CHAPTER 1
The business idea

1.1 Overview

1.1.1 Why it is important

A business idea can come from anywhere, just ask Gary Leech. After toying with the idea of producing hand-cooked potato chips and experimenting with different potatoes, slice thicknesses and oil temperatures, Leech produced the first bag of Kettle Chips in 1982. From its humble beginnings sprang an enormously successful brand. When Gary Leech and his partners sold the business to Arnott’s Biscuits, Kettle Chips had an annual turnover of $18 million. Time has passed and Snack Brands Australia (formerly Snack Foods Limited) now owns Kettle Chips, but the point remains. Leech is an entrepreneur who was prepared to take a risk. This chapter will explore where business ideas come from and what needs to be considered before a business is established.

FAMOUS ENTREPRENEUR: RICHARD BRANSON

Richard Branson is the founder of the Virgin group, which comprises hundreds of companies including an airline, a train company and a mobile phone network. He started his first business at the age of 16 — a magazine called Student. In 1972, when aged 22, he launched the record label Virgin Records with Nik Powell.

You may have seen Branson in the media because he is famous for his publicity stunts whenever Virgin launches a new business or project. One of Branson’s current big ideas is commercial space travel. If you have heard Richard Branson speaking, you will know that he is passionate and enthusiastic. He listens to staff and customers, carrying a notebook with him wherever he goes so that he can write down what he sees and hears. He then follows up on the ideas. He shares Virgin’s future plans with his staff, and his vision inspires people to perform at their best. Branson has endeavoured to create an atmosphere that is fun and open to suggestions, gripes and innovation. He encourages staff input and prefers them to work in teams to produce the best ideas.

Branson is not afraid to take a risk and, despite his reputation as a highly successful entrepreneur, he has had failures. Have you ever heard of Virgin Cola? It was launched in 1994 when Branson was looking for a product to rival Pepsi and Coca-Cola. By 2012, the company producing the drink had fallen into administration and production ceased. Branson considers the massive failure a learning experience.
1.1.2 What you will learn

**Key knowledge**

Use each of the points from the VCE Business Management Study Design below as a heading in your summary notes.

- The methods by which a culture of business innovation and entrepreneurship may be fostered in a nation, such as government investment in research and development, council grants for new businesses, business mentorships, school-based educational programs in entrepreneurship, and the creation of regional business start-up hubs.

- Sources of business opportunity such as innovation and entrepreneurship, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets.

- The personal motivation behind starting a business such as the desire for independence both financially and personally, to make a profit and to fulfil a market and/or social need.

- The importance of goal setting in business.

- The characteristics of successful business managers and business entrepreneurs and how these characteristics contribute to business success.

- The relationship between business opportunities and business concept development.

- The business idea.

- The importance of business concept development.

**Key skills**

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

- Identify business opportunities
- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations


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4 Jacaranda Key Concepts in VCE Business Management Units 1 & 2 Fifth Edition
1.2 BACKGROUND KNOWLEDGE Introduction to business

BACKGROUND INFORMATION
- Businesses can be categorised by size, sector and the industry in which they operate.

A business is any activity that is conducted by an individual or individuals to produce and sell goods and services that will satisfy the needs of society, with the main objective of making a profit. As well as making profit for owners, businesses make important contributions to the economic and social wellbeing of our nation. As you study this subject you should realise that businesses can be classified in a variety of ways. Just like soft drinks, businesses come in different sizes. They also come in different flavours; that is, they can be classified by the part of the economy that they operate in and also according to the particular good or service that they produce.

Businesses can be categorised by size, as well as the sector and industry that they operate in. Myer, Australia’s largest department store group by revenue and store count, is a privately owned retailer, employing over 14 000 people.
1.2.1 Business size

While there is no single universally accepted definition of a small, medium or large business, a number of measurements can be used to determine the size of a business, including:

- the number of employees (those who are hired to do work for the business) — a large number of employees, for example, will suggest that a business is large. Many small businesses in Australia have no employees, as the owner or owners operate the business on their own. The Australian Bureau of Statistics (ABS) refers to these businesses as ‘non-employing’. In the past, the ABS defined a small business as a business that employs fewer than 20 people. Many people continue to use this definition. However, the Fair Work Commission defines a small business as one that has fewer than 15 employees. Historically, the ABS has defined a medium business as one that employs 20 or more people, but fewer than 200 people; a large business has been considered to be one that employs 200 or more people.
- the number of owners (of the business) — for example, if a business is a sole trader (a type of business that has one owner), it is likely to be small. Medium and large businesses tend to be companies with many owners (or shareholders).
- the legal structure — for example, is the business set up as a sole trader, partnership or company?
- the amount of revenue earned — for example, a large business will earn revenue of several million dollars annually. The Australian Taxation Office (ATO) defines a small business as one that has less than $10 million in annual turnover (the money received from sales). Large businesses are defined as those with turnover levels above $250 million.
- the amount of assets owned — for example, the Australian Bureau of Statistics (ABS) has historically defined a large business as one that has assets worth more than $200 million.
- market share (the proportion of total sales in a given market or industry that is controlled or held by a business) — a small market share, for example, may suggest that a business is small.

We’ve looked at a number of measurements for distinguishing the size of a business, but there are many other factors that can help us to make a final judgement about the size of a business, such as:

- who makes most management decisions, such as who to hire, what to produce, how to advertise a product? — if it is the owner, then the business is most likely small. By comparison, managers working on behalf of the owners typically make the decisions in medium-sized and large businesses.
- who provides most of the capital (finance)? — the owner of a small business is likely to provide most of the capital. Medium-sized and large businesses are able to raise large amounts of capital, perhaps by taking on more debt, such as through a bank loan, or by issuing more shares.
- is the business independently owned and operated? — small businesses tend to be owned and operated by the same person, with the owner able to make independent decisions. For example, the owner of a local hamburger shop will be able to decide independently what food he or she will serve, while a large business like Coca-Cola will have entire teams of individuals developing products in line with the company’s strategic goals.
- how many locations does the business have? — a business that is locally based is likely to be small. Note that this does not mean that the business will only trade locally, as many small businesses are able to export products to overseas markets. Small businesses will be based in the one location whereas a large multinational corporation (or company) may have offices around the world.

The table on the next page summarises the features of, and distinctions between, the different sized businesses.
Common classification of businesses based on size

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business type</td>
<td>Corner store, local mechanic, hairdressing salon</td>
<td>Services club, motel/hotel, engineering factory</td>
<td>Woolworths, Qantas, National Australia Bank</td>
</tr>
<tr>
<td>Number of employees according to the ABS business register definition</td>
<td>Fewer than 20 employees</td>
<td>20–199 employees</td>
<td>200 or more employees</td>
</tr>
<tr>
<td>Type of ownership</td>
<td>Independently owned and operated by usually one or two people</td>
<td>Owned and operated by a few people and/or private shareholders</td>
<td>Owned usually by thousands of public shareholders</td>
</tr>
<tr>
<td>Most common legal structure</td>
<td>Sole trader, partnership</td>
<td>Partnership, private company</td>
<td>Public company, private company (numerous)</td>
</tr>
<tr>
<td>Decision making</td>
<td>Owner responsible for majority of decisions; simple and quick implementation of decisions</td>
<td>Owner basically responsible for majority of decisions; more complicated decision making with slower implementation, due to influence of directors</td>
<td>Complex decision making, due to division of responsibilities among directors, senior and middle management; possibly slow implementation of decisions, due to the layers of management</td>
</tr>
<tr>
<td>Sources of finance</td>
<td>Owner (usually from own savings or a loan); difficulty in accessing loans</td>
<td>Owners'/partners’ own savings or a loan and/or private shareholders; easier accessibility to larger loans</td>
<td>Many sources, including cash reserves, retained profit, sale of shares, and loans from domestic and overseas institutions</td>
</tr>
<tr>
<td>Market share</td>
<td>Small, usually local area; not dominant in the industry</td>
<td>Medium-sized, due to dominance within a geographic region; some market dominance</td>
<td>Large, especially for multinational corporations that dominate the markets of many countries</td>
</tr>
</tbody>
</table>

Australia Post is a large business because it employs more than 34 000 employees and earned revenue of $6.8 billion in 2016–17. Australia Post is also a government business enterprise (GBE), as the Commonwealth Government is its sole shareholder. It receives no taxpayer funding but has paid more than $2 billion to the Australian government over the past decade. As a GBE it operates in the public sector, but it also operates in the transport, postal and warehousing industries.
1.2.2 Public or private sector

According to the ABS, just over 2.2 million businesses were operating in the private sector in June 2017. The private sector is the part of Australia’s economy that is operated by private individuals and companies usually for the purpose of making profit. Businesses such as sole traders, partnerships and companies make up the private sector. The public sector is the part of Australia’s economy that is operated by government. Businesses operating in the public sector are the least common type of business, according to the ABS. It estimated that in 2016–17, there were only 393 public sector businesses actively trading goods and services. Businesses operating in the public sector are referred to as government business enterprises (GBEs); these are businesses that are owned and operated by the government.

The top five public listed companies in Australia in relation to total revenue in 2017 were Wesfarmers (including Bunnings, Target and Kmart), Woolworths, Commonwealth Bank of Australia, BHP and Westpac Banking Corporation.

1.2.3 Business activity

Businesses can also be classified under the industry sector in which they operate. These sectors are known as primary, secondary and tertiary, and are determined by the good or service that businesses produce. Businesses such as OZ Minerals Ltd are involved in primary industry (farming, mining, forestry). These are industries concerned with extracting resources directly from nature. Manufacturers such as Kellogg (Aust.) Pty Ltd operate in the secondary industry (where raw materials are turned into finished or semi-finished products). The secondary industry takes raw materials from the primary sector and adds value to them, by processing or manufacturing materials, or through assembly and construction. The third category is the tertiary industry, which involves the provision of services. For example, businesses in the tertiary industry will operate in wholesaling, retailing and transport. Optus is a large company that works in the tertiary industry. The tertiary sector can be further divided into the quaternary sector, which involves the provision of information in areas such as the media, computing, finance, property and education, and the quinary sector, which involves paid and voluntary domestic services.

Australian businesses can also be categorised by the individual industries that they operate in. When it gathers data, the ABS will typically group businesses that provide a particular good or service into 19 industries. These are made up of, for example, mining, manufacturing, retail, construction, education and health. The following table shows these industries and the number of businesses operating within each industry in Australia.
Number of businesses by industry in Australia, 2016–17

<table>
<thead>
<tr>
<th>Industry division</th>
<th>Number of businesses operating June 2017</th>
<th>Industry division</th>
<th>Number of businesses operating June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>176 140</td>
<td>Financial and insurance services</td>
<td>202 110</td>
</tr>
<tr>
<td>Mining</td>
<td>7853</td>
<td>Rental, hiring and real estate services</td>
<td>246 664</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>83 789</td>
<td>Professional, scientific and technical services</td>
<td>270 654</td>
</tr>
<tr>
<td>Electricity, gas, water and waste services</td>
<td>6591</td>
<td>Administrative and support services</td>
<td>85 760</td>
</tr>
<tr>
<td>Construction</td>
<td>371 599</td>
<td>Public administration and safety</td>
<td>74 277</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>78 989</td>
<td>Education and training</td>
<td>29 724</td>
</tr>
<tr>
<td>Retail trade</td>
<td>130 387</td>
<td>Healthcare and social assistance</td>
<td>128 543</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>92 757</td>
<td>Arts and recreation services</td>
<td>27 248</td>
</tr>
<tr>
<td>Transport, postal and warehousing</td>
<td>149 544</td>
<td>Other services</td>
<td>94 220</td>
</tr>
<tr>
<td>Information media and telecommunications</td>
<td>21 017</td>
<td>Currently unknown(a)</td>
<td>27 283</td>
</tr>
<tr>
<td><strong>All industries</strong></td>
<td><strong>2 238 299</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(a) This category consists of those businesses that are yet to be coded by the ATO to an industry.

*Source:* Table 1, businesses by industry division from ABS 81 650, counts of Australian businesses, including entries and exits, June 2013 to June 2017.

The industry sector in which a business operates is determined by the good or service it produces. Arnott’s is Australia’s largest producer of biscuits (secondary sector), while Optus is Australia’s second-largest telecommunications company (tertiary sector).
1.2 Activities

TEST your understanding

1. Distinguish between revenue and assets.
2. State whether the following businesses are small, medium or large, and the reason for your decision.
   (a) Qantas employs approximately 27,000 people.
   (b) National Australia Bank is an international financial services company that has customers in Australia, New Zealand, Asia, the United Kingdom and the United States.
   (c) Brookfarm is owned by Carolyn and Martin Brook; it produces gourmet macadamia nuts for domestic and export markets and employs more than 20 staff.
   (d) Ripe Maternity Wear was started by two friends in 1996 to manufacture contemporary maternity clothes. It supplies clothes worldwide, employing no more than 20 staff.
3. Are the following statements true or false?
   (a) Large businesses employ a small number of people.
   (b) Small businesses do not usually have a large share of a particular market.
   (c) In small businesses, decisions are usually made by the owners of the business.
4. Explain the difference between the private sector and public sector.
5. Outline the key characteristics of the primary, secondary and tertiary industries.

APPLY your understanding

6. Prepare a database of 10−15 businesses that you have dealt with over the past few months — you may have bought something from them or worked in one. Copy and complete the table below and then answer the questions that follow. One example has been entered for you.

<table>
<thead>
<tr>
<th>Business name</th>
<th>Business activity</th>
<th>No. of employees</th>
<th>Business size</th>
<th>Industry sector</th>
<th>Industry division</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Redbank Café</td>
<td>Food and drink</td>
<td>4</td>
<td>Small</td>
<td>Tertiary</td>
<td>Retail trade</td>
</tr>
</tbody>
</table>

   (a) What percentage of the businesses in your database are small? What percentages are medium-sized and large?
   (b) How do the percentages compare with the figures for Australia?
   (c) Provide two reasons for the differences/similarities between the figures.

7. Using the internet or newspapers, look for articles about different businesses that interest you. Start a file of news clippings or printouts and write an information page to attach to each article. Include the following:
   (a) what the article is about
   (b) background information about the business
   (c) the section of the VCE Business Management course to which the article relates, e.g. Area of study 1, Outcome 1.
1.3 Identifying business opportunities

**KEY CONCEPT** Business opportunities can arise from taking advantage of innovation and entrepreneurship, recognising and taking advantage of market opportunities, identifying changing customer needs, research and development, technological development and global markets.

Identifying a **business opportunity** is not just about having an idea. An opportunity is a set of circumstances that a person can perceive as an avenue to success. If you look around, you will see so many opportunities for starting a business. Potential business owners are always searching for opportunities, including ideas for new products, new customers and new ways of running businesses. There are many sources of opportunities for business ideas, including innovation and entrepreneurship, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets. Successful business managers and entrepreneurs will be very quick to seize their opportunities.

**GREAT AUSSIE INVENTION**

How would you describe a country that has invented the Victa lawn-mower, Esky, Hills Hoist, Speedo swimwear, StumpCam (a small camera hidden in a cricket stump to provide action replays), 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 and 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 2017, Australia has a relatively high proportion of innovation active firms by international standards. In 2015–16, an estimated 48.7 per cent of all employing firms were innovation active. These firms are distributed broadly across industries, with the highest proportion found in the manufacturing sector.

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.
1.3.1 Innovation

The definition of innovation may vary, but it generally refers to the process of creating a new or significantly improved good, 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 the creation of something unique.

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 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.

**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.

1.3.2 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.

Co-founder of the world’s most successful computer software company, Microsoft Corporation, Bill Gates (pictured, right) 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?**

‘At Microsoft there are lots of brilliant ideas but the image is that they all come from the top — I’m afraid that’s not quite right.’

—Bill Gates, founder of Microsoft
1.3.3 Market opportunities

Markets — the places where buyers and sellers interact to trade goods and services — are always changing. A potential business owner may be able to identify opportunities from these changes in markets and take advantage of them as potential business ideas.

For example, a person may notice a good or service that is being consumed in one market, possibly overseas, and realise that the product is not available locally. This presents an opportunity to import that good or service and start a business in their own country, if the product meets a need in their local area. Another person may identify an opportunity for a new business because of an inefficiency in a market. They may feel that they can provide a good or service in a better or different manner from the way in which it is already provided. Alternatively, a business opportunity may present itself as a ‘gap’ in a market that is not already being satisfied by existing businesses.

DID YOU KNOW?

In the 1990s, entrepreneur John Parselle developed a system called Fingerscan, which allows people to make electronic transactions, unlock their smartphone 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.

1.3.4 Changing customer needs

Markets are constantly changing, as are the needs of customers. Any person considering starting a new business might find opportunities by focusing on meeting any of these changing needs. The needs of customers in the market for any product can change due to:

- **changing incomes.** Incomes may be either increasing (so customers are likely to demand more products, particularly luxury items) or diminishing (so it is likely that customers will demand fewer products).
- **changing tastes and fashions.** Changes can increase or reduce the demand for certain products.
- **changing prices of complementary and substitute goods and services.** Some products are complementary: they go together like cars and petrol, or pens and paper. Others are substitutes: they can replace each other like margarine and butter, or tea and coffee. This means, for example, that if the price of petrol increases then demand for petrol will fall, which can cause demand for cars to fall because cars and petrol are complementary. This may lead to demand for large cars switching to small cars that consume less petrol, because large cars and small cars are substitutes.
- **changing population.** Changes in age and gender distribution will have an impact on demand; for example, an ageing population is likely to demand products related to the health and retirement industries.
- **changing expectations about the market, including future prices and incomes.** This means that customers will act in a certain way if they expect that something is going to happen.
- **changes in the number of potential customers.** An increasing number of customers often generates greater demand for products, whereas a decline in the number of potential customers is likely to reduce demand. The prospect of meeting these changing needs before someone else does provides an opportunity for a business idea.
1.3.5 Research and development
Potential business owners undertaking research and development (R&D) have produced many of the goods and services that we take for granted. Individuals and businesses undertake R&D in order to expand their knowledge of products and processes. Many successful businesses are built on product innovation.

R&D can provide a potential business owner with many opportunities. For example, it can allow a person to develop new products in response to the actions of any competitors, or to improve existing products so that they become superior to those of competitors. R&D can also lead to technological developments, such as robotics and information technology, that improve the way the product is produced or the way it is delivered to customers, and thereby result in a new business becoming very competitive.

FAMOUS ENTREPRENEUR: ELON MUSK

Elon Musk (pictured, right) has an ambitious vision to change the world and humanity. He is working on achieving this through continuing investment in R&D. With a strong commitment to reducing global warming, Musk has founded numerous companies involved in sustainable energy production and consumption, such as Tesla, Inc., an electric vehicle and solar panel manufacturer. Even more ambitious is his goal of reducing the ‘risk of human extinction’. This goal has led to him establish SpaceX, which designs, manufactures and launches advanced rockets and spacecraft. By revolutionising space technology, Musk hopes to be able to establish a human colony on Mars.

1.3.6 Technological development
Technological development refers to applications of knowledge that have changed people’s lives and changed the way in which businesses operate. The development of new products and processes creates opportunities for people with business ideas. New communication technologies allow ideas and information to be transmitted rapidly to an ever-increasing number of people across borders, making it easier for customers to learn about products made overseas. Technologies such as the internet, mobile phones and electronic funds transfer help to open up global markets, which can be tapped by potential business owners. The use of automation in many industries has improved productivity and reduced production costs, allowing a person with a business idea to create new products at a high level of quality.

1.3.7 Global markets
Today, markets can be global. This means that goods and services are exchanged between businesses and customers across the world. This provides opportunities for people seeking ideas for new businesses because it means that the potential business owner can have access to more customers and more sales. Some of the advantages afforded by global markets include:

- the opportunity to grow and further expand a business
- reduced dependence on local markets
- extended life cycle of new and existing products through the discovery of new markets to sell them in
- reduced effects of fluctuations in markets caused by changes in season or demand by moving into markets with different patterns.

Before deciding to start a business that sells products in other countries, a business owner needs to consider whether or not their business idea would work in an overseas country. He or she should contemplate whether the people of the targeted country are familiar with the product. It is also important that the potential business owner thinks about how comfortable they would be selling products in overseas countries.
1.3 Activities

TEST your understanding
1. Explain what innovation is and provide an example of innovation in business.
2. How can entrepreneurship act as a source of business opportunity?
3. Outline the types of business ideas that may arise from recognising and taking advantage of market opportunities.
4. List the factors that can cause the needs of customers in a market to change.
5. Using examples, explain how changing customer needs can provide opportunities for a business idea.
6. Outline the importance of research and development in business.
7. How has the development of technology created opportunities for potential business owners?
8. What opportunities do global markets present for a potential business owner?

APPLY your understanding
9. 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?
10. Use the Young entrepreneurs weblink in the Resources tab to select two of the young entrepreneurs profiled in the SmartCompany Hot 30 Under 30 list. 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?
11. Categorise the business opportunities listed in the table below under the most appropriate source of opportunity heading. The first one has been completed for you. Some opportunities may have more than one source.

<table>
<thead>
<tr>
<th>Business opportunity</th>
<th>Source of opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A surge in the price of petrol</td>
<td>Changing customer needs</td>
</tr>
<tr>
<td>A need for a new source of energy</td>
<td></td>
</tr>
<tr>
<td>A new prototype for a 3D screen mobile phone</td>
<td></td>
</tr>
<tr>
<td>A new process for offering education</td>
<td></td>
</tr>
<tr>
<td>An increase in the average age of the population</td>
<td></td>
</tr>
<tr>
<td>A robot with true artificial intelligence</td>
<td></td>
</tr>
<tr>
<td>Demand for Vegemite in overseas countries</td>
<td></td>
</tr>
<tr>
<td>A decrease in the number of people who think that the economy will perform well</td>
<td></td>
</tr>
</tbody>
</table>

EXAM practice
12. Distinguish between innovation and entrepreneurship. (2 marks)
13. Australia has an ageing population, whereby there are increasing numbers of older people living in the country. Explain two types of business opportunity that this may create. (4 marks)

Resources

Weblink: Young entrepreneurs
1.4 The personal motivation behind starting a business

**KEY CONCEPT** The personal motivation behind starting a business includes the desire for independence, to make a profit and to fulfil a market need and/or social need.

The success or failure of a 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 and skills required to operate a business?

**DID YOU KNOW?**
According to the Australian Innovation System Report 2017, Australia’s level of entrepreneurial activity is among the highest in developed economies. Around 14.6 per cent of the Australian adult population (aged 18–64 years) were actively engaged in starting new businesses in 2016, representing 2.2 million early-stage entrepreneurs.

**Resources**
- **eLesson: The personal motivation behind starting a business (ele-2974)**

### 1.4.1 The desire for independence
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. Some people dream about starting their own business and becoming wealthy. The potential for long-term financial independence is also a motive for starting a new business.

### 1.4.2 To make a profit
A second reason for wanting to start a 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.

### 1.4.3 To fulfil a market need
A third reason for wanting to start a business is the recognition of a market need. The potential business owner may have particular skills that can be the basis of a new business, or may recognise that particular goods 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.

Starting a business may lead to greater independence, but may also increase workload.
1.4.4 To fulfil a social need

Sometimes a person will be motivated to start a business in order to fulfil a social need. In this situation, a social enterprise may be established. This is a business that makes a profit, or surplus, but concentrates on some sort of community or environmental need. Any surplus that the social enterprise makes may be reinvested back into the business so that it can continue to fulfil the social need.

Some examples of typical social needs are:

- providing opportunities for local unemployed people
- developing skills, providing vocational training or lifelong learning opportunities for disadvantaged people in the community
- creating access to a better quality of life for disadvantaged members of the community
- focusing on waste minimisation and recycling.

SECOND BITE FULFILS A SOCIAL NEED

Ian and Simone Carson established SecondBite in 2005 because they could no longer stand to see perfectly good food going to waste while there were hungry people in the community. They realised that there was a need for redistributing food that was still safe to eat but could not be sold. Approximately 8 billion dollars’ worth of food is thrown away in Australia every year — there is plenty of food, yet unlimited needs.

After they began to understand the scale of food wastage in this country, the Carsons began to explore ways of redistributing food. They began by rescuing surplus fresh food from farmers, markets and supermarkets and transporting it to local agencies such as Sacred Heart Mission and Brotherhood of St Laurence. The social enterprise grew as volunteers, donors and other supporters became involved.

‘You go anywhere and people hate seeing things thrown out, so once they know you can actually do something with it, they want to help you,’ Mr Carson says.

When SecondBite started, it operated with just three volunteers in Victoria and moved just over 600 kilograms of food. Now the national headquarters for the organisation, the Kensington warehouse operates with 5 vans, 1 truck, 23 staff and over 600 volunteers. SecondBite has warehouse locations in Melbourne, Brisbane, Sydney, Adelaide, Hobart, Devonport, and hubs in suburban and regional Victoria. They partner with providers in Perth and Darwin, and facilitate direct connections across Australia in regional and rural areas, supplying fresh food to over 1200 agencies nationally, completely free of charge.

SecondBite collects food using its fleet of refrigerated vans. Fresh produce is taken to a warehouse with cold storage and freezer space, where it is sorted and packed into crates for each community food program. The food programs use the deliveries to make up food parcels, cook dine-in meals or run school breakfast or lunch programs. These programs support people who are homeless, women and families in crisis, youth at risk, indigenous communities, asylum seekers and new arrivals to Australia.

SecondBite has also developed a nutrition education program and advocates for an end to food insecurity.
1.4 Activities

TEST your understanding
1. What largely determines the success or failure of a business?
2. Identify the two most crucial questions that a potential business owner has to ask themselves.
3. Explain the four possible reasons for a person wanting to start their own business.
4. Why did Ian and Simone Carson establish SecondBite?
5. Explain how SecondBite redistributes fresh and nutritious food.

APPLY your understanding
6. Use the Start-ups weblink in the Resources tab to read this UK start-up service website’s 10 reasons to start a business. Rank the reasons in order from most important to least important, then share your top five with other students in your class.
7. Interview local business owners. Ask them to identify their motivation behind starting their business. Provide each business owner with the following five options: desire for independence, to make a profit, to fulfill a market need, to fulfill a social need, other. If the business owner responds ‘other’, then ask them what their particular motivation was. Collate your research with that of other students in your class, then graph the results. What is the most popular motivation for starting a business?

EXAM practice
8. Distinguish between a social need and a market need. (2 marks)
9. ‘Being self-employed is better than working for someone else.’ Discuss. (6 marks)

Resources

Weblink: Start-ups

1.5 Goal setting in business

KEY CONCEPTS
- Goals need to be set so that an owner knows what the purpose of the business is.
- Setting goals can foster conditions for new business ideas to emerge.

1.5.1 The importance of goal setting
A driver of a car usually knows his or her final destination and how they will get there. In the same way, a successful business owner has a destination in mind for his or her business. A business goal describes what a business expects to accomplish over a set period. Without a goal, a business has no clearly defined purpose and nothing to aspire to. Goals provide a business with direction and help to measure results. Setting goals can also allow the potential business owner to develop their ideas for a business. Setting goals is an important step in helping a business realise its vision of where it wants to be in the future. This vision is often described in a vision statement and is supported by a mission statement, which outlines how the business will achieve this vision. With these in mind, a business can develop the right kind of goals that will keep it on course to achieving the kind of success that it desires.

1.5.2 Goal setting
A simple and proven method of goal setting is to make the goals S.M.A.R.T. An example of a smart goal might be ‘obtain 500 new customers in the market before the end of the financial year by delivering good service and making use of marketing’.
S.M.A.R.T. goals are specific, measurable, attainable, relevant and time bound. Mid- to short-term goals that are specific and measurable are often referred to as objectives.

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<th>M</th>
<th>A</th>
<th>R</th>
<th>T</th>
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<tbody>
<tr>
<td><strong>Specific</strong>&lt;br&gt;Goals should be clear and focused. For example, 'obtain 500 new customers in the market'.</td>
<td><strong>Measurable</strong>&lt;br&gt;Goals should be quantifiable (i.e. they should contain numbers to allow the business owner to know whether or not they are on track.)</td>
<td><strong>Attainable</strong>&lt;br&gt;Goals should be challenging but they should be realistic. An attainable goal will usually address the question, ‘How can the goal be accomplished?’</td>
<td><strong>Relevant</strong>&lt;br&gt;Goals should be worthwhile, support other goals and should be based on current conditions in the market.</td>
<td><strong>Time bound</strong>&lt;br&gt;A deadline or time limit should be set.</td>
</tr>
</tbody>
</table>

A business owner should write their goals down and develop a written plan outlining how these goals will be attained. The goals of a small business, along with how they will be achieved and other relevant background information, can be found in a document called a business plan. We will examine business plans in more detail in chapter 3. The goals of larger businesses are often found on their websites or in annual reports. Woolworths Limited — a large retail company that sells groceries, petrol, liquor and general merchandise — states its goals on its website. Woolworths’ goals are reflected in its five key priorities, which are ‘building a customer and store-led culture and team, generating sustainable sales momentum in Food, evolving our Drinks business to provide even more value and convenience to customers, empowering our portfolio businesses to pursue strategies to deliver shareholder value, becoming a lean retailer through end-to-end process and systems excellence’.

Goals are the motivating force behind a business. Many businesses strive to achieve three broad types of goal: financial goals, social goals and personal goals.

**Resources**

**eLesson:** Milling to success (eles-2404)

### 1.5.3 Financial goals

1. **Making a profit.** This is a financial goal that is central to many businesses. Profit is what is left after business expenses have been deducted from money earned from sales (revenue). A loss occurs when the expenses exceed the revenue. For example, if business expenses totalled $100 000 per year and revenue from sales was $300 000, the business would have made a profit. Many businesses not only want to make a profit, but also they want to maximise their profit. A business may set several other goals to support its main goal of maximising profit.

2. **Increase sales.** This may be done by deciding to sell products at a lower price so consumers purchase more. Alternatively, the business may seek to increase sales through more clever marketing or creating innovative products or delivering better service than other businesses.
There are many ways businesses can maximise profit. A business owner’s idea for a business may involve selling products at low prices to increase the volume of sales or using clever advertising that will convince consumers to buy their new product.

3. **Increase market share.** Market share is a business’s share of total industry sales. This is easy to visualise using a pie chart that shows the percentage of sales the business has in relation to all its competitors. In many industries, increasing market share is usually a goal only for large businesses. Such businesses often develop an extensive product range, using many different brand names, to gain an extra few percentage points of market share. Small market share gains often translate into large profits for these businesses.

4. **Expand the business.** Most businesses want to grow. Growth might be achieved by opening more outlets, employing more staff, starting new projects or introducing innovative products. A business can also expand by merging with another business so that they become one. A merger occurred when airline company Qantas joined with Jetset Travel. Expansion can also take place through acquisition. This means that one business purchases another; for example, when Coca-Cola Amatil purchased Neverfail Springwater, which supplies bulk bottled water to Australian homes and offices.

5. **Maximising the return on investment.** Making profit is the primary goal of many businesses. This is particularly important for investors in a company. If the part of the profit gained by the business is returned to investors, then the return on their investment is important. The **return on investment** is a ratio that relates the money gained or lost on an investment relative to the cost of the investment. It is expressed as a percentage.

6. **Improving the way that the business operates.** A business should constantly strive to improve the way it goes about its day-to-day operations. Three key aspects of measuring operational performance include **productivity**, **efficiency** and **effectiveness**. Productivity measures how many outputs we produce per input. Efficiency measures how well we do things and will help to increase our productivity. Effectiveness looks at whether we are doing the right things, those that are most important to the success of the business.

### 1.5.4 Social goals

All businesses operate within a community and, like individuals, have certain social responsibilities. Many businesses develop social goals and adopt strategies that will benefit the community as well as achieving financial goals. Among the main social goals are:

1. **Community service.** Business sponsorship of a wide range of community events, promotions and programs have rapidly increased during the past decade. Many business owners plan to financially support educational, cultural, sporting and welfare activities.

2. **Provision of employment.** Most businesses do not regard employment of people as a main goal. Many business owners, however, look at the continuity of their business, sometimes planning to employ family members who otherwise might be unemployed.

3. **Social justice.** Everyone has the right to be treated fairly. A potential business owner may be concerned for social justice — that is, they will plan to adopt a set of policies to ensure employees and/or other community members are treated equally and fairly.
4. *ecological sustainability*. Businesses have to take increasing responsibility for the protection of the environment. Earth is a fragile ecosystem, and we need to take care so it can sustain itself. The social conscience of responsible business owners leads them to adopt policies of conservation, recycling and restoration.

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**A SOCIALLY RESPONSIBLE BUSINESS**

Founded in 1976 by Dame Anita Roddick, The Body Shop is now a high profile advocate for social and environmental causes. Anita Roddick’s original vision was to build a socially responsible business that supported the community. She developed five values:
1. activate self-esteem
2. oppose animal testing
3. support community fair trade
4. defend human rights, and
5. protect the planet.

These values have guided The Body Shop’s employees and their business decisions for three decades. Some of the Body Shop’s campaigns include ‘Stop Sex Trafficking of Children and Young People’, ‘Defend Human Rights’, ‘Against Animal Cruelty’, and ‘Protect Our Planet’. The Body Shop prides itself on being a retail activist.

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**DID YOU KNOW?**

Some businesses are able to address both social and financial objectives. Woolworths (formally Safeway) and Dormit Pty Ltd, a Melbourne timber company that produces timber products, such as pallets, both actively encourage people with a disability to work for them. One quarter of Dormit’s employees have disabilities.

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1.5.5 Personal goals

Prospective business owners usually have a number of personal goals. Often, the nature and operation of the new business will tend to reflect these personal goals, especially in small businesses. Personal goals of a higher income and improved financial security, for example, complement the business goals of growth.

Personal goals for business owners are not normally made public. However, this does not diminish their importance because they motivate the business owner and may underpin the viability of the business.

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**1.5 Activities**

**TEST your understanding**

1. What is a goal?
2. Explain why it important for a potential business owner to set goals.
3. Write a S.M.A.R.T. goal for a person who is planning to start a plumbing business.
4. ‘We plan to expand our market into Asia, increasing worldwide market share by 2 per cent.’ Is this goal more likely to belong to a large or small business? Give reasons for your answer.
5. In the following examples state the business goal/s the individual is trying to achieve and how they are seeking to achieve them.
   (a) A new business owner wishes to increase the number of retail customers, so a large sale is planned.
   (b) Manthi is planning to open a business in which employees will visit a retirement home so that elderly people gain some contact with other people. This will take place on a rotating basis so that employees spend one afternoon per month at the retirement home.
   (c) The owners of a new company knew that there would be only one way to expand their business and that would be through buying the opposition.
   (d) A man who is starting a small printing company is hoping to employ his nephew in the full knowledge that he may need extended periods away from work to pursue his sports career.
   (e) Vin is planning to start a home business and wants to use only recycled paper in the office. He is hoping to employ the services of a recycling company to take away the discarded paper.
   (f) The partners in a new legal firm are planning to offer advice to homeless people as part of an outreach program that visits a homeless shelter.

APPLY your understanding
6. Construct a mind map summarising the four main social goals of a business and provide a real-life example of a business that has sought to achieve each goal. The mind map below has been started for you.

<table>
<thead>
<tr>
<th>Social objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social justice</td>
</tr>
<tr>
<td>• Provision of employment</td>
</tr>
<tr>
<td>Community service</td>
</tr>
<tr>
<td>• Sponsorship of events</td>
</tr>
<tr>
<td>• Financial support to organisations</td>
</tr>
<tr>
<td>• Socially responsible corporate citizenship</td>
</tr>
<tr>
<td>Ecological sustainability</td>
</tr>
</tbody>
</table>

7. Comment on the statement ‘All businesses care about is making money’.

EXAM practice
8. Identify and explain the five characteristics of a S.M.A.R.T. goal. (5 marks)
9. Distinguish between social goals and financial goals, providing an example of each. (2 marks)
1.6 Characteristics of successful business managers and business entrepreneurs

**KEY CONCEPTS**
- The characteristics of successful business entrepreneurs include taking risks, sharing a vision and demonstrating initiative, innovation and enterprise.
- The characteristics of successful business managers include the ability to start and see through long-term projects, leadership qualities, organisational skills and the ability to take managed risks.
- The characteristics of business managers and entrepreneurs contribute to the success of a business.

The thousands of 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’. Not everyone will be suited to the role of business manager or entrepreneur. Certain characteristics are required to succeed in starting and running a business. Let’s have a close look at some of the qualities needed to commence a business, including the characteristics of successful business managers and successful entrepreneurs.

1.6.1 Business managers

Business owners, or managers, run a business on a day-to-day basis so that it makes a profit. They prefer to minimise risks and make calculated decisions where the outcome is reasonably clear. A business manager might have an idea for solving a problem or meeting a need in order to satisfy a target market.

There is no simple checklist of personal characteristics that guarantee success. However, many studies have shown that certain personal characteristics are helpful in managing a business, and that the potential 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 calculated 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?
1.6.2 Business entrepreneurs

There are a range of views on what the terms **entrepreneurship** and **entrepreneur** mean. However, entrepreneurs are generally considered to be people who are willing to seize opportunities to start and operate a business, and are prepared to take risks in the hope of making a profit. Business owners displaying entrepreneurial behaviour will also establish a shared vision and will demonstrate initiative, innovation and enterprise. An entrepreneur’s vision might be to make a big change or have an impact on the world with their idea for a new product. For these people, the opportunity to explore untapped markets with no guarantee of success can be motivation within itself. Entrepreneurs often do not know if their ideas are achievable or not.

**CAROLYN CRESWELL AND CARMAN’S FINE FOODS**

Carolyn Creswell is the founder of Carman’s Fine Foods. When she was 18 years old she scraped together $1000 to buy out the homemade muesli business that she worked for. The owners had put the business up for sale and Carolyn thought there was a chance that she might lose her job. She made an offer with a friend, which was initially dismissed, but the owners finally made an agreement to sell.

Today, Carman’s products are sold in supermarkets across Australia and exported to more than 30 countries. The business is estimated to be worth more than $80 million. Carman’s employs 25 staff at its head office and 107 staff in factories at Dandenong and Scoresby. Some people suggest that the business was an overnight success. Carolyn Creswell responds that her success is due to her hard work. She learned everything she knows about the business while working on the job, and she believes this makes it easier for her to empathise with staff. Carolyn says that in the early days of running Carman’s, she often struggled to see the light at the end of the tunnel. She believes that getting into and staying in supermarkets was a key to the success of the company. She received many rejections from the supermarkets, but persisted, and they eventually gave her a chance. Carolyn Creswell is driven by passion rather than the desire to make money. She believes it is vital to have a clear vision of where the business is heading and to consider this when making every decision. Carolyn has ambitious plans for continuing to increase sales, boost the profile of the brand and launch new products.

**Resources**

- eLesson: Starting out — Carman’s Fine Foods (eles-1062)

Entrepreneurs tend to have:
- **a shared vision.** They have a clear understanding or hope of what the business will be like in the future. This gives the business a clear direction. Having a shared vision means that everyone in the business works together, as a team, to develop and then accomplish a goal. When this happens, it is much more likely that staff will enthusiastically contribute to making sure the vision is realised.
- **initiative.** They will take the first step in a series of actions or in a process. They frequently do this without someone prompting or telling them to take this step; an entrepreneur will usually make this decision independently. However, they might seek the help or advice of other people before they do so.
- **innovation and enterprise.** Innovation is either adding a new product (which can be a good or service) to an existing product line, or significantly improving an existing product or process. This could simply involve changing the way a business works so that it delivers better products. Enterprise is the effort made by someone to creatively or boldly achieve something new. Entrepreneurs exhibit enterprise by taking risks to determine if the market is interested in their ideas.
HAVE YOU GOT WHAT IT TAKES?

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. 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.

DID YOU KNOW?

It is said that most new ideas are ‘99 per cent perspiration and 1 per cent inspiration’. This saying highlights the great deal of time and effort that needs to be put into fully developing a new business concept.

1.6 Activities

TEST your understanding

1. What is the difference between a business manager and an entrepreneur?
2. Outline the characteristics that a successful business manager is likely to have. Suggest why these might be needed for a business to be successful.
3. Why is it best for business owners to select a business opportunity that suits their personality and strengths?
4. Identify the characteristics that suggest that Carolyn Creswell is an entrepreneur.
5. Outline the characteristics that a successful entrepreneur is likely to have. Suggest why these might be needed for a business to be successful.

APPLY your understanding

6. Choose a business you would like to start. Outline the characteristics that you think you will need to be successful in this business.
7. Test yourself by answering the 12 questions for potential business owners. For each question that you answer ‘yes’, give yourself 1 mark. A ‘no’ response will score zero. Add up your score: the higher the score, the more suited you may be to operating a business. What does this tell you about your chances of success if you decided to open a business?
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 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.

<table>
<thead>
<tr>
<th>Skills I presently possess</th>
<th>Skills I would need to develop</th>
</tr>
</thead>
</table>
9. Choose an entrepreneur — one that you know or have heard of — and investigate the characteristics that they bring to their business. Use the questions below to help you.
   (a) What business did this entrepreneur start, and at what age?
   (b) Why did this person become an entrepreneur?
   (c) What entrepreneurial behaviours does this person display?
   (d) What skills does this entrepreneur have?

EXAM Practice
10. Explain what is meant by ‘initiative’ and why it is an important characteristic common in entrepreneurs. (2 marks)
11. Elon Musk is a famous entrepreneur who developed PayPal, which has changed the way we purchase things over the internet; Tesla, Inc., which has seen electric cars enter the mainstream; and the Space X program, which has launched rockets into space and aims to successfully complete a mission to Mars by 2025. Analyse the importance of creating a shared vision in the success of these companies. (4 marks)

1.7 Business concept development

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.

1.7.1 Business concept development
Have you ever thought to yourself, ‘If only I could buy this product somewhere’ or ‘someone could make a fortune with this idea’ or ‘this is a great idea for a business’? This is the starting point of a business concept. As well as determining whether or not they have the motivation and personal qualities to start a business, potential business owners need to have a concept of what they wish to sell. Sometimes this will be an original idea for a good or service that is different from anything already on the market, or a distinct improvement on something already available. Alternatively it may be a realisation that a particular product is unavailable in a particular area.

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.
CHRISTOPHER LU — CLU. LIVING

Business owner and designer Christopher Lu turned his passion for furniture design and interior design into a highly successful business employing three people. CLU. Living is a lifestyle furniture and homewares brand that offers home furnishing solutions and interior design for compact living.

Christopher’s market research showed that because more people are living in apartments and townhouses, there was a growing demand for innovative ways to accommodate furniture in limited areas, incorporating multi-functionality and clever storage capabilities. His business is renowned for small space decorating using compact, space-saving, modular furniture, sourced both locally and from around the world. CLU. Living’s products are selected for their modern design, quality and affordability.

‘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. The CLU. brand is also built on excellent customer service. We listen carefully to our clients’ needs to make sure we provide custom solutions for their unique problems based on their budget and lifestyle. This has allowed us to establish a loyal customer base,’ he said.

1.7.2 The relationship between business opportunities and business concept development

The development of the business concept is when the prospective business owner takes an idea that has arisen from an assessment of possible opportunities, and begins to turn it into an actual business. The business concept is also affected by the motivations and personal qualities of the owner wanting to start a business, as well as the goals that they want to achieve. This relationship can be seen in the diagram at right. As the business owner develops their business concept, they will need to protect their idea and then determine how feasible it is by conducting market research and initial feasibility studies. These will be explored in subtopic 1.8.

Protecting a business idea

The potential business owner’s idea or concept is referred to as intellectual property (IP). IP is any creation of the mind such as a new invention, a brand, a design or artistic creation. These creations can have a commercial value, or provide a competitive advantage, for a person or a business, so it is very important to ensure that competitors do not copy them. Almost every business would have some form of IP that needs to be protected. There are five common methods for protecting IP:

- Trademark. This is a right granted over a letter, word, phrase, number, sound, smell, shape, logo, picture or aspect of packaging that a business will use to represent its products and services. A registered
trademark is legally enforceable and gives the business owner exclusive rights to use it for commercial purposes, license it or sell it for the goods and services that it is registered under.

- **Patent.** This is a right granted for any device, substance, method or process that is new, inventive and useful. This is legally enforceable and gives the owner exclusive rights to use the invention for commercial purposes for the life of the patent.
- **Copyright.** This is free and automatic protection, of original works such as writing, music, art, films, sound recording, broadcasts and computer programs. Although it’s not necessary in Australia, placing a copyright notice in a prominent place on any work can act as a reminder to competitors. It also can be a requirement in some countries to establish copyright.
- **Design rights.** These are rights given to the owner to commercially use, licence or sell a design (the visual appearance of a product). A registered design could be for a logo, branding, packaging, new invention or new technology.
- **Domain name.** A potential owner can register a domain name (the business’s unique address on the internet) so that nobody else can register it. It can be a good idea to do so even if there are no plans to build an actual website for some time. It will be available if and when the business does launch.

Patenting, copyrights and trademarks will be examined in more detail from a global perspective in chapter 2.

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### 1.7 Activities

#### TEST your understanding

1. ‘The business concept is the starting point for any new 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 five common methods for protecting intellectual property.
4. Outline the link between business opportunities and business concept development.

#### APPLY your understanding

5. 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.
   (b) How has Gerry sought to differentiate his business from those of possible competitors?
   (c) Outline how Gerry could protect his intellectual property.
6. Use the Intellectual Property Australia weblink in the Resources tab to answer the following:
   (a) What is a patent?
   (b) Identify and describe three examples of Australian inventions that have been successfully patented.
   (c) What is a trademark?
   (d) Identify and describe three examples of Australian businesses that have successfully registered a trademark.

#### EXAM practice

7. Explain the importance of business concept development. **(2 marks)**
8. Jonas Salk and Albert Savin invented vaccines against a crippling disease named polio in 1953. They both chose not to patent it, saying that ‘like the sun, a vaccine against polio belonged to all the people’. Explain what a patent is and discuss why you think these two scientists chose not to patent the vaccine. **(4 marks)**

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### Resources

- **Weblink: Intellectual Property Australia**
- **Weblink: CLU. Living**

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28 Jacaranda Key Concepts in VCE Business Management Units 1 & 2 Fifth Edition
1.8 Market research and initial feasibility studies

**KEY CONCEPT** Market research and initial feasibility studies need to be conducted to determine the business idea’s potential for success.

There will always be a risk involved in starting up a new business. Will the proposed new good or service attract customers? Will the product appeal to enough customers to generate sufficient sales to cover costs and make a profit? Once the idea for a business has been developed into a business concept, anyone thinking about starting a business should first gather some ‘facts and figures’ to determine if the business would survive and generate a profit. Two ways to establish how viable the business will be are to conduct a feasibility study and undertake market research. Making decisions based on reliable information concerning the needs and wants of consumers helps to minimise the risk of business failure.

1.8.1 Market research

**Market research** is a process involving gathering and analysing information concerning a specific market. 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 and types 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 that will assist in decision making. This analysis can give the potential business owner an idea of the market conditions that exist for the proposed good or service.

Market conditions for a particular good 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?

Market research is important to ensure the product produced is likely to satisfy consumer tastes.

Market research will be explored in more detail in chapter 5.

1.8.2 Initial feasibility studies

A **feasibility study** is an assessment of the business idea’s potential for success. This involves determining how practical the idea is and if it would successfully translate to the market. A feasibility study might include:

- an assessment of the market. This involves analysing the level and type of demand for the new or improved product, who and where potential customers are and why they will buy the product, who the present and potential competitors are and what their strengths and weaknesses are, and what the business’s competitive advantage is.
- a consideration of the operations. This involves describing the product that will be sold, the resources needed (plant, equipment, materials, staff and support personnel), the location of the business, and legal requirements.
The aim of an initial feasibility study is to discover the viability of a business concept.

- **an analysis of commercial feasibility.** This involves considering the financial aspects of the business idea, such as how long it will take before the business has its first sale, how much finance will be needed to start the business and sustain operations, as well as forecasting sales, costs, cash flow and profit.

- **an appraisal of the potential owner’s management ability.** See section 1.6.1 on the qualities required to be a successful business owner.

- **an understanding of whether others have tried this idea.** This involves finding out whether anyone else has tried the business idea and, if they failed, finding out why they failed.

**1.8 Activities**

**TEST your understanding**
1. Briefly explain the value of market research to someone who is thinking of commencing a business.
2. Explain the term ‘feasibility study’.
3. Outline the main elements of an initial feasibility study.

**APPLY your understanding**
4. Sevilla is hoping to start a hair and beauty business in a local shopping centre. She has been dreaming of doing this ever since she completed a course in hair and beauty.
   (a) Suggest to Sevilla why it might be necessary to conduct an initial feasibility study before proceeding with her business idea.
   (b) Outline a step-by-step process that Sevilla can undertake to determine whether or not there is sufficient demand for the type of business she is proposing.
   (c) Compile a list of six questions that a market researcher might ask to assist Sevilla in making a decision about whether to implement her business idea.
   (d) List and explain four market conditions that would have to exist before Sevilla could be satisfied that her business had a reasonable chance of success.

5. Use the [Do market research](#) weblink in the Resources tab to read Business Victoria’s suggestions for completing market research.
   (a) In what ways are these steps similar to the market research process outlined in the text and in what ways are they different?
   (b) Identify two methods suggested by Business Victoria for completing market research surveys.

**EXAM practice**
6. Distinguish between a feasibility study and market research. (2 marks)
7. Outline three things a prospective café owner would consider in an initial feasibility study and explain why each is important. (6 marks)

**Resources**

- Weblink: Do market research
1.9 APPLY YOUR SKILLS Feasibility studies

Feasibility studies are an important step in assessing whether a business idea is worth pursuing. This is the case in situations where a person is considering starting a business from scratch, as well as where an existing business is considering expanding its operations into unfamiliar territory. Businesses and government organisations will always conduct an in-depth feasibility study before undertaking new projects.

Scandium International Mining Corporation (based in Nevada, United States) is in the business of mining scandium, a soft silvery-white metal that has many commercial uses, particularly in the production of aluminium alloys. It is considered a rare earth element. Because of its scarce nature, scandium has primarily been derived as a by-product from the mining of other minerals. After the discovery of high grade scandium in New South Wales, Scandium International Mining Corporation funded a feasibility study into a scandium resource deposit in Nyngan, 500 km north west of Sydney.

A preliminary economic assessment was conducted in 2014, and a definitive feasibility study was published in May 2016. The feasibility study was performed by an independent company named Lycopodium Limited with the support of other businesses in the industry. It confirmed the commercial viability of using scandium, as well as mining it in Nyngan. The study included the following highlights:

- The project is expected to last 20 years.
- The Nyngan resource is believed to be 40 per cent larger than previously estimated.
- It will produce a very high-grade oxide product of 98–99.99 per cent.
- The mine could be constructed while satisfying all relevant environmental laws and community expectations according to an Environmental Impact Statement.
- It would cost around US$87.1 million to set up the mine.
- It would cost approximately US$21 million dollars yearly to operate the mine.
- It would generate revenue of roughly US$75.4 million each year.
- The selling price of the oxide was assumed to be US$2000 per kg.
- It would cost around US$557 for each kilogram of scandium oxide mined.
- It would produce 37 690 kg of scandium oxide per year.
- Investment in the project would likely yield a 33.1 per cent return on the initial investment.
- It would take approximately 3.3 years to pay off the initial capital outlay of US$87.
The feasibility study was performed with the following general assumptions:

- The feasibility study is presented on a 100 per cent ownership basis. The company effectively owns 80 per cent of the project through its Australian subsidiary, EMC Metals Australia Pty Ltd. The remaining 20 per cent of EMC Australia Pty Ltd is owned by Scandium Investments LLC, a Nevada corporation owned by private interests.
- No debt is to be used to finance the operations.
- No inflation has been factored into future cash-flow calculations.
- Production will commence in 2018 and conclude in 2037.

1.9 ACTIVITIES

TEST your skills
1. What is scandium?
2. Where is the Nyngan project located?
3. When did Scandium International Mining Corporation conduct its preliminary economic assessment?
4. When was the definitive feasibility study published?
5. Do you think the company would have been happy with the findings of the feasibility study? Justify your response.

APPLY your skills
6. Why do you think the figures might be presented in US$?
7. At the time of the report, one US dollar was equal to 1.31 Australian dollars. Use this conversion rate and the information from the case study to find the following in Australian dollars:
   (a) the cost to set up the mine
   (b) the yearly cost to operate the mine
   (c) the yearly revenue generated by the operation
   (d) the assumed selling price of a kilogram of scandium oxide
   (e) the cost of mining a kilogram of scandium oxide.
8. The return on investment is a percentage showing how much profit would be generated compared to the cost of setting up and running the mine. Do you think this percentage would change if we were to use Australian dollars instead of US dollars in our calculations? Why or why not?
9. Why do you think Scandium International Mining Corporation might have engaged an independent company to prepare the feasibility study?
10. Why do you think it is important to note the assumptions when looking at a feasibility study?
11. Consider a government infrastructure project that has been built or is being considered. It could be the Victorian level crossing removals project, a plan to connect Melbourne and Sydney via high speed rail, or a new freeway that is being built. Use the internet to find out more about the project and answer the following questions:
   (a) What is the name of your chosen project?
   (b) Describe the nature of the project.
   (c) Describe five key features that you would expect to see in the feasibility study of this project.
   (d) Explain why it would be important to consider each of those five features before deciding whether to go ahead with the project.
12. In groups of three or four, identify an opportunity or opportunities for commencing a business in your local area or school.
   (a) Complete market research for your business idea.
   (b) Complete a feasibility study for your business idea.
1.10 APPLY YOUR SKILLS Establishing a business

PRACTISE YOUR SKILLS

- Identify business opportunities
- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations

AN INTERVIEW WITH THE BATHROOM BROTHERS

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

Marko: After renovating multiple bathrooms for friends, family and our own properties, we felt passionate about the whole process of renovation. The satisfaction of seeing the old bathrooms transform and look so great was really rewarding. Also having control of the hours we work and being our own boss was very appealing.

Interviewer: How did you identify a business opportunity?

Nebojsa: We had heard a lot of horror stories about tradespeople being unreliable, taking shortcuts, charging excessive amounts or being booked out for months. We found that when compared with quotes from experienced tradespeople, we were able to be very competitive from both price and quality aspects. The sheer level of interest through word of mouth made it apparent that this had the potential to progress into a full-time business.

Marko: Also, we knew that the housing industry was going strong. We thought that many people with older existing houses who did not want to over-capitalise with a large renovation would see the benefit of having a new bathroom to add value to their property.

Interviewer: How did you identify a potential target market?

Marko: We identified that in the current economic climate people are often not able to afford major renovations but have enough for a kitchen or a bathroom update. We realised that the bathrooms we were completing for clients were those who were not able to afford a full house renovation but wanted to refresh and add value to their property with a new bathroom.

Interviewer: You once said you take only moderate rather than high risks as entrepreneurs. Please elaborate.

Nebojsa: The economy can turn at any time for whatever reason and having a family means others are depending on our success. While opening most types of business carries a certain level of risk, we would not be prepared to risk our family’s financial security by taking on large amounts of debt to fund a new business venture. There is just too much to lose at this stage in our lives.

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

Marko: Neb and I are fairly similar in that we are able to identify demand in the market, are creative, organised and have great interpersonal skills. These have all been crucial in the early days of our business and will no doubt be important for its future success.
1.10 ACTIVITIES

TEST your skills
1. Recall the factors that prompted Marko and Nebojsa to establish their business.
2. Summarise how Marko and Nebojsa identified (a) a business opportunity and (b) a potential target market.
3. Do you agree with their stance on taking risks as entrepreneurs? Explain your answer.
4. Identify the skills that have helped Marko and Nebojsa establish a successful business.

APPLY your skills
5. 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 childcare centre in an outer suburb of Melbourne
   (c) a house maintenance service operated from home
   (d) an accountancy practice in Geelong.
6. In groups of three or four, identify an opportunity for commencing a business in your local area or school. 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 good or service (is there a ‘gap in the market’?)
   • Innovation in good or service (or in the way these are delivered)
   • Basic market research needed
   • Existing competitors in the local area
   • The predicted level of success.
7. In pairs, identify a business of which you have some knowledge. It could be a business that employs a member of your family or a friend; where you work part time; or a local business you are familiar with. Interview the owner of the business and prepare a report for presentation to the rest of the class, covering the following issues. You might like to use the questions below, or make up your own.
   • What opportunities did the owner identify before they started their business?
   • What was the owner’s original motivation for going into business?
   • Did the owner set goals for themselves or the business before starting the business?
   • What personal qualities does the owner have that they felt were necessary for operating a successful business?
   • What reasons did the owner have for deciding on the particular business concept?
   • What market research did the owner undertake before commencing the business?
   • Did the owner undertake any initial feasibility study, and if so, how did they do this?
   • Has the owner made use of any innovation, or a particular specialty that sets them aside from competitors?
   • What major decisions did the owner face when they commenced their business?
   • Did the owner make any mistakes during the commencement period, and if so, what did they learn from them?
   • Is there anything that the owner would have done differently during the commencement period?
   • What is the history of the business?
   • What successes and failures has the business had along the way?
   • What are the main reasons for this business’s success?
   • Is there any advice the business owner would offer to someone commencing a business?
You may wish to video the interview, then view and discuss it in class.
1.11 The contribution of businesses to the nation

**KEY CONCEPT** Businesses in Australia make a significant contribution to the nation — both to the economy and to social wellbeing.

### 1.11.1 The economy

Before we can discuss the contribution businesses make to the economy we must first gain an understanding of what an economy is. An **economy** is a system set up to answer three basic questions:

1. What goods and services are produced?
2. How do we produce those goods and services?
3. How are those goods and services distributed; that is, who will receive the goods and services produced?

Many different economic systems have been used, but the type of economic system we have in Australia is called a **market capitalist economy**. This means that most answers to the economic questions are provided by private buyers and sellers.

Now that we understand what an economy is, let's consider how businesses in Australia actually contribute to our economy.

**Business contribution to employment and taxation revenue**

Employment keeps the economy healthy. Employed Australians will use the wage they have earned to buy goods and services to meet their needs and wants, supporting business and opening up further opportunities for job creation. Businesses employ large numbers of people. In June 2017, the Australian Bureau of Statistics (ABS) estimated there were 4.8 million people employed in small businesses, 2.6 million people employed in medium-sized businesses and 3.5 million people employed in large businesses.

Small businesses drive employment growth in Australia, hiring more staff than large businesses. During the last 20 years, the small business sector has been the major generator of new jobs in the Australian economy. Large businesses also make an important contribution. ANZ, for example, employs 21,000 people in Australia. Businesses, therefore, have an important role to play in supporting employment growth in Australia and in reducing unemployment. In addition to providing employment, businesses contribute to revenue raised through taxation. Not only do they pay tax, but also their employees pay income tax. Taxation is used to provide goods and services that may benefit the whole community, such as a better education system.

**DID YOU KNOW?**

Around 61 per cent of small businesses do not employ staff; 27 per cent employ 1–4 people and 9 per cent employ 5–19 people, according to Australian Bureau of Statistics figures.

**Business contribution to economic growth**

**Economic growth** sounds good, but what is it? Growth occurs when a nation increases the real value of goods and services over a period of time. One common measure to check whether economic growth has occurred is to see whether our gross domestic product or GDP has grown. GDP is the monetary value of all the finished goods and services produced in Australia over a specific period. Business plays an important
role in contributing to our overall economic growth by producing a wide range of goods and services. The ABS estimated that in 2016–17, small businesses produced over $390 billion of Australia’s economic output. Medium-sized businesses contributed more than $250 billion and large businesses produced over $490 billion.

**Business contribution to export earnings**

*Exports* refer to the sale of our goods and services in other countries. Exporting products overseas contributes to Australia’s *balance of payments* (BOP). The BOP is a record of trade and financial transactions between residents of Australia and residents of the rest of the world, over a given period. A favourable BOP exists when there are more payments coming in than going out. Exporting products creates jobs, boosts incomes and improves our living standards.

Many businesses export their products to overseas markets. Rio Tinto earns more than 90 per cent of its revenue from overseas. Collingwood-based Circus Oz, the highly acclaimed Australian circus company, also contributes to exports. The company has toured the world with its talented ensemble of leading artists, acrobats, performers and musicians, which has generated important export earnings. Since its first world tour in 1980, Circus Oz has performed in 27 countries across five continents to over 4 million people.

**DID YOU KNOW?**

The balance of payments consists of two accounts, which are always in balance. The current account records transactions such as exports and imports, income and transfers. The capital and financial account records borrowing and lending transactions. Historically, Australia has recorded large current account deficits (CAD), often importing more goods and services than it exports. Over the last 20 years, however, Australian exporting industries have become more competitive in global markets.

**Business contribution to research and development**

Businesses undertake research and development (R&D) in order to expand their knowledge of products and processes. Researchers and scientists undertake R&D in a business to produce new products, improve existing products or develop new processes (such as improving the way a product is produced or delivered). Because of their size, large businesses in particular have the capacity to undertake extensive innovation. Finding new ways to do things results in improved efficiency and increased productivity.

According to the ABS, Australian businesses spent $16.6 billion from 2015–16, which was a 12 per cent decrease (a significant decrease of $2.3 billion) than the amount spent on R&D from 2013–2014. This was the first year since 2009 that investment in R&D had decreased. Of the $16.6 billion spent, large businesses contributed $9.4 billion, medium-sized businesses contributed $4.4 billion and small businesses contributed $2.8 billion.
Businesses in the manufacturing and professional, scientific and technical services industries were the major contributors to the R&D spending. BlueScope Steel is a steel manufacturer that makes large contributions to R&D. Its R&D team provided the technological foundation for the introduction of COLORBOND® steel in 1966. Today this product is in demand from customers all around the world.

**DID YOU KNOW?**
The Australian Bureau of Statistics, in its latest survey of research and development activity, found a strong relationship between the rate of R&D expenditure and the size of the businesses. Large businesses are increasingly more likely than small businesses to undertake innovation.

### 1.11.2 Social wellbeing

Social wellbeing refers to how well a nation’s people live. This may be affected by access to basic needs and services such as water, food, shelter and health, as well as education, relationships with others in society, community engagement and material possessions.

Wellbeing can be quantified using economic measures such as GDP, income, the level of employment and consumption of goods and services. Wellbeing can also be determined through non-economic measures including our level of personal happiness and self-fulfilment, crime and death rates, environment quality and political freedom. Many of these can be difficult to measure precisely.

We have already looked at how businesses contribute to GDP, create jobs and pay tax. Let’s have a closer look at the contribution that businesses make to some of these non-economic influences on social wellbeing.

**Business contribution to career and social wellbeing**

By providing employment for people, businesses don’t just provide people with a source of income. People who have jobs have the opportunity to build up their self-esteem by doing something that they consider to be worthwhile. Working for a business allows people to feel as though they belong within the business, as well as a sense of contributing to the needs of society. This can contribute to a person’s level of personal happiness and self-fulfilment. In addition, the social connections that people make at work may also affect their health, personal habits and general wellbeing.

**Business contribution to innovation**

We have already reflected on the contribution that businesses of all sizes make to R&D. As well as having an impact on the economy, invention and innovation have changed the way we live and improved our wellbeing. Consider the way that computers, tablets such as the iPad, the mobile phone and the internet have dramatically changed our quality of life. The innovations of businesses large and small, and of individual entrepreneurs, have also helped to solve some of the world’s urgent problems, with new solutions including fair trade, mobile money transfer, restorative justice and carbon reduction.
Business contribution to corporate social responsibility

While all businesses aim to make a profit and maximise their market share, to do so in a manner that is not socially responsible is likely to be counter-productive — customers will eventually find out which businesses are acting responsibly and which are not. Customers can react by refusing to purchase a business’s product if they learn that the business is exploiting employees, engaging in animal cruelty or polluting the environment. Anyone who decides to start a business intending to exploit customers or employees is unlikely to continue in business for long.

Corporate social responsibility involves the managers or owners of a business taking steps to ensure that the broader social welfare — including employees, customers, suppliers and the environment — is taken into consideration when conducting business dealings. Socially responsible behaviour can be expensive in the short term, but in the long run it does turn out to be in a business’s interest. It is also good for social wellbeing, because it means that customers are treated fairly and that the environment is not damaged. Employees will want to work for businesses that are socially responsible. Working for a socially responsible business allows people to contribute directly to community wellbeing. For the socially responsible business, the costs of replacing staff will be reduced and productivity is likely to increase. More people are choosing employers based on their values and how they contribute to society. People want to be proud of the business they work for and this feeling may add to their level of personal happiness and self-fulfilment.
3. Decide whether each of the following statements are true or false. If the statement is false, write a correct statement.
   (a) Economic growth can be measured by GCP.
   (b) Employed Australians will use the wage they have earned to spend more, which supports businesses and encourages job creation.
   (c) A favourable balance of payments exists when there are more payments coming into Australia than going out.
   (d) Research and development is just about getting the business ready so that it is prepared for research.
   (e) Gross domestic product is the total amount of spending on waste disposal.

4. Define the term ‘corporate social responsibility’.

5. Businesses contribute to the social wellbeing of the nation by investing in ________ and ________, thereby changing the way we live and adding to our quality of life. Through ________, businesses support the career and social wellbeing of employees. Businesses also contribute to social wellbeing by acting in a ________ manner, resulting in employees and suppliers being treated fairly, positive customer relationships and a clean environment.

APPLY your understanding

6. Complete the table below by stating what contribution each scenario makes to the economy. The first entry has been completed for you. Some scenarios may make more than one contribution.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>A large energy company plans to build a new power plant just outside a regional town.</td>
<td>Contribution to employment</td>
</tr>
<tr>
<td>A small company has completed new research on an innovative product.</td>
<td>Contribution to career and social wellbeing</td>
</tr>
<tr>
<td>A telecommunications company has seen a dramatic increase in the volume of services it offers over the last five years.</td>
<td></td>
</tr>
<tr>
<td>A small business earns half its revenue from overseas.</td>
<td></td>
</tr>
<tr>
<td>A medium-sized business decides to sponsor a local community event.</td>
<td></td>
</tr>
</tbody>
</table>

7. Use the Business export success weblink in the Resources tab to undertake research about a business that has been successful in exporting its products. Write a short report using the following headings:
   - Name of the business
   - What the business does
   - What the business exports
   - Where the business exports its products
   - Reasons for success.

8. You have been asked by the local newspaper to write an article on the importance of businesses to the Australian economy. Your article will appear in a special supplement dealing with business. Prepare your article exactly as you would like it to be published, using a publishing program for layout if possible. Use your imagination and choose a thought-provoking headline. After you have prepared your first draft, confer with a partner to edit your article to publishing standard. Display the articles around the room.

EXAM practice

9. Describe two economic contributions that businesses make to the nation.  (4 marks)

10. Explain two ways in which behaving in a socially responsible manner could make a business more profitable in the long run.  (4 marks)
1.12 EXTEND YOUR KNOWLEDGE Business contribution to the economy — Taxation revenue

**KEY CONCEPT** Businesses in Australia make a significant contribution to the nation — both to the economy and to social wellbeing.

In Australia, the government uses money it collects in the form of taxes to pay for a range of public goods and services that society couldn’t function without. Public schools, hospitals, roads and the military are all paid for by taxes collected by the government from individuals and businesses. Most societies have functioned this way since ancient times, and all of us will at some stage pay taxes and receive the benefit of public goods and services paid for by taxes. As Benjamin Franklin once said, ‘In this world nothing can be said to be certain, except death and taxes’. Despite this, there has always been great debate about how much tax individuals and businesses should pay as well as how this money should be spent.

The Australian government expects to spend the money that it has received primarily through taxes on these goods and services. In the most recent budget, the greatest outlays have been on items such as social security and welfare ($164 billion), which includes pensions for the elderly and those with disabilities, as well as payments to support those who are unable to find employment or are in a disadvantaged position. Health ($75 billion), Education ($34 billion), and Defence ($30 billion) are also some of the more significant areas of spending for the government, which expects to pay a total of $464.3 billion dollars in the 2017–18 financial year on public goods and services.

Much of the nation’s tax revenue comes from businesses, either through company taxes or individual income tax paid by owners of small businesses not operating as a company. Business activities also indirectly account for the majority of tax revenue received. Businesses employ many people who pay tax on the income they receive from their employer and are involved in transactions that result in other duties and sales taxes.

**Government expenditure in the 2017–18 Australian Federal Budget**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security and welfare</td>
<td>$164.1 billion</td>
</tr>
<tr>
<td>Other purposes</td>
<td>$92.8 billion</td>
</tr>
<tr>
<td>Health</td>
<td>$75.3 billion</td>
</tr>
<tr>
<td>Education</td>
<td>$33.8 billion</td>
</tr>
<tr>
<td>Defence</td>
<td>$30.1 billion</td>
</tr>
<tr>
<td>General public services</td>
<td>$20.7 billion</td>
</tr>
<tr>
<td>All other functions</td>
<td>$47.6 billion</td>
</tr>
</tbody>
</table>

Sources of government revenue in the 2017–18 Australian Federal Budget

- Sales taxes $67.3 billion
- Fuels excise $18.7 billion
- Customs duty $14.7 billion
- Non-tax revenue $29.0 billion
- Superannuation taxes $8.5 billion
- Fringe benefits tax $4.4 billion
- Other taxes $8.3 billion
- Other excise $3.5 billion
- Company and resource rent taxes $80.4 billion
- Individuals income tax $209.6 billion

Source: Commonwealth of Australia, Budget Overview, 9 May 2017, p. 32.

**PAYING THEIR FAIR SHARE**

While the idea behind our taxation system is that it should collect taxes from those individuals and businesses who have been able to prosper in our society, doing this fairly has proven to be difficult in practice. Our complex tax system allows individuals and businesses to deduct a wide range of costs incurred in their attempts to earn an income. For example, a retailer who buys a pair of shoes for $40 and sells them for $100 may have received $100 worth of income, but hasn’t earned $100 profit. In fact, in addition to the $40 they paid for the shoes, the retailer would also have to pay for expenses such as electricity and wages for employees. In the interest of fairness, the business is allowed to deduct these costs of doing business and pay tax only on their profits. While this example may seem quite straightforward, the complexities surrounding taxation has given rise to an entire profession of accountants whose job is to deal with taxation issues for their clients and employers.

Things get even more tricky when dealing with multinational corporations who derive some of their income from within Australia as well as overseas. There is the temptation for some multinational corporations to avoid or minimise paying tax in Australia by understating their profits here and overstating them in nations that have lower tax rates. Our complex taxation laws leave a grey area between legally minimising tax and illegally avoiding it. Large companies often pay millions of dollars to stay on the right side of this grey area and maximise profits for their shareholders.

In 2016, 11.5 million documents, which became known as the ‘Panama Papers’, were leaked from a Panamanian law firm Mossack Fonseca. The documents revealed how very high-income earners and multinational corporations from around the world were using offshore investments to avoid paying their fair share of tax in countries such as Australia. With many multinational corporations’ shareholders being overseas residents, much of the profits gained by these companies do not end up in Australia once distributed as dividends. Many have argued that it is becoming obvious that, whether or not it is legal, some large corporations operating in Australia are not paying their fair share of tax and that the laws need to change.

EXXONMOBIL paid no corporate tax on $25 billion of revenue over the last three years. They are not alone, however; the Australian Taxation Office’s corporate tax transparency report showed 36 per cent of large companies had zero tax payable in 2014–15. This is an improvement from the previous financial year where the figure was nearly 38 per cent.
1.12 Activities

TEST your understanding
1. Explain the purpose of taxes in a country like Australia.
2. What is the largest area of government spending and what kind of things does this pay for?
3. What is the Australian government’s biggest source of revenue?
4. What were the ‘Panama Papers’?
5. According to the corporate tax transparency report, what portion of large companies pay corporate tax? Why do some people view this as a problem?

EXTEND your understanding
6. What do you think Benjamin Franklin meant by his statement, ‘In this world nothing can be said to be certain, except death and taxes’?
7. Write a letter to the treasurer of Australia explaining why you think we should increase or decrease spending on one of the items in the budget. You should use facts and statistics to support your argument.
8. Write 300–500 words on whether you think the taxation system in Australia is fair and why.

1.13 Methods for fostering a culture of business innovation and entrepreneurship in a nation

KEY CONCEPT There are many ways in which a nation can encourage innovation and entrepreneurship, including government investment in research and development (R&D), council grants for new businesses, business mentorships, school-based educational programs in entrepreneurship and the creation of regional business start-up hubs.

Businesses such as Google and Apple nurture innovation and entrepreneurship through the use of collaboration, new technology, active support systems, time provided for creativity and by not shunning failure. Similarly, a nation may encourage a culture of business innovation and entrepreneurship. Businesses can do this through their activities, but governments at all levels can also promote innovation and entrepreneurship through policy and financial assistance.

1.13.1 Government investment in research and development

Investment in R&D is expensive and not necessarily within reach of all businesses. Federal and state governments support businesses to conduct R&D via direct funding, grants and tax incentives. Through a number of avenues, the federal government provided approximately $10.1 billion in funding to R&D in Australia in 2016–17. Funding is provided to universities, publicly funded research agencies such as the CSIRO and businesses. Government support for businesses comes through programs such as the research and development tax incentive, which provides a tax offset to encourage businesses to engage in R&D.

In the 2017–18 Federal Budget, the federal government announced a $1.1 billion National Innovation and Science Agenda (NISA) designed to enable Australia to take full advantage of new economic opportunities.
DroneShield is a drone detection company based in the United States, but will soon be moving its headquarters to Australia, after recently listing on the Australian share market. The business develops and sells hardware and software used for the detection of drones, which otherwise could present security or safety risks. DroneShield CEO James Walker has said that Australia’s R&D Tax Incentive was an important factor contributing to the technology company’s decision to move to Australia.

The government has expressed the desire to establish Australia as a leading global financial technology hub and is announcing a new package that aims to position our local financial technology industry as a world leader.

AusIndustry is a division of the Department of Industry, Innovation and Science, and is the federal government’s principal agency for delivering assistance, programs and services that support industry, research and innovation. AusIndustry offers assistance programmes such as:

- the Entrepreneurs’ Programme. This initiative is a multi-platform network of practical advice and support for businesses, including advice from people with private sector experience, co-funded grants to commercialise new products and processes, funding to take advantage of growth opportunities, and connection and collaboration opportunities.

- the R&D tax incentive. This scheme encourages business investment in R&D, as well as growing and sustaining innovative, competitive and export-orientated Australian industries. The tax incentive is an easy-to-access entitlement that is available to businesses of all sizes in all industry sectors. Under this scheme, eligible small to medium-sized companies with annual turnovers of less than $20 million apply for a refundable tax offset of 43.5 cents for every dollar spent on R&D. A 38.5 per cent non-refundable tax offset is available to other eligible businesses.

- Regional Innovation Funds. These initiatives provide support to stimulate investment and diversify the economic and employment base in the regions of Tasmania (Australian Government Innovation and Investment Fund), Geelong (Geelong Region Innovation and Investment Fund) and Melbourne’s north (Melbourne’s North Innovation and Investment Fund).

**JUMBO VISION’S $1 MILLION GRANT**

Jumbo Vision International, a Perth technology company, was recently awarded a $1 million commercialisation grant from the Australian government’s Entrepreneurs’ Programme, which will allow it to start exporting its virtual reality product to Europe and the United States.

The company’s 200 square metre CADwalk visualisation experience simplifies design and layout planning processes for command-and-control rooms and other technical environments. It uses software as well as 2D and 3D stereoscopic projectors and motion-tracking cameras to create a simulation of a room. This allows operators, architects, engineers and other stakeholders to physically
walk through the full-sized representation of a control room and modify the layout as necessary in real time. Designing these types of assets is normally a very time-consuming process.

‘This grant is a validation of an innovative concept that we developed to counter design frustration,’ said Jumbo Vision General Manager Lena Kimenkowski. ‘CADwalk is now a tool we can take to an expanded global stage.’

Mr Kimenkowski said that Jumbo Vision was not inventing products from scratch, but rather combining existing technologies to produce new systems.

CADwalk has been trialled in Australia and New Zealand. Many businesses and organisations have already benefited from the technology, including some major oil and gas mining companies, CSIRO, AGL, South East Water and Transpower NZ.

The Department of Economic Development, Jobs, Transport & Resources (DEDJTR) has established Boost Your Business Vouchers to support Victorian businesses to become more productive, employ more people, improve market access and, in general, increase their scale, diversity and profitability. Eligible applicants may receive up to $50 000 in one of the following six streams:

- Advanced Victorian Manufacturing
- Asia Gateway
- Defence, Aerospace and Security
- Food Innovation
- Social Enterprise Capability
- Victoria Israel Innovation.

SUN HEALTH FOODS' GROW YOUR BUSINESS GRANT

Sun Health Foods is an Australian manufacturer of health bars, including a wide range of nut and honey bars. The private company was established in 1980 and also produces a range of gluten-free and nut-free products. It supplies these products to major supermarkets, petrol stations and convenience stores across Australia.

The business was awarded an $11 500 Grow Your Business grant by the Victorian Government, allowing it to manage increased capacity at its new location in Moorabbin and explore new markets in Australia and overseas. Managing Director Theodore Andriopoulos is hopeful that several new initiatives will create an increase in customer interest and sales.

‘Innovation is our hope for survival in the future, I think,’ Mr Andriopoulos said. ‘And that’s something that we’ve had experience with in the last 39 years, and unless we keep that I don’t think we would be able to be very competitive.’

1.13.2 Council grants for new businesses

From time to time, local councils will provide business grants and funding programs. Occasionally these will apply to new businesses. The City of Melbourne has a small business grants program that provides financial assistance to small businesses currently located or intending to locate within the City of Melbourne. The objective is to encourage the establishment, growth and retention of innovative, creative and sustainable businesses. A number of other councils, including Frankston City Council, Greater Shepparton City Council, Macedon Ranges Shire Council and Northern Grampians Shire Council, also have business grants programs with similar objectives for new or existing businesses.
SOUTHSIDE SOCIAL

Frankston City Council’s small business grants program has contributed a total of $240,000 towards supporting 20 local businesses in its four years of operation. Southside Social received a grant in the start-up category for $15,000. A restaurant specialising in American gourmet burgers, fancy fries, and spiked shakes, Southside Social’s point of difference is that it sources local produce, wine and beer. Graffiti-style art is also featured throughout the venue.

1.13.3 Business mentorships

A business mentor is a person with extensive business experience who can guide a business owner with less experience. They will offer knowledge, wisdom and advice to an inexperienced business manager or entrepreneur to help them set goals, maintain perspective, expand their networks and grow. A business mentorship refers to the relationship between the mentor and the business manager or entrepreneur (the mentee). Mentoring allows the business owner to develop skills and abilities in innovation and entrepreneurship for free, and at a faster rate than if they were on their own. A mentorship can occur informally — for example, through a business contact providing advice and support as needed. Formal mentoring is also provided through government or not-for-profit organisations.

Local councils will often facilitate information sessions for starting or supporting new businesses. Many councils have small business health check services and mentoring programs available. For example, Glen Eira City Council and Kingston City Council offer a Mentor Partners Program that provides volunteer business mentoring support and guidance to help small business owners to develop their businesses.

1.13.4 School-based educational programs in entrepreneurship

Awareness of entrepreneurship can be improved through education and information programs. Schools teach courses in economics and business, including VCE Business Management, so that students have some knowledge of entrepreneurship. Many programs also allow students to experience entrepreneurship.

There are several school-based educational programs in entrepreneurship. One popular program is called ‘$20 Boss’ and is organised by the Foundation for Young Australians and the National Australia Bank. Participating students are given $20 each as seed funding to create their own business. Students may decide to use the funding on their own start-up, or pool it with other students to work on a joint project. At the end of the program, students are encouraged to pay back the start-up money.

Victoria University organises an annual I Plan A Business (iPAB) competition that gives emerging student entrepreneurs the opportunity to develop an idea for a business or social enterprise, then prepare and enter a business plan. Students need to apply their creativity and business skills to the business plan to win prizes.

ABW Enterprise Education is a not-for-profit organisation that delivers a range of business simulations for schools. Working in teams, students learn from the hands-on experience of running a virtual business.
Students at Kurunjang Secondary College participated in $20 Boss and improved their entrepreneurial and leadership skills.

1.13.5 Regional business start-up hubs

Small Business Centres Victoria (SBCV) Network is a network of business centres providing a range of small business services in 9 metropolitan and 17 regional locations throughout Victoria. Business centres provide subsidised premises, advice, services and support to new and emerging businesses to assist them to become established and profitable. Business centres may also host workshops and seminars providing small businesses with access to low-cost resources and information. Because they are locally based and operated, each business centre has an appreciation of the regional issues affecting an individual business and is able to tailor advice to suit the specific needs of each business.

Many of these business centres are members of Business Enterprise Centres (BEC) Australia, a not-for-profit network of business enterprise centres that provide support to small business owners. Some of these business centres have also been established by Workspace Australia. This is a not-for-profit organisation that has established small business centres in Bendigo, Castlemaine, Donald, Dunolly, Eaglehawk, Gisborne, Inglewood, Kinglake and Maldon.

INNOVIC (the Victorian Innovation Centre) is a not-for-profit organisation that assists innovators and entrepreneurs. The organisation helps to turn new ideas into viable products and create new businesses of the future. It offers a wide range of practical services, free seminars and innovation resources to help potential business owners with their business ideas, as well as innovation through all the stages of the business’s development.
1.13 Activities

TEST your understanding

1. Summarise the ways in which governments at both federal and state level invest in research and development in Australia.
2. For what reason do you think Jumbo Vision International received a commercialisation grant from the Australian government’s Entrepreneurs’ Programme?
3. Explain how Sun Health Foods benefited from a Grow Your Business grant.
4. What is the purpose of the small business grants programs offered by some local councils?
5. Define the term ‘business mentor’ and explain how a mentor can assist a business manager or entrepreneur.
6. Outline how school-based educational programs can improve awareness of and experience in entrepreneurship.
7. Describe the type of support that regional business start-up hubs such as Small Business Centres Victoria offer new and existing business owners.

APPLY your understanding

8. Use the Grants and assistance weblink in the Resources tab to find out more about grants and assistance in the area of innovation and entrepreneurship. Search the programs or use the grant finder then use the table below to record the information you find on the website, under each appropriate heading.

<table>
<thead>
<tr>
<th>Grants</th>
<th>Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td></td>
</tr>
</tbody>
</table>

9. Use the Small Business Centres Victoria weblink in the Resources tab to answer the following questions about the Small Business Centres Victoria (SBCV) network:
   - When and by whom was this network set up?
   - What are the key objectives of SBCVs?
   - Identify five different services offered by SBCVs, and explain how each operates.
   - Identify the closest business centre to your home or school.

EXAM practice

10. Describe two methods by which the Australian government supports and funds businesses to undertake research and development. (4 marks)

11. Explain one reason why the Australian government funds school-based programs for entrepreneurship, even though the students participating in such programs would in all likelihood be too young and too busy with school to establish their own business? (4 marks)

Resources

- Weblink: Grants and assistance
- Weblink: Small Business Centres Victoria
1.14 EXTEND YOUR KNOWLEDGE Research and development

**KEY CONCEPT** Businesses make a large contribution to research and development (R&D), but more could be done to ensure that there is a culture of business innovation in our nation.

### RESEARCH AND DEVELOPMENT AND GOVERNMENT

R&D does not necessarily mean scientists in lab coats performing experiments. Businesses can carry out R&D in many different ways. A restaurant, for example, might develop and test new recipes for commercial production. A manufacturer might establish a new process or a product with added value. A farmer might develop new lines of food products or drought resistant produce. Businesses of all sizes can undertake R&D. However, a major factor that prevents many businesses, particularly small businesses, from attempting to innovate is the cost of R&D and the lack of funding.

Many have suggested that the government should do more to encourage businesses to spend money on R&D. Cochlear Limited chairman Rick Holliday-Smith has said, ‘We would recommend the government to reward appropriately defined innovative companies for their incremental R&D spend by increasing the concession for additional R&D expenditure.’

Others have suggested that the government needs to allocate its funding more effectively. Professor Barney Glover, chair of Universities Australia, has said, ‘I think it’s fair to say that over the last decade when we’ve seen a very significant increase in the R&D tax incentive . . . we haven’t seen the same improvement in Australia’s international innovation performance.’ Professor Glover has argued that Australia should not simply rely on an indirect tax incentive to encourage innovation in business, but rather the indirect tax break should be complemented by direct payments to businesses collaborating on research with universities and public researchers. Australia’s Chief Scientist, Alan Finkel, has also suggested that the government should introduce a targeted grant system.

Despite this, many small businesses have managed to invest in R&D. Ento is a workplace rostering software company that was launched in 2009. Since then it has increased its revenue and staff, and more than 1500 workplaces use its product across Australia. The company has received financial assistance from the federal government.

### RESEARCH AND DEVELOPMENT—DOES IT MAKE CENTS?

Australian business expenditure on R&D (known as BERD) increased for the third consecutive year in 2013−14, to a total of $18.9 billion, according to figures released in 2015 by the Australian Bureau of Statistics (ABS). Large businesses accounted for just under two-thirds (59 per cent) of total R&D expenditure, while medium-sized businesses contributed 24 per cent and small businesses contributed 17 per cent. But is spending millions of dollars on R&D really worth it? Many Australian businesses, including Ford Australia, seem to think so.

Ford closed its Broadmeadows car factory and Geelong engine plant in October 2016. However, the company retains a design and engineering business in Australia with approximately 1500 staff working in R&D. Ford recently refurbished its Broadmeadows headquarters to house its Asia-Pacific Engineering Centre, and it also maintains a research and development centre in Geelong and a test facility at the You Yangs proving grounds at Lara.

Speaking at the 50th birthday celebration of the You Yangs proving grounds, Ford Australia president and CEO Graeme Whickman said that its Australian R&D facilities are instrumental as part of the company’s capability as an innovator and centre of excellence for the Asia–Pacific region. ‘In 2015 alone, Ford spent around $300 million on R&D, bringing to $2 billion the amount of money spent on R&D over the past six years,’ he said.
Ford’s Asia-Pacific design and engineering facilities in Melbourne can take an entire line of cars from sketches through to 3D renderings, to clay models, prototypes and finally to the vehicles you see on the road.

The Business Idea

Australian businesses do have a long way to go when it comes to matching the R&D efforts of other businesses around the world. ABS research shows that even though there was an increase in business expenditure on R&D (BERD), Australia continues to lag behind what other Organisation for Economic Co-operation and Development (OECD) countries spend on innovation as a proportion of gross domestic product (GDP).

Federal government investment in Research and Development has been less than impressive in recent years. Spending of only 0.4 per cent of the nation’s GDP on R&D in 2015 placed Australia as the third lowest in the 18-nation OECD. South Korea was the highest spending nation as a proportion of its GDP, devoting 1.18 per cent of its GDP to R&D.

Australian state governments and the private sector placed a considerably greater emphasis on R&D. Adding state government and private sector funding to federal funding, Australia spent an amount that equates to 2.1 per cent of its GDP on R&D in 2015, ranking it ninth among the OECD nations. Again, South Korea led the pack, spending 4.3 per cent of its GDP on R&D.

What the future holds for Australian government funding into R&D is difficult to predict. While the benefits of R&D to the economy are undeniable, they are also difficult to measure, which means that R&D funding is always subject to great political debate.

1.14 Activities

TEST your understanding

1. Explain why R&D is more than simply performing experiments.
2. What factors can prevent businesses from investing in R&D?
3. Briefly outline the benefits for Ento in receiving R&D assistance from the federal government.
4. In 2015, how much did Australia as a whole spend on R&D as a proportion of its GDP?
5. Outline the contribution that Ford has made to R&D in Australia.
6. Explain how Australia compares to the other OECD countries in terms of business expenditure on research and development.

EXTEND your understanding

7. Use the internet to research another business that has received financial assistance from the government for R&D. Phrases such as ‘R&D grant’ or ‘R&D rebate’ might be useful to enter into a search engine such as Google. Write a one-minute newsflash that covers:
   - the name of the business
   - what the business produces
   - what type of funding or grant it received
   - why the business received the government assistance
   - the impact of the government assistance (what it will be used for).
8. Calculate how much money large businesses, medium-sized businesses and small businesses spent on R&D in 2015.
9. Use the OECD Main Science and Technology Indicators weblink in the Resources tab to find the most up-to-date OECD statistics. Choose ‘BERD as a percentage of GDP’ to find the BERD/GDP ratios of OECD countries.
   (a) Graph this information for the top 15 countries. For each country, show how the ratio of BERD to GDP has progressed over the last five years.
   (b) Write a comment summarising the results of your graph. Do you see any trends? Which countries are improving their BERD (as a proportion of GDP)? How is Australia performing compared to the other top OECD countries?
10. Do you think that the government should do more to encourage businesses to spend money on research and development, or should it be left up to the corporate sector?
1.15 Review

1.15.1 Summary

Sources of business opportunity

• A business opportunity can come from innovation and entrepreneurship, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets.
• 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 ability of an entrepreneur for success to be achieved.

The personal motivation behind starting a business

• Any person wanting to set up a business must be very clear about their objectives and motivation.
• The motivations behind starting a business include the desire for independence, both financially and personally, to make a profit, to fulfil a market need and to fulfil a social need.

The importance of goal setting in business

• Goals should be S.M.A.R.T. — that is, they should be specific, measurable, attainable, relevant and time bound.
• Businesses strive to achieve three broad goals: financial, social and personal.

The characteristics of successful business managers and business entrepreneurs and how these characteristics contribute to business success

• Some characteristics of entrepreneurs are the ability to take risks, share a vision and demonstrate initiative, innovation and enterprise.
• Some characteristics of successful business managers are the ability to start and see through long-term projects, leadership qualities, organisational skills and the ability to take managed risks.
• Business owners must be able to assess honestly their own personal characteristics to determine whether they have the necessary attributes to operate a successful business.
• The characteristics of business managers and entrepreneurs ensure that a business will be successful. Without a goal or direction, without leadership or organisation, a business would be likely to fail.

The importance of business concept development

• 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 relationship between business opportunities and business concept development

• A business concept is developed by a prospective business owner after an idea has arisen from an assessment of possible business opportunities.

Market research and initial feasibility studies

• The prospective business owner should carry out some initial market research to determine the viability of their business concept.
• A feasibility study is an assessment of the business idea’s potential for success. This involves determining how practical the idea is and whether it would successfully translate to the market.
The contribution that businesses make to the economic and social wellbeing of a nation

- Businesses contribute to the economic wellbeing of a nation by providing employment, contributing to taxation revenue and boosting economic growth and export earnings. They also contribute to research and development.
- Businesses contribute to the social wellbeing of a nation by supporting career development and social wellbeing, innovation and corporate social responsibility.

The methods by which a culture of business innovation and entrepreneurship may be fostered in a nation

- Innovation and entrepreneurship may be encouraged and nurtured in a nation in many ways, including government investment in research and development, council grants for new businesses, business mentorships, school-based educational programs in entrepreneurship, and the creation of regional business start-up hubs.

1.15.2 Key terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>assets</td>
<td>items of value owned by a business</td>
</tr>
<tr>
<td>balance of payments</td>
<td>a record of a country’s trade and financial transactions with the rest of the world</td>
</tr>
<tr>
<td>business</td>
<td>any activity conducted by an individual or individuals to produce and sell goods and services that satisfy the needs of society, as well as making profit</td>
</tr>
<tr>
<td>business mentors</td>
<td>a person with extensive business experience who offers knowledge, wisdom and advice to a less experienced business manager or entrepreneur</td>
</tr>
<tr>
<td>business opportunity</td>
<td>a set of circumstances that presents itself as an avenue to success</td>
</tr>
<tr>
<td>corporate social responsibility</td>
<td>managing a business in such a way that the broader social welfare of the community, including its employees, customers, suppliers and the environment, is taken into consideration when making business decisions</td>
</tr>
<tr>
<td>economic growth</td>
<td>when the real value of goods and services increases over a set period of time</td>
</tr>
<tr>
<td>economy</td>
<td>a system set up to determine what to produce, how to produce and to whom production will be distributed</td>
</tr>
<tr>
<td>effectiveness</td>
<td>a measure of whether the business is doing the right things — those that are most important to the success of the business</td>
</tr>
<tr>
<td>efficiency</td>
<td>measures how well we do things. For example, if we are able to produce more outputs with from the same inputs we have become more efficient at using these inputs.</td>
</tr>
<tr>
<td>entrepreneur</td>
<td>a person who is willing to seize opportunities to start and operate a business, and is prepared to take risks in the hope of making a profit</td>
</tr>
<tr>
<td>entrepreneurship</td>
<td>the ability and willingness to start, operate and assume the risk of a business venture in the hope of making a profit</td>
</tr>
<tr>
<td>exports</td>
<td>goods or services sold by one country to individuals, businesses or governments in another country with the aim of extending sales and market penetration</td>
</tr>
<tr>
<td>feasibility study</td>
<td>an assessment of the practicability and potential for success of a proposed business idea</td>
</tr>
<tr>
<td>goal</td>
<td>what a business expects to achieve over a set period of time</td>
</tr>
<tr>
<td>industry</td>
<td>the classification of groups of businesses related to the particular good or service they produce</td>
</tr>
<tr>
<td>innovation</td>
<td>either creating a new good, service or process, or significantly improving an existing one</td>
</tr>
<tr>
<td>market conditions</td>
<td>the features of a market into which a new good or service is to be introduced, which include factors such as the number of potential customers, level of competition and potential for growth</td>
</tr>
<tr>
<td>market research</td>
<td>a process of systematically collecting, recording and analysing information concerning a specific market</td>
</tr>
<tr>
<td>market share</td>
<td>the proportion of total sales in a given market or industry that is controlled or held by a business, calculated for a specific period of time</td>
</tr>
<tr>
<td>mission statement</td>
<td>describes what the business does and how it will achieve its vision</td>
</tr>
<tr>
<td>productivity</td>
<td>how many outputs we produce per input. It is calculated using the formula: [ Productivity = \frac{\text{outputs}}{\text{inputs}} ]</td>
</tr>
<tr>
<td>profit</td>
<td>what is left after business expenses have been deducted from money earned from revenue</td>
</tr>
</tbody>
</table>
research and development (R&D) a set of activities undertaken to improve existing products, create new products and improve production processes
return on investment a positive or negative percentage that relates the money gained or lost on an investment to the cost of that investment. It is usually taken to mean that the return on the investment occurs over a 12-month period.
revenue the income that a business earns from the sale of goods and services to customers
shareholders (or members) the owners of a company
vision statement describes where the business wants to be in the future (say five years from now)

1.15.3 Review questions

TEST your understanding

1. Explain the role of innovation and entrepreneurship in the establishment of new businesses.
2. Outline how each of the following sources of business opportunity can foster new business ideas:
   - recognising and taking advantage of market opportunities
   - changing customer needs
   - research and development
   - technological development
   - global markets.
3. Identify and explain the key factors that may motivate an individual to become a business owner.
5. List and explain three broad types of business goals.
6. What are the key characteristics that are likely to be present in a successful business manager?
7. What is entrepreneurship, and why is it so important for business success?
8. What is a business concept?
9. How might a prospective business owner devise a business concept?
10. Explain the relationship between business opportunities and business concept development.
11. Outline an initial market research process that could be used by a prospective business owner to determine market conditions for their proposed product or service.
12. Describe the possible contents of an initial feasibility study.
13. Explain the economic contribution that businesses make to our nation.
14. Summarise the contribution that businesses make to the social wellbeing of Australia.
15. Describe the methods by which the federal and state governments invest in research and development.
16. Briefly outline how the following methods foster a culture of innovation and entrepreneurship in a nation:
   - council grants for new businesses
   - business mentorships
   - school-based educational programs in entrepreneurship
   - the creation of regional business start-up hubs.
17. Select the most appropriate words from the following list to complete the paragraph below.

R&D education gap social
feasibility technological independence innovation
profit market research entrepreneurship market conditions

New ideas for businesses can come from a range of sources, including identifying a ______ in the market, _______ development and changing customer needs. Prospective business owners can be moti-
vated by the desire for _______, the need to make a profit and to fulfil a market and/or _______ need. Before establishing a business, the owner should determine whether there is enough demand for the good or service to ensure that it will survive and generate a ________. By carrying out a process of _______ and conducting an initial _______ study, 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. Innovation and entrepreneurship can be fostered in a nation by methods including government investment in ______ and school-based ______ programs.

APPLY your understanding

18. Categorise the goals listed in the table below under the most appropriate broad type of business goal heading. The first one has been completed for you.

<table>
<thead>
<tr>
<th>Business goal</th>
<th>Broad type of business goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>Financial goal</td>
</tr>
<tr>
<td>Provision of employment</td>
<td></td>
</tr>
<tr>
<td>Community service</td>
<td></td>
</tr>
<tr>
<td>Increased market share</td>
<td></td>
</tr>
<tr>
<td>Improved financial security</td>
<td></td>
</tr>
<tr>
<td>Increased sales</td>
<td></td>
</tr>
<tr>
<td>Ecological sustainability</td>
<td></td>
</tr>
<tr>
<td>Maximising return on investment</td>
<td></td>
</tr>
</tbody>
</table>

19. Jonathon is a motor mechanic employed at a local service station. He has a quiet, withdrawn, unassertive personality. He is a highly skilled mechanic who enjoys working with machinery. However, he finds it difficult to mix with people. He is easily distracted by other events and struggles to concentrate on work other than repairing machinery. He also finds it rather hard to stick to a set routine. Jonathon is considering starting his own car repair business.

(a) Identify Jonathon’s major problem areas in terms of the characteristics needed to operate a business.
(b) Determine how Jonathon’s personal characteristics might have an impact on his business if he started one.
(c) Predict Jonathon’s chances of successfully operating his own car repair business.
(d) Advise Jonathon on the characteristics he would need to develop to successfully operate a business.
20. Identify whether the characteristics in the table below are consistent with business managers or entrepreneurs by placing a tick in the appropriate column.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Business manager</th>
<th>Entrepreneur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting and seeing through long-term projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taking risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organisational skills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sharing a vision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demonstrating initiative</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

21. If you were going to start your own restaurant, what market research or initial feasibility studies would you conduct?

22. Using an example of a real business, outline how businesses contribute to the economic and social wellbeing of Australia.

**EXAM practice**

23. Distinguish between ‘research and development’ and ‘technological development’ and provide examples of each. (3 marks)

24. Outline the personal motivation behind the founding of a business/organisation that you are familiar with and explain how the business helps the owner to achieve their personal goal(s). (3 marks)

25. Jane manages a sporting goods retail outlet. She wishes to increase the sales revenue of the store, which totalled $1.4 million in the past financial year and feels that setting goals for her five full-time staff members might help. Suggest a sales-related goal that Jane could set for each member of her team and explain how it satisfies the criteria of a S.M.A.R.T. goal. (5 marks)

26. Explain how businesses contribute to the economic and social wellbeing of a nation. (4 marks)

27. Explain two methods by which a culture of business innovation and entrepreneurship may be fostered in a nation. (4 marks)
1.15.4 School-assessed coursework

OUTCOME 1
Describe how and why business ideas are created and developed and explain the methods by which a culture of business innovation and entrepreneurship may be fostered in a nation.

ASSESSMENT task — case study analysis
Read the following case study and then complete the questions.

Moregolf
Mick and Simone McGrath are the owners of Moregolf, a wholesale business located in Oakleigh. Because it is a wholesale business, it sells golf products to retailers. As well as Mick and Simone, the business employs a warehouse manager and five sales contractors.

Mick and Simone purchased the business because of a desire to be independent — both financially and personally. Before they took over, they spent some time with the previous owner observing the day-to-day operations of the business. They also met with accountants who helped them to develop a business plan. Mick and Simone have goals for Moregolf, including making a profit and increasing sales, as well as expanding the business and introducing new products.

The owners of Moregolf have been prepared to take risks and have been willing to change direction to meet the needs of the market. Mick and Simone say they have learnt from their mistakes. ‘We started off selling a range of hardware, such as golf bags and clubs,’ Simone says. ‘But we found that we could not continue to compete with the larger golf equipment outlets.’

They decided to focus on specialised or niche products instead. These are products that appeal to a specific group of people with a common interest. Moregolf now wholesales products such as Golf Pride and Lamkin grips, golf club shafts and repair gear. They also offer repairs and sell accessories. The business is now at a stage where it is starting to see profit and is becoming better known in the industry.

Moregolf is a socially responsible business. It sponsors community events and donates prizes. Moregolf participates in the Tee Up For Kids charity day every year. The business recently had solar panels installed on its warehouse to reduce its carbon footprint.

1. Outline the personal motivation behind Mick and Simone wanting to start a business.
2. Describe two sources of business opportunity that might have influenced Mick and Simone in making their decision concerning their purchase of Moregolf.
3. Explain why it is important to set goals before starting a new business.
4. Distinguish between a business manager and entrepreneur.
5. Explain how the characteristics of business managers and entrepreneurs contribute to business success.
6. Explain why the development of a business concept would be important to Mick and Simone.
7. Recommend to Mick and Simone whether or not market research or an initial feasibility study would have been appropriate when they were buying their business. Justify your answer.
8. Describe two contributions that Moregolf makes to Australia’s economic and/or social wellbeing.
9. Explain one method by which a culture of business innovation and entrepreneurship may be fostered in a nation. Suggest whether or not this method would be applicable to the case of Mick and Simone.