seen to be socially responsible, but will attract customers who share these values. Innovations which conserve scarce resources can form the basis of a very successful business concept.

Trevor Murphy and Ken Harrison from Coolum in Queensland have developed a shower timer that works on volume of water used rather than time in the shower. The device can save up to 50 per cent of water usage in showers, thus contributing to considerable household water savings.
Forms of business ownership

Decisions about business ownership can have an impact on a number of other stakeholders. If the business is set up as a partnership, each partner has a responsibility to work closely with the other partners and ensure maximum levels of communication. Many partnerships fail because one partner attempts to make decisions without consultation. While it may be more time consuming to consult on every issue, acting in a fair, open and ethical manner towards other partners can result in the level of cooperation and trust necessary for the business to thrive. Similar principles apply if the business is incorporated. Although many proprietary companies have family and friends as shareholders, this does not absolve directors from fulfilling all their legal obligations. Shareholders should be provided with annual financial reports and access to a shareholders meeting at least once a year.

Location options

A business location must be suitable for the type of business proposed, and should take account of neighbouring businesses and residential areas. In many cases council zoning regulations prevent inappropriate placement of businesses, such as locating a nightclub in a suburban residential area, but often a commercial or light industrial zone allows for a wide variety of different businesses. For example, someone wishing to start up a café or restaurant should be aware of the quantities of food waste they may generate, possible unpleasant odours that may result, and vermin that could be attracted, and therefore how neighbouring businesses may be affected.

Use of business support services

It is completely unethical to compromise professional support services in any way. For example, an accountant who prepares taxation records for a business owner expects to be given all the necessary information to be able to submit true and accurate income figures for assessment. It is unreasonable to place the accountant’s professional reputation at risk by withholding relevant information in the hope of avoiding tax obligations. In the same way, if a solicitor is to represent the legal interests of a business, he or she must be given accurate information.

TEST your understanding

1. ‘A business owner should be motivated by more than profits.’ Explain the meaning of this quote.
2. Explain how a socially responsible business concept can contribute to business success.
3. What are the key ethical issues that might arise in relation to different types of business ownership?
4. Give two examples of factors that should be considered when making an ethical and socially responsible decision about a business location.
5. Why is it important to approach professional support services in an ethical and socially responsible manner?

APPLY your understanding

6. Initial decision making prior to the establishment of a business can ultimately affect a variety of stakeholders. For the following stakeholders, explain how each might be affected by whether or not the business owner or manager makes those decisions in an ethical and socially responsible manner:
   (a) customers
   (b) partners or shareholders
   (c) competitors
   (d) neighbouring businesses and householders
   (e) professional and other support services.
KEY CONCEPT Thorough market research is necessary before deciding to start a business.

**Researching local business**

Two students interviewed Jane, the owner of a local business, At Home, which sells up-market garden accessories and homewares.

Q What were the reasons you decided to work for yourself? *I was always having disputes with my last employer, they were as stubborn as I was.*

Q How did you decide on this particular business concept? *I love homewares and glossy magazines and also enjoy my beautiful garden, so that was where my passions lay.*

Q What personal qualities are necessary for operating a successful small business? *Energy! A ready smile and an ‘I will not be beaten’ attitude.*

Q What were the major decisions you had to make when you first started your business? *Choosing the right location was crucial because not everyone is interested in up-market garden accessories. We chose a location which had the right demographics — people took pride in their gardens and most of the people who live in the area are professional working people with cash to spend. It was also a big decision to set up our website where customers can order our garden accessories online.*

Q Could you outline any mistakes that you made during the commencement period? *Well I wanted some time with my family and closed for the long weekend. I must have lost a lot of business! I could have asked a friend to open for me.*

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**TEST your understanding**

1 In pairs, arrange an interview with a local small business owner. You might like to use the questions in the interview above, or make up your own. Prepare a report for presentation to the rest of the class, including the following information:

- the reasons the business owner decided to work for themselves
- reasons for deciding on the particular business concept
- personal qualities they felt were necessary for operating a successful small business
- major decisions they faced when they commenced their business
- any mistakes that they made during the commencement period
- what they would have done differently during the commencement period
- a brief history of the business
- successes and failures along the way
- the main reasons they believe small businesses often fail
- the main reasons for this business’s success

- advice the business owner would offer to someone commencing a small business.

2 Arrange to interview a partner in a local business. Investigate the following topics:

- the number of people in the partnership
- the advantages of a partnership as opposed to sole trading
- the contents of the partnership agreement
- a brief history of the business.

3 Interview the owner of a local private company. Prepare a report outlining the following information:

- the full name of the business
- a brief history of the business
- the business’s main activity
- why the owner decided to incorporate
- the expenses involved in setting up and operating a private company
- the main problems involved in operating the business
- the owner’s long-term plans for the business
- changes that the owner would like to make to the organisation and operation of the business.
**EXTEND your understanding**

4 Visit the local shopping centre or mall. Draw a map of the centre, using a colour code for different types of business (e.g., different colours for clothing stores, cafes, hairdressers). Answer the following questions:

(a) What advantages does the shopping centre have in terms of location, parking facilities, public transport access, etc.?

(b) Identify examples of businesses in direct competition with each other. How might this affect the success of each business?

(c) Identify the best located shops. Explain why they have the best locations.

(d) Are there any products or services that are not available at the local shopping centre that could provide potential business concepts?

(e) Is a major supermarket chain represented at the centre? Does the presence of the supermarket draw consumers to the centre (ask a sample of shoppers and business owners to get their opinions)?

(f) Identify examples of complementary businesses.

(g) Is there a nearby traditional shopping strip? Is there any evidence that the presence of the shopping centre has affected businesses in the shopping strip?

(h) Is there a business association or chamber of commerce representing business owners in the centre? What role does this association play in supporting local traders?

5 Use the Business support services weblinks in your eBookPLUS to research the websites of each of the following professional and business support organisations, and prepare a report on each:

- Law Institute of Victoria
- Institute of Chartered Accountants
- VECCI.

Your report should include answers to the following questions:

- What are the major objectives of the organisation?
- What services does each organisation offer its members?
- How does a person or business become a member?
- What services are offered to consumers and other members of the community?
- What is the educational, training and career preparation role of the organisation?

6 Use the BEC Australia weblink in your eBookPLUS to answer the following questions about Business Enterprise Centres (BEC) Australia:

- When and by whom was this organisation set up?
- How has the organisation developed and grown following its initial establishment?
- BEC Australia is a not-for-profit organisation. How does it fund its services?
- What are the key objectives of BEC Australia?
- Identify five different services offered by BEC Australia, and explain how each operates.
- Identify the closest BEC Australia office to your home or school.

7 Use the Franchise Council of Australia weblink in your eBookPLUS to answer the following questions.

- What are the main objectives of this organisation?
- Who can be a member of the organisation?
- What services are offered to its members?

8 Commonwealth and state business support websites provide information on the various legal and regulatory requirements that have to be met by a prospective business owner. Using these websites, select two such legal requirements and outline the processes the prospective business owner has to follow in order to comply with these requirements.

9 Arrange for a representative of the local chamber of commerce, or the local traders association, or a local service club (Rotary, Lions or Apex) to visit your class. Before the visit, prepare questions to ask the representative on issues relevant to both informal and formal support services provided for local business owners. If possible, video the session (obtain the visitor’s permission in advance). Write a 500-word report on what you learned from the visit.

10 Most trade or professional organisations formulate codes of practice or codes of conduct for their members, encouraging ethical and socially responsible behaviour on the part of those members.

(a) Visit the website of one such organisation and make a copy of the code of practice or code of conduct of the organisation.

(b) Explain how each item in the code encourages members to operate their businesses in an ethical and socially responsible manner.
Summary

The motivation behind starting a small business
- Any person wanting to set up a small business must be very clear about their objectives and motivation.
- They must also be able to honestly assess their own personal skills and qualities to determine whether they have the necessary personal attributes to operate a successful business.

Business concept development and initial market research
- A business concept describes the core activities of the business, the specific features and value of the goods or services it provides, and the target market.
- The prospective business owner should carry out some initial market research to determine the viability of their business concept.

Innovation and entrepreneurship as a source of business opportunity
- Invention and innovation can lead to the development of new or improved products or services, which can form the basis for the establishment of a business to sell those products or services.
- Converting an innovative idea into a business concept often requires the creativity and risk taking of an entrepreneur for success to be achieved.

Forms of business ownership and business structure
- A number of different legal ownership structures are available to a person wishing to establish a small business.
- The most common are unincorporated businesses such as sole traders and partnerships, which each carry particular legal requirements and responsibilities.
- Incorporation allows a business to become a company, which is a legal entity separate from its owners, and which provides the benefits of limited liability to those owners.
- Proprietary companies and public companies are the two major forms of incorporated business ownership.
- Other forms of business entities, such as cooperatives and trusts, can be created to perform particular types of business function.

Purchasing an established business or commencing a new business
- A person wishing to go into business has a choice of either purchasing an existing small business, with all its existing strengths and weaknesses, or commencing a completely new business.
- Buying a franchise to make use of an existing brand name and reputation is also a popular way of going into business.

Location options
- One of the key decisions to be made by a prospective small business owner concerns the actual location of the business.
- Different types of businesses will be suited to different locations, and the business owner must consider a number of factors when determining the most appropriate location for their particular business.

Business support services
- The small business owner has access to a number of other businesses, such as solicitors, accountants and banks, which provide expert professional advice and support in return for fees and other remuneration.
- Various levels of government and not-for-profit organisations also provide a wide variety of support services for business.
- Small business owners can also gain support and advice through membership of formal organisations and through informal networks.

Ethical and socially responsible management
- If a business is to operate in an ethical and socially responsible manner, this must begin at the decision-making stage.
- Entering the business world with a determination to adhere to a set of standards provides the foundation for future business practices.
Review questions

**TEST your understanding**

1. Identify and explain the key factors that may motivate an individual to become a small business owner.
2. What are the key personal characteristics that are likely to be present in a successful small business owner?
3. What is a business concept?
4. How might a prospective business owner devise a business concept?
5. Outline an initial market research process that could be utilised by a prospective small business owner to determine market conditions for their proposed product or service.
6. Explain the role of innovation and invention in the establishment of new businesses.
7. What is entrepreneurship, and why is it so important for business success?
8. What is the difference between an incorporated and an unincorporated business entity?
9. Identify and explain three advantages and three disadvantages of each of the following types of business ownership:
   - (a) sole trader
   - (b) partnership
   - (c) company.
10. What is a cooperative, and in what circumstances are cooperatives established?
11. Why might a business owner wish to operate a business through a trust?
12. What are the main benefits of buying an established business?
13. Identify two issues that the purchaser of an established business needs to be aware of.
14. Identify and explain two benefits and two risks in starting a new business from scratch.
15. What advantages do shopping centres have over traditional retail shopping strips?
16. Identify three types of businesses that can operate as home-based businesses, and explain why they are suited to this type of operation.
17. List and explain the key factors that can influence the location of a business.
18. Identify five possible sources of support and advice for a prospective business owner, and explain the services offered by each.
19. Why is it important that the small business owner adopts an ethical approach when making initial decisions about the nature and structure of a proposed business?
20. Explain how an ethical and socially responsible approach can affect various stakeholders in the business.
21. Select the most appropriate words from the following list to complete the paragraph.

    | sole trader | market conditions | franchisee | innovation |
    | partnership | unlimited liability | market research | franchisor |
    | demand | entrepreneurship | shareholders | |
    | limited liability | proprietary company | incorporation | |

Before establishing a business, a prospective business owner needs to determine whether there is a ________ for the goods and services to be supplied. By carrying out a process of ________, he or she can determine whether appropriate ________ exist to give the business a chance of success. A new invention can often provide the stimulus to begin a new business, although sometimes the improvement of an existing product, known as an ________, can serve the same purpose. Recognising such opportunities and being able to act on them is an indication of the qualities of ________ in the prospective business owner. Some small business owners enter into franchise agreements with a ________, meaning that they operate as a ________.

The business owner needs to decide whether to create a separate legal entity through a process of ________ and take advantage of the benefits of ________. This would involve setting up a ________ with between two and 50 ________. Alternatively, a small business owner can choose to operate as a ________ or go into business with one or more others to form a ________. In both of these types of business, the owners can be personally responsible for the debts of the business, a responsibility known as ________.
**APPLY your understanding**

22 Identify a business of which you have some knowledge. It could be a business which employs a member of your family or a friend; or where you have part-time work. Interview the owner of the business and prepare a report, covering the following issues. Photocopy this table and take it to the interview — fill in the owner’s responses in the right-hand column.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Owner’s Response</th>
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<tbody>
<tr>
<td>(a) What was the owner’s original motivation for going into business?</td>
<td></td>
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<tr>
<td>(b) What personal characteristics does the owner believe they have that enable them to manage a small business successfully?</td>
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<tr>
<td>(c) What is the basic business concept of the business?</td>
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<td>(d) What market research did the owner undertake before commencing the business?</td>
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<tr>
<td>(e) Has the owner made use of any innovation, or a particular specialty that sets them aside from competitors?</td>
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<td>(f) What is the legal ownership structure of the business?</td>
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<tr>
<td>(g) What advantages does the owner see in this type of ownership?</td>
<td></td>
</tr>
<tr>
<td>(h) Does the owner see any disadvantages in this type of ownership?</td>
<td></td>
</tr>
<tr>
<td>(i) What legal processes did the owner have to go through to set up the business?</td>
<td></td>
</tr>
<tr>
<td>(j) Was the business purchased from a previous owner or started from scratch?</td>
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<tr>
<td>(k) What benefits did the owner experience from either starting from scratch or buying an established business?</td>
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<tr>
<td>(l) What were the drawbacks in either starting from scratch or buying an established business?</td>
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<tr>
<td>(m) What are the advantages or disadvantages of the current location of the business?</td>
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<tr>
<td>(n) Would the owner prefer a different location? If so, where?</td>
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<tr>
<td>(o) Identify any sources of support and advice the owner has relied on, both in setting up the business and in the ongoing running of the business.</td>
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<tr>
<td>(p) Is the business owner a member of any trade associations, service clubs, local traders’ organisations or a chamber of commerce? What benefits does the owner derive from such memberships?</td>
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<tr>
<td>(q) In what ways does the owner believe that they manage the business in an ethical and socially responsible manner? What benefits do they believe are gained from managing the business in this way?</td>
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School-assessed coursework

OUTCOME 2
Apply decision-making and planning skills to establish and operate a small business, and evaluate the management of an ethical and a socially responsible small business.

ASSESSMENT task — case study analysis

A sea change

Phillip and Janice worked in a bank, but had always wanted to run their own business. While on holiday in a small seaside town, they noticed that the local general store and take-away food outlet was up for sale. The business was the only one of its type in the town, but the town is very small and only seems to have a reasonably large population during summer and holiday periods, when the local camping and caravan park and other holiday accommodation are all full. They are very interested in purchasing the store, but realise they have to make a number of important decisions before committing to actually making an offer for the store.

Prepare advice for Phillip and Janice on the issues they need to consider before they take the next step. Your advice should be presented under the following headings:

1. Motivation for going into business, and personal skills
2. Business concept
3. Possibilities for innovation and entrepreneurship
4. Forms of business ownership, and possible advantages and disadvantages
5. The possible advantages and disadvantages of purchasing this established business
6. Location issues
7. Support services that they should utilise
8. Issues of ethics and social responsibility