CHAPTER 6
Reviewing performance — the need for change

6.1 Overview

6.1.1 Why it is important
Businesses are established for a variety of reasons. Once established it is important for those businesses to maintain a suitable level of performance to ensure they continue to operate. Businesses need to consider sales, profits, cash flow and market share as factors that assess performance. If the performance isn’t acceptable the business needs to change so that the level of performance improves and returns to an acceptable level.

WOOLWORTHS — SELF-SERVICE TO STEM COSTS
Self-service checkouts are a contentious issue for both shoppers and supermarkets. Since the introduction of self-service checkouts, supermarket theft has increased — verified in a 2017 survey by consumer research company Canstar, who found that one in six customers aged in their thirties said they had deliberately not paid for an item at a self-service checkout. Almost one in 10 shoppers of all ages admitted they had cheated in the self-service section, with men more likely to steal than women.

As one of the biggest retailers, Woolworths has continued to embrace the new technology. The drive to do so stemmed from rising costs, poorer financial performance and increased competition (see graph below).

While the profit figures for most of the period were positive, there was concern about the declining profit figures, which extended to a loss in 2016. There was further cause for concern with German supermarket chain Aldi steadily gnawing away at Woolworths’ dominant supermarket position, building its total market share to about 10 per cent as it expands around the country.
Further bad news for Woolworths has been the findings of another survey showing that the retailer ranked lowest against its supermarket competitors on customer service, and low in terms of value for money, food freshness, store layout, specials and the quality of its private label products.

This Canstar Blue survey of 2925 Australian shoppers found that Woolworths customers are not as satisfied as they are with Coles, Aldi, Foodland and IGA.

However, that is not slowing Woolworths’ venture into the self-service checkout arena. As Coles, their main rival, moves to restrict their investment in this area, Woolworths is replacing nearly all of its traditional check-outs with self-service at some inner-city stores as part of its multimillion-dollar renewal program to win back customers.

The retailer is making a pointed move to embrace self-service despite industry sources estimating Coles’ annual grocery theft bill at about $1.1 billion and Woolworths to be suffering a similar result.

That doesn’t seem to bother Woolworths, which, as part of its planned overhaul of more than 80 stores in 2017, is vastly increasing the number of self-service checkouts at its metro and smaller-format locations.

6.1.2 What you will learn

Key knowledge

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

Key performance indicators as sources of data to evaluate the performance of businesses including percentage of market share, net profit figures, rate of productivity growth, number of sales, rates of staff absenteeism, level of staff turnover, level of wastage, number of customer complaints and number of workplace accidents.

Driving forces for change in business including managers, employees, time, organisational inertia, legislation and financial considerations.

Restraining forces in businesses including managers, employees, time, organisational inertia, legislation and financial considerations.

The two key approaches, lower cost and differentiation, to strategic management by Porter’s Generic Strategies (1985).

The concept of business change.

Reviewing performance — the need for change

Key principles of the Force Field Analysis theory (Lewin)

Key skills

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

• Define, describe and apply relevant business management concepts and terms
• Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
• Interpret key performance indicators to analyse and evaluate business performance
• Apply business management knowledge to practical and/or simulated business situations
• Compare and evaluate relevant management strategies

6.2 The concept of business change

**O KEY CONCEPT** Businesses must constantly change in order to survive in today’s volatile business environment.

6.2.1 What is business change?

There is every indication that the pace of change confronting Australian businesses will intensify during the next decade. Change is any alteration in internal or external environments; for example, change in consumer tastes or change in employee expectations. It could also be a change to the way things are perceived, or a new way of dealing with problems. In response to these changes, many businesses have undergone business change: the adoption of a new idea or behaviour resulting in a difference in the form or operation of a business over time. The business may have modified its corporate culture, implemented new management structures, recruited employees with new skills or developed different work practices.

**DID YOU KNOW?**

People always ask, ‘Is the change over? Can we stop now?’ You’ve got to tell them, ‘No, it’s just begun.’

— Jack Welch, former CEO of General Electric Company

Managing change

All businesses face change. Some changes are forced on a business, while others are carefully planned. The ability to manage and, in many cases, embrace and adapt to change will increasingly determine a business’s competitive advantage and survival. Successful managers are those who anticipate and adjust to changing circumstances rather than those who get swept along passively or, worse, get caught unprepared. Such people are proactive rather than reactive.

To be constructive, changes must occur at a pace that allows businesses to absorb and integrate them into their operations. Also, all changes should be evaluated thoroughly to assess their overall impact. Poorly managed changes normally result in employee resistance, tension, anxiety, lost productivity and ultimately, unmet objectives.

Change entails risk and requires sound leadership skills and responsive management structures. The long-term survival of any business depends on the ability of its managers to scan the environment, predict future trends and exploit change. While change may be the most daunting challenge confronting management, the rewards are great for those who are prepared to accept the challenge.

**EXAM TIP**

The outcome for Unit 4, Area of Study 1 states that you need to ‘use key performance indicators to analyse the performance of a business’. You should understand that this KPI data, and the analysis of that data, will be used to lead businesses to change and so you should be considering what areas of the business relate to each KPI and how those KPIs can lead to change.

**study on**

Unit 4  AOS 1  Topic 1  Concept 1

The concept of business change Summary screen and practice questions
Skills in managing change

To ensure that the change will be effective, managers will need to apply their management skills. Management skills were discussed in chapter 2.

Communication skills

Managers must be able to communicate with stakeholders regarding the need for change and the progress of the change. Without clear communication regarding the change there may be resistance to it, causing delays and problems for management and other stakeholders. Effective managers understand the importance of communication.

Delegating skills

Managers can’t oversee all aspects of the change. Passing authority for specific tasks or appointing a change agent will allow managers to focus on other tasks while the change is managed effectively.

Planning skills

All changes need to be planned. Change can be long-term or short-term, so management must develop a 'plan of action' for dealing with change.

Leading skills

Leading is the ability to influence others to achieve objectives. Managers need to influence staff to accept any change and work towards the successful implementation of the change. Their influence determines how effectively the change is implemented and how quickly and successfully any resistance is overcome.

Decision-making skills

During the change process decisions will need to be made. The ability to select the best course of action from a range of options will allow the process to be completed effectively. Some of these decisions will be difficult as change often leads to job losses.

Interpersonal skills

Change can have a negative impact on employees. Managers need to relate to and empathise with employees and any other stakeholder impacted by the change.

AUSTRALIA POST TRANSITIONING

Following a fall in letter deliveries and higher costs leading to its mail division losing a record $328.4 million in 2013–14, Australia Post introduced a two-speed letter service in early 2016. This means that customers can now choose between a regular or priority letters service, as well as the already existing express service. Several thousand employees at Australia Post were made redundant or were transitioned into different roles at the government business enterprise as it focused more on its parcel delivery business. In August 2017, Australia Post announced a full-year profit after tax of $95 million.
AVON CALLING

Not all companies are able to turn around their falling fortunes like Australia Post — sometimes the issues are too severe, and the business will cease operations.

This was the case for Avon — an iconic US-based company introduced into Australia in the early 1960s. At the time, Avon gathered an army of women who went from door to door, selling their cosmetics to other women who were working as traditional housewives. Their advertising campaign also became iconic, with the phrase ‘Ding Dong, Avon calling’ becoming synonymous with the brand and the product.

However, the growth in online shopping and increased competition from other businesses in recent years meant Avon could no longer compete, and it announced that it would close its Australian operation at the end of 2018, after 55 years of selling cosmetics, skincare, fragrance and fashion products.

While the news is naturally upsetting for the industry, the employees and the economy, the company distressed people further by making the announcement to its 21,400 employees through Facebook.

6.2 Activities

TEST your understanding
1. What does the term ‘business change’ mean?
2. Explain the meaning of the phrase, ‘There is only one constant in life and that is change’.
3. Explain the difference between proactive and reactive management.
4. Explain why communication skills are important during a period of change.
5. Outline the importance of leading during a period of change.
6. Explain how using interpersonal skills can assist managers implement change.

APPLY your understanding
7. Read the Woolworths case study in section 6.1.1. In your opinion, did Woolworths respond in a proactive or reactive manner to pressures for change? Justify your answer.
8. Search the web to find information regarding a business that has been in the media in recent times. Prepare a brief report summarising:
   • the type of business
   • its recent financial performance
   • other issues impacting the business.

EXAM practice
9. Describe the concept of business change. (1 mark)
10. Describe two skills a manager may use during a period of change at a business. (4 marks)
6.3 Analysis of business performance

**6.3.1 Efficiency and effectiveness**

Toyota Australia’s mission is to ‘deliver outstanding automotive products and services to customers, and enrich the community, partners and environment’. After determining the business’s objectives and strategies, management at Toyota will ask, ‘How well did we do?’ They evaluate performance by determining whether the objectives have been achieved. Evaluation is carried out by constantly asking:

- How is the business performing?
- Is the business performing as planned?
- Has its performance improved over time?
- How does its performance compare to that of similar businesses?

Once measurements have been collected, businesses such as Toyota can identify and investigate any discrepancies in comparison with original planned objectives. The business needs to ask whether the desired results were achieved and, if not, where and why they failed. If strategies were successful, the business should examine what made them a success and reuse these strategies. By evaluating successful operations, the business may also identify weak spots that can be improved. By constantly evaluating its performance a business such as Toyota can determine the efficiency and effectiveness of its performance.

**Effectiveness** indicates to what degree a business has accomplished the objectives it set out to achieve. In other words, the business is ‘doing the right things’. If a business’s goal was to make profit, then improving profit from one year to the next would be seen as effective. A large business such as Toyota evaluates its performance by assessing whether it has been effective as well as efficient. **Efficiency** refers to how well a business uses the resources needed to achieve a goal. The most efficient use of resources occurs when benefits are greater than the costs of resources employed. If a business reduced the amount of waste it produced while achieving its objective of profit, for example, then this may be considered to be efficient.

6.3.2 Key performance indicators

Businesses use **key performance indicators** (KPIs) to evaluate performance. KPIs are criteria used as a measure of the success, or the efficiency and effectiveness, of a particular area of the business’s performance. They can also provide data that drive change for a business.

KPIs draw on information taken from a variety of sources, such as accounting reports, marketing statistics, data gathered from customer or employee feedback, or from observation. Let us have a look at some typical KPIs.
6.3.3 Key performance indicators as sources of data

Percentage of market share

Percentage of market share refers to the business’s share of the total industry sales for a particular good or service, expressed as a percentage. It is calculated by dividing a business’s sales (from that market) by the total sales of all businesses in that market and expressing this as a percentage. An increase in market share suggests that the business is performing successfully. Toyota sold 216,566 vehicles in the 2017 calendar year. It had a market share of 18.2 per cent in 2017, an increase of 3.3 per cent compared with its market share in 2016. As at 30 April 2018, Toyota Australia remained the top-selling car company in Australia with a market share of 18 per cent, selling 69,112 vehicles out of a total of 374,468 vehicles sold in Australia up to that point.

EXAM TIP

Unit 4, Area of Study 1 identifies nine KPIs and, while there are other possible indicators, you should focus on these nine KPIs. You should be able to define them, understand what a change in them means and what areas of business performance are being assessed by each KPI. Linking KPIs to the right area of business performance will result in better answers.

Net profit figures

Profit is what remains when expenses related to operating the business are deducted from the revenue earned. Net profit is often referred to as ‘the bottom line’. This is a reference to the line at the bottom of the income statement that shows the profit of the business. Investors will look at net profit figures very closely because for the owners, or shareholders, of a business, it is the source of their return on their investment. A business that makes a profit is considered to have performed successfully. Conversely, a low profit or a negative profit, referred to as a loss, suggests that a business could be experiencing several problems, including reduced sales, poor customer service or inadequate management of expenses.

Rate of productivity growth

Productivity is a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services). Productivity is a measure of efficiency that is used by the operations and human resources area of management. An indicator of productivity is the rate of productivity growth. This is the change in productivity in one year compared to that of the previous year. Growth in the rate of productivity indicates that the business is using resources more efficiently. Productivity will improve if a business uses fewer inputs to obtain the same level of output, or if more output is produced from the same input.

While external factors (including removal of tariffs and rising exchange rates) led Toyota Australia to close local manufacturing sites in October 2017, Toyota, globally, has improved productivity using what it calls the Toyota Production System, which reduces waste and costs. As well as reducing costs, Toyota works with its suppliers to ensure that it improves productivity. Businesses such as Toyota would expect that by reducing input costs, or by producing more output at the same cost, an improvement in productivity would result in increasing profits.
Number of sales

The number of sales of a product is a measure of the amount of goods or services (products) sold by the business in a given period of time. Measuring the number of sales helps a business evaluate its performance, especially its marketing strategies.

Usually, a business will be satisfied with its performance when the number of sales increases over a period of time, even if it means lower profits in the short term due to higher marketing costs. The assumption is that such a strategy will lead to higher profits in the long term.

Sales records indicate whether the business is achieving its objectives.

In April 2018 Toyota (with sales of 16,647 vehicles in Australia) outsold the combined efforts of Mazda (second with 7,723) and Hyundai (third, 7,132), while Mitsubishi (5,508) was fourth. The ability to develop new products, such as concept cars, can assist a business such as Toyota increase its sales figures.
DID YOU KNOW?
The use of computerised sales has made the collection, storage, retrieval and analysis of sales data much easier.

Rate of staff absenteeism

It is not uncommon for staff to have days off work — they get sick, they have family commitments, and other circumstances may occasionally lead to them not attending work. This is sometimes a sign of a positive relationship between the employer and the employee — support and trust exist. However, sometimes employees may be absent from work because they are dissatisfied. The rate of staff absenteeism measures the number of workers who neglect to turn up for work when they are scheduled to do so. This can suggest that employees are at interviews at other businesses, taking a “sickie”, or using up their allotted days off rather than being at work. A rising rate of absenteeism may indicate problems at work between the employer and the employees.

Level of staff turnover

The level of staff turnover can also be used as an indicator of the degree of staff satisfaction. It measures the number of staff who are leaving the business, for whatever reason, and need to be replaced. This is an important indicator for the human resources area of management. A decrease in staff turnover suggests that fewer employees are leaving, because they are more satisfied with their work conditions. Staff turnover means that staff will need to be replaced, resulting in recruiting and training costs and the loss of productivity and knowledge. Some level of staff turnover is considered healthy in business, as new ideas are brought in and often stimulate innovation in work practices. However, a major change or significant increase in turnover is a major warning sign.

Level of wastage

All businesses have a production process that generates a certain amount of waste. This can be measured by the level of wastage. This performance indicator is typically used by the operations area of management. A business manages resources more efficiently by reducing waste, which can cut production costs.

Unilever’s Surf and Omo brands launched their ‘Small & Mighty’ detergent products in 2008. These concentrated laundry liquids, packaged in smaller containers, reduce waste and cut costs through the reduction in plastic used and the savings in transport.
Waste is a cost to the economy as well as to businesses and society in general.

Number of customer complaints
The number of complaints that customers make can also indicate whether they are satisfied with the way the business performs. A successful business, aiming to maximise customer satisfaction, would receive a small number of customer complaints. Some businesses understand that one customer complaint represents the ‘tip of the iceberg’, because for every customer who complains to the business, there are several customers who don’t.

Number of workplace accidents
An unsafe workplace impacts on the productivity of the business for several reasons. Staff members who feel unsafe may not be motivated to work efficiently while accidents can actually stop production. If the number of workplace accidents falls, then the workplace is probably safer for employees. This is a performance indicator that is important to both the human resources and the operations areas of management.

Certain industries have higher levels of workplace accidents than others. Farms are an area of concern for governments and Worksafe Victoria as they have a higher proportion of workplace deaths than other industries. According to WorkSafe Victoria, the state’s work safety ‘watchdog’, almost 30 per cent of all workplace deaths occurred on farms, despite less than 3 per cent of Victorians being employed in agriculture.

6.3.4 Benchmarking
Many businesses adopt the practice of benchmarking. This is not a performance indicator; it is a process (methodology) that can be used to assess performance between internal sections of a business or between businesses known for their excellence. This is then used as a basis for improvements. A business might compare its performance with another business in the same industry or with a business in another industry with similar objectives.
6.3 Activities

TEST your understanding

1. Why should businesses evaluate their performance?
2. Outline the differences between effectiveness and efficiency.
3. What are key performance indicators and what are they used for?
5. Outline how market share is calculated.
6. Explain why net profit is an important performance indicator.
7. Why is productivity an important key performance indicator?
8. Explain why staff turnover rates are significant indicators of the effectiveness of workplace practices.
9. Outline how reducing waste can cut costs.
10. Briefly explain the problems that might arise from an unsafe workplace.
11. Explain why benchmarking is a useful tool for managers.

APPLY your understanding

12. In groups of three or four, brainstorm what is likely to happen when a business’s performance:
   (a) does not meet customer expectations
   (b) meets customer expectations
   (c) exceeds customer expectations.
   Choose a spokesperson to share your group’s comments with the rest of the class.
13. In groups of three or four, recall a situation in which you evaluated your performance. An example could be an assessment task, part-time job or sports event.
   (a) What was your objective for this activity?
   (b) Did you achieve your objective? Give a reason for your answer.
   (c) What corrective action, if any, were you required to take following your evaluation?
14. Key performance indicators are used to measure whether or not an objective has been achieved. Using the table below outline how the indicators you have learned about can be used to evaluate performance. The first entry has been completed for you.

<table>
<thead>
<tr>
<th>Business objective</th>
<th>Key performance indicator</th>
<th>How the KPI can be used to evaluate performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximize profit</td>
<td>Net profit</td>
<td>An improvement in net profit means that the business has improved its productivity, either by earning more revenue or by reducing expenses and costs.</td>
</tr>
<tr>
<td>Increase sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve productivity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase market share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meet safety standards</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve retention of employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce workplace waste</td>
<td></td>
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</tr>
</tbody>
</table>
EXAM practice
15. Define ‘key performance indicator’. \( \text{(1 mark)} \)
16. Refer to the graph below. Analyse the impact the trend in this KPI may have on net profit. \( \text{(4 marks)} \)

6.4 Key principles of the Force Field Analysis theory (Lewin)

\**KEY CONCEPT**
Psychologist Kurt Lewin developed a theory that allows businesses to determine the forces that drive and restrain change.

6.4.1 Force Field Analysis
Psychologist Kurt Lewin developed a useful model for understanding the factors, or forces, that will influence a given situation (originally his work related to social situations). Known as *Force Field Analysis*, the model describes how you can determine which forces drive and which resist a proposed change.
**Driving forces** are those forces that initiate, encourage and support the change — they work to assist the business in achieving its goal. The main driving forces for business change are outlined in subtopic 6.5. **Restraining forces** are those that work against the change, creating resistance — in other words, they hinder the achievement of the goal. The main restraining forces impacting business change are outlined in subtopic 6.6.

The current conditions, or status quo, result from these two forces ‘pulling’ in opposite directions. Managers who are trying to implement a change must conduct a ‘force field analysis’ to identify these forces and ensure that the driving forces exceed the restraining forces.

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**DID YOU KNOW?**

Lewin was born in Germany but fled to the United States when Hitler rose to power in Germany in the 1930s.

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**study on**

UNIT 4  
AOS 1  
Topic 4  
Concept 1

The Force Field Analysis Theory (Lewin) Summary screen and practice questions

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**6.4.2 Key principles of Force Field Analysis**

According to Force Field Analysis, any business looking at implementing change must consider the forces that are exerting pressure at the time. The first area to consider is the factors that may drive the change. These may include people of influence or the decision makers within the business, such as managers. Other forces that will push or drive the business to change include competitors, technology and legislation. The next step is to consider the factors that are restraining the project. Some stakeholders of the business will want the status quo to be maintained; that is, they will not want the business to undertake any change. These forces, which
may include stakeholders such as managers and employees, act to restrain change and are unlikely to consider any improvements or benefits that might result from the change.

When driving forces and restraining forces are in balance, they are said to be in equilibrium. In this situation, it is unlikely that change will occur, or if change does occur, it may be implemented in a manner resulting in a less than effective situation for the business. Change will also not occur when restraining forces exceed driving forces. The management of a business must be aware that, in order for change to occur, driving forces need to exceed restraining forces. By strengthening driving forces and seeking to reduce or eliminate restraining forces, managers can ensure that a change will occur successfully.

Force Field Analysis involves considering the opposing forces that exist in a business environment. These operate a little like a tug of war, with driving forces and restraining forces pulling in different directions. However, there are some subtle differences. Effective change will only occur when driving forces overwhelm restraining forces. If the forces remain in equilibrium or if restraining forces are greater than driving forces, change is unlikely to occur. To change the business to the desired condition, it is necessary to increase the driving forces, decrease the restraining forces, or both.

Driving forces (forces for change)  
Equilibrium (status quo)  
Restraining forces (forces resisting change)

**6.4.3 Force Field Analysis diagram — an action plan**

An important aspect of Lewin’s Force Field Analysis is an action plan. Using a template similar to the one on the next page, driving forces can be listed on the left side of a ‘T’ diagram and restraining forces can be listed on the right. Once the forces are listed they can be allocated a numerical score (for example, from 1 to 5). This score is a means of ranking the forces. Those forces that are important are given a score of 4 or 5, with less important or less influential forces given a lower score. This allows the forces to be prioritised, so it can be decided which restraining forces to deal with first and which driving forces to promote and encourage.
6.4.4 How to do a Force Field Analysis

Assume your school is considering changing its uniform for next year. How would a Force Field Analysis assist in this change? At right is a simple process for completing a Force Field Analysis.

1. Form a guiding group of people driving or enabling the change.
2. Using a Force Field Analysis diagram, outline the change proposal.
3. As a group, identify the forces that are currently driving or restraining the change. For each force, assign a score relative to the perceived strength of the force. A low score (1) suggests the force is weak while a high score (5) suggests a strong force.
4. Prioritise the top 3 to 5 most restraining forces and driving forces. These are the forces the business and the guiding group need to either eliminate or strengthen to allow the change to occur.
5. Using the action plan template, list the actions that are required to be completed to meet the proposed change and assign responsibility for each action.
6.4.5 Benefits of a Force Field Analysis

Any process or model for implementing change must result in benefits to the business and lead to a successful change. Benefits of the Force Field Analysis include:

- Businesses are able to weigh up the ‘for’s and against’ and whether the change is worth undertaking.
- It allows a business to identify and strengthen the driving forces supporting the change and to take action to reduce or eliminate the restraining forces.
- Force Field Analysis allows stakeholders to identify the change as a positive or negative change from their perspective.
- It allows a timeline to be developed and additional resource requirements to be identified.
- Force Field Analysis can identify if skills are restraining change and therefore what training may be required.
- It can identify inadequate systems so a re-design of systems can be undertaken.
- The Force Field Analysis diagram is a visual aid that can support communication and reduce communication barriers.
- It allows the business to identify those people within the business who are supportive of the change and those restraining the change.

6.4 Activities

TEST your understanding

1. Explain what is meant by Force Field Analysis.
2. Define ‘driving forces’ and ‘restraining forces’.
3. List three driving forces for change.
4. List three restraining forces for change.
5. Explain the key principles of the Force Field Analysis theory.
6. Outline the purpose of an action plan template.
7. Briefly outline the steps involved in developing a Force Field Analysis.
8. What are the benefits of developing a Force Field Analysis action plan?

APPLY your understanding

9. Using the action plan template, complete a Force Field Analysis on yourself and your VCE studies this year.
10. Evaluate the importance of adopting a theory to assist a business undertake change.
11. Discuss how a Force Field Analysis could be used by a small shop owner considering opening a second store.

EXAM practice

12. The growth of online shopping and devices that can download books has led to a decline in sales for bookstores. Describe how Lewin’s Force Field Analysis could be used by the business in this situation. (6 marks)
13. Describe how Lewin’s Force Field Analysis could be used during the change process and outline one benefit of performing a Force Field Analysis. (5 marks)

6.5 Driving forces for change in business

**KEY CONCEPT** As change is an ongoing, dynamic concept, there will always be forces driving a business to undergo change.

Driving forces work to encourage, foster and initiate change. As seen in the following diagram, there are a number of factors that will push for a change in a business.
EXAM TIP
The outcome for Unit 4, Area of Study 1 states that you need to ‘discuss the driving and restraining forces for change’. You should understand that driving forces encourage change — they are not sources of change. You should also understand that some forces are both driving and restraining forces. When asked to explain or describe a driving and restraining force, it is advisable to select two different forces as using the one force for both concepts may lead to confusion. It is also unlikely that a force would both drive and restrain at the same time for the same circumstance.

DID YOU KNOW?
• The sources of driving forces (and restraining forces) are varied. Some are found in the internal environment (inside the business) and some are found in the external environment (outside the business).
• Some driving forces, such as managers, employees and legislation, can also be restraining forces in other situations.

6.5.1 Managers
Managers have the responsibility of operating a profitable or successful business. The poor financial performance of a business would result in management reviewing processes, staff and systems. For example, when Wesfarmers Limited took over the poorly performing Coles in 2007, management implemented a five-year recovery process. It updated the image of Coles supermarkets, rebuilt the supply chain and improved the freshness of its produce. Keeping costs under control is essential in turning around financial performance. To do this, Coles introduced self-service checkouts in its supermarkets.

Businesses sometimes face a crisis. For example, a product sold by the business may be found to be unsafe or dangerous. Responding to such unplanned changes requires responsive decision-making from management to reduce the disruption to the business.

The role managers play in the operations of a business mean they are key driving forces for change. In a small business, the manager may also be the owner and so the livelihood of the owner is tied very much to the ability of the business to change and maintain sales, profit, market share and its customer base. In a large-scale business, shareholders are seeking a return on their investment. Managers must ensure dividends are paid to shareholders and so a healthy profit is needed. Managers will push for changes that will lead to a better outcome and more efficient achievement of business objectives.
6.5.2 Employees

Employees working for a business expect to be paid fairly, trained properly and treated ethically in return for their vital contribution to production. Employees working in an innovative environment, where ideas are shared and acted on, are likely to recommend changes to policies, production processes or products. Companies such as Panasonic, Samsung, Sony and Toshiba have benefited from employee creativity, enabling them to develop innovative technologies. The development of innovative products within a business can create a need for change in everything from operations to marketing.

6.5.3 Competitors

Businesses need to monitor the activities of their competition and determine what effect they may be having in the marketplace. Knowledge of such changes enables a business to make modifications to its existing business activities and to plan new ones.

Competitors can drive a business to change through a number of different actions:

- The opening of a new business that will compete with an existing business may cause the existing business to undergo change to stay current and relevant to their customers.
- Pricing policies by a competitor may lead a business to adopt a similar strategy. In recent years both Coles and Woolworths have sold bread, milk and other staple items at greatly reduced costs in an effort to increase customer numbers. Once one business lowered prices the other business quickly followed suit.
- The adoption of new technologies, both in production and products, can drive a competitor to change their products or processes. Toyota was the first vehicle manufacturer to introduce a hybrid model car. All major car manufacturers have now released their own version.
- Advertising campaigns, sales and the development of an online presence are other examples of how competitors can drive change within a business.
6.5.4 Legislation

Whenever new laws are passed, businesses must comply with the new legislative requirements. For example, businesses had to alter their unfair dismissal practices in response to the new industrial relations laws implemented by the Rudd Government in 2009. Businesses in Victoria also had to change their practices in the workplace due to changes to the law regarding smoking. In August 2015, the Victorian Government announced that smoking would be banned in outdoor dining areas from 1 August 2017. The ban covers all outdoor dining areas at restaurants, cafés, takeaway shops and licenced premises.

Between 2012 and 2014 Australia was subject to a carbon tax. The tax was introduced in November 2011 and established a price on the carbon emissions of businesses in Australia. The pricing mechanism, known generally as the ‘carbon tax’, was intended as a measure to combat climate change and came into operation on 1 July 2012, but after much opposition, legislation to abolish this tax was passed in July 2014. Businesses had to make changes to respond to the legislation relating to the introduction and removal of this tax in both 2012 and 2014.

Laws and regulations can be created at both federal and state levels, and cover every aspect of business and social life in Australia. In addition, local councils create and enforce by-laws (for example in relation to issues such as zoning, parking, use of footpaths for seating and food service); and other statutory bodies, such as WorkSafe Victoria and Vic Roads, can make rules and regulations in addition to administering state and/or federal laws applicable to their various areas of responsibility.

Any law, by-law or regulation passed by these and other bodies may require a business to change some aspect of the operation of the business and so drive business change.

6.5.5 Pursuit of profit

All businesses, regardless of size, need to earn a profit, of which they return a portion to owners/shareholders. If the profit levels of a business are not as high as the management team have identified as their goal it is likely they would need to make changes to either generate more revenue or decrease their costs to earn the profit that allows them to achieve their goals.

As noted above, the pursuit of profit is a driving force for change. If profit is not sufficient to satisfy objectives then the business may undertake a change to assist it in meeting those objectives.

6.5.6 Reduction of costs

A business will incur a range of costs. Supplies, materials, utility costs, government charges and taxes, interest and other finance costs and wages are all costs associated with operating a business. If costs are rising then profit will be negatively impacted and as such may drive the business to change. In these circumstances businesses will seek to implement strategies to reduce costs. There are a range of cost-reducing strategies available for businesses to implement:

- Source materials and supplies from a cheaper supplier, either locally or from overseas.
- Source a local supplier to avoid paying import duties.
- Reduce wages through downsizing or replacing labour with technology, such as robotics or an assembly line.
• Source a new supplier of utilities (gas, water, electricity and telecommunications). Privatisation has led to more options in these areas and so businesses can ‘shop around’ for better deals.

Profit may be increased in two ways — an increase in revenue, brought about by increasing sales or raising prices, or through a reduction in the costs associated with operating the business.

6.5.7 Globalisation

Globalisation is the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers. Combined with the development of hi-tech communications, lower transport costs and unrestricted trade and financial flows, the whole world can now operate as a single market, producing a more integrated global economic system. Australian businesses therefore operate on the world market, competing not only with businesses in their local area, but also nationally and internationally.

This process of operating nationally and internationally has been strengthened by globalisation and so businesses that don’t recognise they are competing in a world market may find themselves left behind. Globalisation will drive all businesses to change so they remain viable and competitive.

6.5.8 Technology

A business that wants to be locally, nationally or globally competitive must adopt the appropriate technology. If it is slow to exploit technology, a business is likely to fail, because its competitors will strive to capture greater market share and develop a sustainable competitive advantage.

Technology allows a business to operate its processes and practices more efficiently and effectively, cutting costs and improving productivity. As such technology, and any advances in technology, should be considered as a driving force for change.

All businesses, regardless of size, are able to take advantage of technology and so all businesses are driven to change by technology. Local milk bars introducing EFTPOS, couriers using electronic signatures, clothing stores using scanners and electronic security tags, and supermarkets introducing online shopping and self-service checkouts are all examples of technological advances that have driven change.

The assembly line was a great technological advancement when it was invented in the early 1900s. Subsequent advances in technology have improved it further to the point where fewer and fewer human resources are needed. The development of self-serve checkouts has decreased the need for shop assistants.

6.5.9 Innovation

Innovation is a process that occurs when something already established is improved upon. Innovation can be driven by technological advances and by globalisation. Innovation can result from research and development undertaken by businesses or through individuals identifying areas for improvement. Innovation can also result from the identification of a niche market. A niche market is a narrowly selected market segment within a larger market. For example, the market for golf clubs is a large market; however, with only a small percentage of golfers being left-handed, a business that sells only to left-handers is working in a small, select market.
Today’s generation has already lived through significant innovations in communication — mobile phones and wireless internet, Facebook and Twitter, all of which have also impacted businesses. The creation of Facebook and Twitter (among other apps) have driven businesses to develop their own Facebook pages or Twitter accounts to better keep in touch with customers.

Other examples of innovation that have driven changes in business are the ability to remotely check-in for airline flights, contactless payment in stores, and ATMs located in areas other than banks, such as shopping centres.

6.5.10 Societal attitudes

Businesses are constantly confronted by changes in society’s attitudes and values. Society’s attitudes about what is right and wrong are constantly changing and this affects the ways in which businesses operate. Increased access to rapid communications has made the world’s population more acutely aware of what businesses are doing. Pressure from society has forced businesses to implement procedures to preserve and protect the natural environment. One recent example of this is the tough new conditions imposed on suppliers by the biggest general retailer in the United States, Walmart. As part of its sustainability efforts, Walmart insists that suppliers document and reduce their carbon emissions throughout the supply chain.

Society requires that large businesses sell acceptable products and treat staff with respect. Businesses today are also expected to contribute to society by returning something positive to the communities in which they operate. As part of their ‘Energy for Life’ community program, AGL Energy helps to pay the winter energy bills of shelters for homeless people in New South Wales, Victoria and South Australia. This enables the emergency accommodation services to put funds back into the important work of supporting Australia’s homeless.

DID YOU KNOW?

BHP came under fire for its practices that led to a mine disaster in Brazil in 2015. The collapsing dam wall linked to the mine killed two people and washed away numerous homes. BHP took responsibility and sought to repair the dam, restore the village and pay compensation to victims.
6.5 Activities

TEST your understanding
1. Explain what is meant by a driving force.
2. List three driving forces for change.
3. Distinguish between the internal and external environments of a business.
4. Explain how the pursuit of profit and cost reduction are both driving forces and how they could be seen as linked.
5. Copy and complete the following table.

<table>
<thead>
<tr>
<th>Example of force</th>
<th>How it may impact a business</th>
</tr>
</thead>
<tbody>
<tr>
<td>New laws passed to protect young workers</td>
<td></td>
</tr>
<tr>
<td>Computerisation of sales data</td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td></td>
</tr>
<tr>
<td>New export market identified</td>
<td></td>
</tr>
<tr>
<td>Protection of the natural environment</td>
<td></td>
</tr>
<tr>
<td>Globalisation</td>
<td></td>
</tr>
</tbody>
</table>

6. Why is technology so crucial in terms of business success and failure?
7. What has been the impact of globalisation on businesses?
8. Provide a list of innovations that have led to business change.
9. Explain what is meant by a niche market and how identifying a niche market is an example of innovation.

APPLY your understanding
10. Discuss the advantages and disadvantages of accelerating technology on a business’s operations.
11. ‘A business must always be aware of the changing nature of competitors.’ What does this mean?
12. Evaluate the benefits to businesses of globalisation.
13. ‘Technology is expensive and updating technology constantly is of no benefit to businesses.’ Discuss this statement.

EXAM practice
14. One of the objectives of Benzoid Ltd is to become a truly global brand. Describe one driving force that could have an impact on the success of this objective. (2 marks)
15. Describe two driving forces for change that may impact a social enterprise. (4 marks)

6.6 Restraining forces in business

**KEY CONCEPT** At the same time as managers are undertaking change for the best of reasons, there will be restraining forces working against the change, creating resistance.

Restraining forces are those that work against change, creating resistance. A range of different forces hinder or restrain change. These forces are seen in the diagram below.
DID YOU KNOW?
Ironically, some people enthusiastically support the changes in public, but then ignore the changes in private. Management consultant Michael Hammer calls this deadly form of resistance the ‘Kiss of Yes’.

6.6.1 Managers
Some managers may make hasty decisions that are poorly timed and unclear. Other managers may be indecisive and put off making a decision, creating uncertainty. Either of these situations may eventually cause employees to lose confidence in the decision-making abilities of management.

Changes that threaten to eliminate jobs usually face strong resistance. For example, most business restructuring involves the elimination of some middle management positions. Consequently, middle managers may resist restructuring. For example, the packaging company Amcor was forced to cut some management positions when it combined the business’s Australasia office with their global headquarters in the Melbourne suburb of Hawthorn.

6.6.2 Employees
Any change to a business and its operating procedures will eventually impact on the level and type of staffing. The introduction of a major change, such as a merger or acquisition, may result in a complete breakdown of the existing corporate culture. This can create a feeling of mistrust and suspicion among the employees.

Many human resource management consultants argue that staffing considerations are one of the most entrenched reasons for employees to resist change. Employees may also resist change because they are worried that they cannot adapt to the new procedures, which threaten established work routines. This is made worse if training is not provided. No matter how technically or administratively perfect a proposed change may be, staffing issues may make or break it.

6.6.3 Time
Change is ongoing and as such there is always pressure for change. Some of these pressures occur quickly and so businesses do not have the time to plan the change as efficiently and effectively as they would like.

In some circumstances, not enough time is allowed for people to think about the change, accept it, and implement it. In other situations, the timing is poor. A business may invest years and millions of dollars in a change, only to find the external environment has changed so much that the plan devised for success is no longer applicable.
6.6.4 Organisational inertia

Organisational inertia refers to a business’s inactivity or lack of response when faced with proposed changes. Some managers resist change because it requires moving outside and away from their ‘comfort zones’. Many employees and managers of the typical business desire a safe and predictable status quo. Such an attitude is summed up in the phrase, ‘But we don’t do things that way here’.

6.6.5 Legislation

The past 20 years have seen significant changes in the legal framework within which Australian businesses must work. Legislation must be complied with, and it can act as a restraining force. This occurs when the legislation places restrictions on certain operational practices and procedures. For example, a mining company wanting to exploit a new mineral resource will have to do so within the limitations of current environmental protection legislation.

Other examples of legislation acting as a restraining force include government bodies such as the Australian Competition and Consumer Commission (ACCC), which has the power to prevent a merger from occurring between two businesses. Laws such as occupational health and safety laws can prevent a business from undertaking changes that could potentially cause injury to workers.

6.6.6 Financial considerations

Financial considerations include cost and revenue issues for a business. The financial cost of its implementation can restrain a change. Even given sufficient finances, a business contemplating change must weigh up the costs and benefits of the change. Well-informed, calculated decisions to proceed will minimise the risk and enhance the long-term viability of the change.

The main financial costs of change include:

- purchasing new equipment. The purchase cost of new technology, buildings or equipment can be considerable. David Jones, for example, recently upgraded its network of stores and spent $275 million to increase its floor space by over 20 per cent.
- redundancy payments. Employees who lose their jobs as a result of the changes are entitled to financial compensation in the form of a redundancy payment.
- retraining the workforce. As new technology is introduced, employees must be retrained. MicroForte Technologies, for example, allocates 7 per cent of its yearly budget to staff retraining.
- reorganising plant layout. When new equipment is installed, the layout of the plant may require reorganisation to improve efficiency and productivity.

Revenue issues can also affect change. The high costs of change will often affect the profit margin of a business. To maintain profit the business may consider raising prices. This can act as a restraining force as competitors may not be facing the same pressures and businesses don’t want to price themselves out of the market in which they operate.

Businesses will often complete a cost-benefit analysis to determine if the costs of the change outweigh the benefit to the business.
6.6 Activities

TEST your understanding

1. Distinguish between ‘driving’ and ‘restraining’ forces.
2. Explain the link between restraining forces and Lewin’s Force Field Analysis.
3. Complete the paragraph below by choosing the correct term from the options provided:

<table>
<thead>
<tr>
<th>cost</th>
<th>turbulent</th>
<th>resistance</th>
<th>strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>common</td>
<td>effectively</td>
<td>analysing</td>
<td>security</td>
</tr>
<tr>
<td>fear</td>
<td>routines</td>
<td>managers</td>
<td>inertia</td>
</tr>
</tbody>
</table>

When change is too rapid, or when managers and employees feel they have no control over it, then _______ to the change is to be expected. Resistance to change is _______ among employees and businesses. The resistance needs to be managed _______. Managers can fail to achieve change by not _______ the situation properly. Employees may resist change because of _______ of the unknown; possible threat to job status or _______; or disruption to established work _______. Organisational _______ and financial _______ are two main restraining forces. Rapid, complex and _______ change is now commonplace in most Australian businesses. _______ for overcoming resistance need to be developed by _______.

4. Prepare a brief report outlining the main financial costs responsible for some businesses resisting change.
5. What types of resistance to change have you observed recently? How could they have been overcome?
6. Briefly explain how the following can be a restraining force.
   (a) Lack of time
   (b) Poor timing
7. Provide an example of ‘organisational inertia’.
8. When the new chief executive officer for Bradley Southport Limited attempted to make some major changes, she encountered resistance among some senior level managers. Explain why these managers might have resisted the changes.

APPLY your understanding

9. Assume you are the human resource manager for a large financial business. You have been asked by the board of directors to prepare a report on the three main reasons why staff may resist the proposed change. Present your findings as either a written or an oral report.
10. Analyse the restraining forces that may impact a proposal at your school to change the start of your school day from 9 am to 7 am.
11. Based on the information in this subtopic, explain why there was so much resistance among bank tellers when they were first required to use computers to process customer transactions.
12. Describe how you would feel if your classroom was radically changed overnight without your knowledge.
13. Evaluate the accuracy of the following quotes concerning change.
   (a) ‘Change for change’s sake is not progress.’
   (b) ‘Change is life, life is change.’
   (c) ‘Change what you can change. Accept what you cannot change.’
14. Select a major change in your life, such as moving house, changing schools or starting a new casual job, and complete the following.
   (a) Reflect on the reasons you liked or disliked the change. Share your thoughts with other class members.
   (b) List the reasons that were common among the group.
   (c) What does this tell you about the best strategy that a manager could use to help overcome resistance to change?
15. Which restraining force for change do you think is:
   (a) the most common
   (b) the most difficult for management to deal with?
   Give reasons for your answers.

EXAM practice

16. One of the objectives of Benzoid Ltd is to become a truly global brand. Explain one restraining force that could have an impact on the success of this objective. (2 marks)
17. Describe employees as a restraining force. (2 marks)
6.7 APPLY YOUR SKILLS Forces affecting change

PRACTISE YOUR SKILLS
- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Apply business management knowledge to practical and/or simulated business situations

6.7.1 Newspaper portfolio
Select three driving forces for change that can influence a business’s environment. Collect 8–10 articles on each driving force from the internet, newspapers and journals over an 8- to 10-week period.

Paste the articles into a scrapbook under three headings describing the driving forces. Ensure that you date and acknowledge the source of each article.

6.7.1 Activities

TEST your skills
1. Write a report of approximately 500 words on one of the driving forces you chose. Use a business report style with subheadings, graphs and diagrams to support your text. In your answer, you could:
   - describe how the driving force has exerted pressure for change
   - discuss the impact of this driving force on the business
   - identify possible sources of resistance
   - outline tactics used to overcome resistance.
   A major focus within your report should be an analysis of the impact of the driving force on the individual business.

   Your responses should combine the information obtained from your teacher and textbooks with the information on current business conditions and factors from your internet, newspaper and journal articles.

2. (a) Identify some of the changes you have noticed within your school in the past year.
   (b) In each case, explain the extent to which the forces were internal or external.

APPLY your skills
3. Arrange to interview someone who has experienced a major change in their workplace. Research and report on the impact of this change on the interviewee, their colleagues and the business’s culture. Make particular reference to:
   - how the change was managed
   - the driving forces
   - the role of leadership in the change process.

4. Think about a situation in which you would like to make a change but face some resistance. The situation might involve improving your business management results, changing the arrangement of your timetable or having greater use of the family car.
   (a) Write a brief outline of the status quo.
   (b) Write a brief description of the situation as you would like it to be if you could change it.
   (c) List the main driving forces.
6.7.2 Change and keeping staff on board

**NINE2THREE EMPLOYMENT SOLUTIONS**

Nine2Three Employment Solutions is a boutique recruitment and employment company specialising in flexible workplace practices and the placement of women returning to the workforce, predominantly into accounting and office administration roles. We pride ourselves on being highly professional.

The global financial crisis (GFC) meant we needed to implement strong change to our business model. We needed to ensure that we could navigate the economic climate and keep our staff employed. We needed to reduce our costs and requested staff to reduce hours of work. This was a significant change to the business, and the management and staff had to adapt.

Asking staff to reduce hours in a difficult economy is not an easy thing. We used clear communication to employees, both individually and as a team, to ensure they were not left in the dark as to what was going on, and to see the reasons behind the hard decisions. Getting our team members on board, committed and connected to our business was, and remains, our number one priority.

New technology can be frightening for team members if they are not on board with the total concept from the beginning. It was very important for us to communicate to them the reasons we wished to change our processes and the positives that would come from change.

Offering training in any new technology or work duty helped us to minimise any negativity surrounding the changes.

We keep our staff motivated in times of change by communicating effectively with each and every employee. We make our team members feel that their input and ideas are valued and that they are an integral part of Nine2Three. Addressing any concerns raised and giving our employees a forum to speak about any concerns was also really important. Communication is the key to great workplaces and managing change.


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### 6.7.2 Activities

**TEST your skills**

1. Identify the driving forces for change in Nine2Three Employment Solutions.
2. Summarise the tactics used by Nine2Three Employment Solutions to manage changes.

**APPLY your skills**

3. Suggest appropriate forms of communication that could be used to keep the employees informed of changes.
6.8 APPLY YOUR SKILLS Driving and restraining forces

PRACTISE YOUR SKILLS
- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Interpret key performance indicators to analyse business performance
- Apply business management knowledge to practical and/or simulated business situations

NAB REBOUNDS WITH $5.3 BILLION PROFIT, ANNOUNCES 6000 JOB LOSSES

February 2018 was a busy month for the National Australia Bank. After a very poor financial performance in 2016, NAB Chief Executive Officer (CEO) Andrew Thorburn announced a net profit of $5.3 billion and the creation of 2000 new jobs in the digital area of the businesses operations. At the same time Mr Thorburn has flagged the loss of 6000 jobs over the next three years — with 1000 to be lost this year.

The changes announced are set to cost up to $800 million in redundancies. This led, despite the improved profit, to a drop in the share price of NAB.

The focus of the announcement was a warning to customers from the bank that the industry was changing, and that the entire banking industry was under pressure to reshape its workforce. This is the impact of new technology and digital transactions that have wreaked havoc with traditional banking jobs.

In announcing the cuts in a media briefing, Mr Thorburn said, ‘As transactions move to digital channels — and this is driven by our customers — we will need fewer people.’

In recognition of the changing landscape of the industry, Mr Thorburn said the net job loss would be closer to 4000 as 2000 new digitally focused positions will be created.

In addition to the job losses, there would be some branch closures but also some new branches opening in growth areas, particularly in Sydney. These cost-cutting measures are budgeted to deliver annual savings of $1 billion by 2020.

NAB also said it planned to increase its investment in ‘simplifying’ the bank by $1.5 billion over the next three years, on top of an existing $3 billion internal investment program.

The bank plans to halve the number of products it sells and drive 60 per cent of its business through digital channels.
6.8 Activities

TEST your skills
1. Describe the two key driving forces that have led to NAB’s decision to cut jobs and branches.
2. Explain the key performance indicator that is referred to in the case study.
4. Businesses have a number of objectives. Explain two key objectives that NAB is attempting to meet by their decision to cut jobs and branches.

APPLY your skills
5. In making the announcement, NAB CEO Andrew Thorburn stated that the entire banking industry needed to reshape its workforce. Explain how competitors can act as a driving force for change. Refer to NAB in your response.
6. Change is often resisted by employees. With reference to NAB, explain why employees can act as a restraining force to change.

6.9 Strategic management by Porter’s Generic Strategies (1985)

**KEY CONCEPT** Change can be managed through the use of Porter’s Generic Strategies approaches. A business will need to choose one of the two key approaches — lower cost or differentiation to achieve a competitive advantage.

Michael E. Porter is a US-born professor at the prestigious Harvard School of Business. In the 1980s he developed a theory that attempted to explain how businesses may seek future growth by pursuing a competitive advantage over other businesses. A competitive advantage may occur when a business has a lower cost price...
Michael E. Porter is an American-born economist, researcher, author, adviser, speaker and teacher known for his theories on competition and competitive advantage.

Porter theorised that to gain a competitive advantage businesses need to evaluate their strengths and act upon those strengths (a form of SWOT analysis outlined in chapter 2). Porter identified five competitive forces exerting influence on a business. The business needed to react to these competitive forces if they wished to achieve above-average performance in the long term and gain a competitive advantage.

### 6.9.1 Porter’s five force analysis

The five forces identified by Porter that exert pressure on a business:

- **Threat of substitutes**
- **Bargaining power of buyers**
- **Bargaining power of suppliers**
- **Entry of new competitors**
- **Rivalry among existing competitors**

The entry of new competitors

Markets that are profitable will always attract new businesses. These new businesses see an opportunity to make sales, earn a profit and expand their own areas of operation. The businesses that currently operate in these markets must be able to survive. Some of the existing businesses are able to survive because they have barriers that make it difficult for new businesses to break down. These barriers include patents, economies of scale and supportive government policies, or the business operates in a market where the financial cost of commencing operations is prohibitive. If the barriers are not durable then new businesses will enter the market and cause profits to fall. Businesses must always be prepared to deal with new competitors entering the market.
The threat of substitutes
Some businesses operate in a market where close substitute products exist. Coke and Pepsi are often considered close substitutes, as are banks with regard to interest rates on home loans. In markets such as these, customers may switch to alternatives in response to price increases or changes to the quality of the good or service offered by the business. This reduces both the power of suppliers and the attractiveness of the market, because if new competitors can easily enter the market, businesses may find it difficult to build a solid customer base that will support longevity in the market. This will also frighten suppliers who thrive on guaranteed contracts to supply established businesses.

The bargaining power of buyers
Businesses need to consider how powerful their buyers or customers may be. They need to conduct an assessment of how easy it is for buyers to drive prices down. This is influenced by the number of buyers in the market and the importance of each individual buyer to the business. The business also considers the cost to the buyer of changing their supplier. Businesses with a few, large buyers often find that the buyers are able to dictate the terms of their buying. Coles and Woolworths are good examples. In recent years both businesses have made efforts to gain customers from each other and their competitors. One of these major supermarkets lowered their prices on essential food items in an attempt to draw buyers away from competitors. The willingness of buyers to switch supermarkets caused the other supermarket to respond with identical price changes.

The bargaining power of suppliers
The bargaining power of suppliers refers to how easy it is for suppliers to drive up the price of the item they supply to a business. This is influenced by the number of suppliers of each essential input, the uniqueness of their good or service, the relative size and strength of the supplier, and cost of switching from one supplier to another which can be affected by existing contracts and the time taken to undertake this change.

The rivalry among existing competitors
The main driver of competition is the number and capability of competitors in the market. This can be seen in the diagram at the beginning of this section. If a business is operating in a market with many competitors, most of whom are offering undifferentiated goods and services, then a business may find they have a reduced market attractiveness.

6.9.2 The Generic Strategies approach
Recognising the competitive forces operating upon businesses, businesses that wish to gain a competitive advantage must concentrate on their strengths — in other words, what competitive advantage(s) does the business have? Porter identified two categories of competitive advantage:
1. cost advantage. A competitive advantage is gained through reducing or altering the costs of the business.
2. differentiation advantage. Businesses gain a competitive advantage through differentiating their good or service from others in the market.
These result from the business’s ability to respond to the five forces better than competitors.

In his bestseller Competitive Advantage, Porter suggested that a business must choose between competing on cost or differentiation, and then choose between one of two types of competitive scope. Competitive scope refers to the range over which the business intends to compete. This range may include the number of countries, markets, industries or customers that the business services. Competitive scope, therefore, may be broad (a large number of countries, markets or customers) or narrow (a small number of countries, markets or customers).
Porter’s theory then states that there are three generic strategies that can be implemented to achieve a competitive advantage — cost leadership, differentiation and focus (consisting of a cost focus and a differentiation focus). The generic strategies can be seen in the diagram at right. Porter’s generic strategies are the actual ways of gaining competitive advantage — in other words, developing the ‘edge’ that gets the business the customer and takes them away its competitors. For the purposes of VCE Business Management, we will consider the two key approaches, lower cost and differentiation. We will therefore examine:

- strategies that relate to lower cost (cost leadership and cost focus)
- strategies that relate to differentiation (differentiation and differentiation focus).

**EXAM TIP**

The outcome for Unit 4, Area of Study 1 states that you need to ‘evaluate management strategies to position a business for the future’. This suggests that you should know advantages/strengths and disadvantages/limitations of strategies related to Porter’s two key approaches (lower cost and differentiation).

**DID YOU KNOW?**

In *Competitive Advantage*, Porter stated that a business that chooses to use each generic strategy, but does not achieve any of them, will be ‘stuck in the middle’ and will have no competitive advantage. A business that finds itself in such a position will achieve below-average performance. However, he did acknowledge that some businesses are able to pursue more than one generic strategy.

### 6.9.3 Lower cost strategies

Cost leadership involves a business seeking to become the business with the lowest costs in its industry. According to Porter, a cost leader will only be an above-average performer in its industry if the price for its products is at or near the industry average. This will allow the business to become more profitable as it can increase its margin — the difference between its costs and its selling price. A business pursuing a cost focus strategy will seek a competitive advantage in a segment of an industry (a niche market).

Some strategies that a business could use to achieve lower cost include:

- reducing direct and indirect costs — by reducing wages (minimising wage costs), reducing the cost of interest (perhaps by refinancing), or reducing the cost of supplies/stock (perhaps by sourcing supplies from cheaper suppliers, by sourcing cheaper utility suppliers or by offering minimal packaging).
- improving efficiency — by minimising idle stock on shelves (for example, not stocking products that do not sell), using assets more efficiently (for example, a restaurant might turn over tables quickly — have customers sit, order, eat and leave, then have another group of customers take that table) or by operating at economies of scale.
- controlling areas of management responsibility — a business might check and review areas of the business such as finance, operations, human resources, sales and marketing and information technology. For example, a business might try to control its supply chain by seeking contracts with suppliers and delivery
businesses that guarantee prices. At the same time it might implement materials management strategies such as Just In Time to reduce costs, make use of bulk purchasing or squeeze suppliers on price. By making use of a lower cost approach, a business may become more profitable and may be able to prevent competitors from increasing their market share if it can operate at a lower cost than its competitors. However, in pursuing this approach, a business may find that its sales fall if customers perceive its product as being poor quality. A business may also put itself at risk of losing market share as other businesses copy its low-cost strategies and undercut its prices. Furthermore, the need to cut costs may mean that the business is not able to make changes where necessary in the future. For example, a low-cost business may reduce expenses by cutting spending on research and development or market research, meaning that it may be late to detect new trends. Porter noted that a cost leader must not overlook differentiation. To be an above-average performer, a business relying on lower cost for its competitive advantage will need to ensure that it can match or come close to matching the differentiation of its competitors.

Aldi’s mission is to provide customers with high quality products at very low prices. Its cost leadership strategy focuses on selling no-frills goods and services. Aldi keeps its costs lower than competitors while selling products with features that are acceptable to customers (it maintains differentiation to a competitive level). Aldi keeps its costs low by stocking a limited number of brands (most of which are its own), its products are usually purchased in bulk and stacked in store on pallets and cartons, delivery routes are kept short, store sizes are small, in store staff numbers are minimised (usually 4-5 per store), opening hours are limited (reducing staffing and utility costs), and the number of checkouts is minimised with customers packing their own bags away from the till (improving efficiency and reducing costs).

DID YOU KNOW?
While squeezing suppliers on cost may be a viable strategy, there is a fine line businesses should not cross. In 2014, Woolworths was accused of bullying suppliers into providing low-priced goods as part of their ‘Cheap Cheap’ campaign. The accusation was made soon after Coles settled a similar claim made against them by the Australian Competition and Consumer Commission.
EXAM TIP
The key skills for **Unit 4, Area of Study 1** state that you should be able to ‘compare . . . relevant management strategies’. This suggests that you should know the similarities and differences between a differentiation strategy and a lower cost strategy.

6.9.4 Differentiation strategies

**Product differentiation** refers to the use of brand names, a delivery method, advertising or a number of other factors to establish differences between substitutable products. In a differentiation strategy a business will make their product different, unique or superior in some way to gain a competitive edge and allow the business to market itself as a leader or innovator in that industry. A business that is able to create a product with any of these distinctive attributes will be able to charge a premium price for their product because it will usually be able to pass costs on to its customers. Porter suggested that, unlike cost leadership, more than one business could achieve differentiation in an industry if there are a number of unique attributes valued by customers. A business pursuing a differentiation focus strategy will seek a competitive advantage in a segment of an industry (a niche market).

Some strategies that a business could use to differentiate its product include:

- high-quality products – by ensuring that quality is better than that of competitors, for example, making the product more durable or more reliable, providing better support for customers, or offering extended warranties.

- multiple branding – by providing different brands or more brands in the same market. This would involve providing similar products with very subtle differences that would appeal to different customers.

- innovation/research and development – developing a product with unique features that no other business currently produces. This will involve identifying a market that is not yet filled and providing the product before competitors do.

Starbucks, Hudson’s and Gloria Jeans all became successful as they promoted a brand that was different to other businesses that in reality only sold coffee. Another example is Unilever, a multinational company producing a range of cleaning products. Two well-known brands, Surf and Omo, are both produced by Unilever. Both products have a market share, their own advertising and compete with each other, but the business has an overall higher market share and profit because it is marketing two products in the one market.

By making use of a differentiation approach, a business will be able to improve the way it connects with customers and develop customer loyalty. If a business is able to charge a premium price for its differentiated products, then it may be able to make revenue gains. If the business can maintain or improve customer loyalty, then it may be able to gain market share from competitors. However, in pursuing a differentiation approach, a business may find that rival businesses copy its strategies and steal its customers. In addition, implementing a differentiation approach can be costly. It may take time for a business to achieve a unique attribute that sets its brand or product apart from its competitors. During that time, consumer tastes or preferences may change. A business may not have sufficient customer demand to offset higher costs, and this may lead to a decline in profit.
Porter noted that a differentiator must not overlook cost. To be an above-average performer, a business relying on differentiation for its competitive advantage will need to ensure that it can match or come close to matching the costs of its competitors.

At Amazon, differentiation is based on the broad range of products that can be purchased via its marketplace, ease of use, lower pricing, speed of delivery and customer service. However, Amazon has also achieved cost leadership when compared with bricks and mortar retailers. The company enjoys economies of scale because of its massive warehousing facilities and order processing capabilities. Amazon is then able to translate this scale into even lower prices and faster, cheaper shipping. Australians have been able to test Amazon's differentiation strategy first-hand since they commenced operations in Australia in 2017.

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**studyon**

**Unit 4**

**AOS 1**

**Topic 4**

**Concept 3**

**Generic Strategies Approach: Differentiation advantage** Summary screen and practice questions

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**6.9 Activities**

**TEST your understanding**

1. Explain the five competitive forces identified by Porter.
2. Select two of the five competitive forces and describe how they may be represented by a key performance indicator.
3. Define ‘supply chain’.
4. Explain why it is important for a business to manage stock levels efficiently to reduce costs.
5. List the costs associated with buying and selling stock.
6. Explain what is meant by product differentiation.
7. Distinguish between a cost strategy and a differentiation strategy.
8. Explain what is meant by a niche market and outline how a focus strategy is more likely to be used by a business operating in a niche market.
9. Divide your page into two columns. Draw up a list of businesses or products that you believe have attempted to gain a competitive advantage by adopting:
- a cost leadership strategy or
- a differentiation strategy.
Explain your reasons for the selections you made.

10. Visit a local supermarket and complete the table below, identifying the number of brands in each product area, the names of the brands and the manufacturers of these brands.

<table>
<thead>
<tr>
<th>Product</th>
<th>Number of brands and brand names</th>
<th>Producer/manufacturer name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shampoo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dishwashing detergent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laundry powder</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toothpaste</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. Porter developed two key approaches to strategic management that a business could adopt in the situation where a business is suffering from a fall in sales and profit. Evaluate those two key approaches. (8 marks)

12. Aiden Limited is looking to enter the Asian market and is concerned about how to break into a competitive market. Identify one of the key approaches to strategic management from Porter’s Generic Strategies and analyse how this approach could be applied in relation to Aiden Limited. (4 marks)

6.10 APPLY YOUR SKILLS Lower cost and differentiation

PRACTISE YOUR SKILLS
- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Apply business management knowledge to practical and/or simulated business situations
- Compare and evaluate relevant management strategies

JETSTAR — AN AUSTRALIAN LOW-COST AIRLINE

Launches in 2004, Jetstar is a wholly owned subsidiary of Qantas. The Jetstar Group owns parts of other Jetstar-branded airlines in the Asia-Pacific region, and offers approximately 5000 flights a week to more than 85 destinations in 18 countries and territories. The company operates a fleet of more than 130 aircraft. Jetstar’s management operates independently of Qantas and it also has a different focus to that of the parent company. Jetstar’s mission relates to offering ‘low fares to enable more people to fly to more places, more often’. Jetstar incorporates cost cutting in all aspects of its business. Its business model requires it to know its customers well and understand that they are driven by the

Jetstar has achieved a competitive advantage through its low-cost model.
price of an airline ticket. Generally, Jetstar will provide customers with an aircraft seat and additional services such as seat selection, checked baggage and in-flight products to be purchased. Customers can choose between two types of fares — Economy or Business. Conditions for staff, including pilots, airline staff and ground staff, are minimised, as is the amount of time the plane is on the ground. Jetstar outsources parts of its technology support and maintenance to reduce costs. New technologies, such as straight to gate mobile check-in, are also used to lower costs.

An airline and airport survey released in 2017 by Australian consumer advocacy group CHOICE ranked Jetstar as one of the worst airlines in the world. According to the survey, passengers rated Jetstar lowest or equal lowest in six of nine categories including meals, punctuality and cleanliness. In a statement, Jetstar said, ‘CHOICE seem to enjoy criticising airlines without understanding the safety standards we operate to or recognising the role of low cost carriers in making travel more affordable for millions of Australians.’ However, poor survey results do not appear to have hampered the company’s financial performance. The Jetstar Group delivered a profit before tax of $417 million in 2016–17.

DIFFERENTIATION AT APPLE

US-based Apple Inc. has achieved a competitive advantage through the creation of a unique product and charges a premium price. The company designs, manufactures, and markets consumer electronics such as smartphones, tablet devices, personal computers and portable digital music players, as well as a variety of related software and online services.

Steve Jobs, co-founder of Apple, had a strong vision for what he wanted Apple to do and be. At a Q&A session in 1997, he said, ‘We’ve tried to come up with a strategy and vision for Apple—it started with: “What incredible benefits can we give the customer?”’ This differentiation approach has driven the company to become what it is today. The Apple brand is now ranked first in the world with an estimated value of US $178.1 billion, according to Interbrand’s annual Best Global Brands 2016 rankings.

Apple’s differentiation strategy is also clearly outlined in its 2016 Annual Report, which states that the business is committed to providing a high-quality user experience through its innovative products. Apple’s Annual Report also says that the company’s strategy relates to gaining a competitive advantage from ‘its unique ability to design and develop its own operating systems, hardware, application software and services to provide its customers products and solutions with innovative design, superior ease-of-use and seamless integration.’

Apple has a well-organised system of research and development. The company spent approximately US$10 billion on research and development in 2016, allowing it to bring more innovation to its products and ensure that the business remains competitive. In 2017, for example, Apple launched iPhone X, which makes use of innovative features such as OLED display technology, Face ID (which uses a 3-D scan of the user’s face to unlock the screen) and wireless charging. Apple’s focus on customers who are willing to pay more is reflected in the iPhone X, which has a premium price of A$1579 for a version with 64 gigabytes of memory.

6.10 Activities

TEST your skills
1. Using examples, explain the competitive advantage that Jetstar has created.
2. Using examples, explain how Apple has developed its competitive advantage.
3. Outline the similarities between a lower cost approach and a differentiation approach.
4. Outline the differences between a lower cost approach and a differentiation approach.
APPLY your skills
5. Use the Jetstar weblink in the Resources tab, and other online resources, to create a collection of evidence that suggests that Jetstar uses a lower cost approach.
6. Use the Apple weblink in the Resources tab, and other online resources, to create a collection of evidence that suggests that Apple uses a differentiation approach.
7. Evaluate how well a lower cost approach would work for Apple.
8. Evaluate how well a differentiation approach would work for Jetstar.

Resources
Weblink: Jetstar
Weblink: Apple

6.11 EXTEND YOUR KNOWLEDGE Data-driven change

KEY CONCEPTS
• Businesses must constantly change in order to survive.
• A business’s performance, as identified through key performance indicators, is a source of change.
• There are driving and restraining forces for change in businesses.

FABULOUS FASHIONS
The business objectives of Fabulous Fashions (FF) include ‘increasing market share in the low-cost fashion sector’ and the business is currently attaining this goal. Sales and profits reached record levels last year. FF now operates 90 stores across Australia.

The management team of the business have a number of decisions and issues affecting them at this time. At their forthcoming board meeting, senior management will be required to make a number of key decisions, or make recommendations to deal with certain important issues. These issues and decisions are as follows.

Staff turnover
The human resource manager (HRM) is worried about employee performance within the business. She has summarised FF employee data and compared it to the Australian average. These comparisons are shown in the following table.

<table>
<thead>
<tr>
<th>Employee performance and other human resources data</th>
</tr>
</thead>
<tbody>
<tr>
<td>All data 2015</td>
</tr>
<tr>
<td>Annual staff turnover</td>
</tr>
<tr>
<td>Median hourly wage</td>
</tr>
<tr>
<td>Staff on part-time contracts</td>
</tr>
<tr>
<td>Staff aged 16-24 years old</td>
</tr>
<tr>
<td>Customer complaints per 100 transactions</td>
</tr>
<tr>
<td>Staff with no formal qualifications</td>
</tr>
</tbody>
</table>
Many of the staff leaving the business are part time. The HRM wants FF to introduce a comprehensive set of objectives and targets at each level of the business: ‘I believe that this would give regional managers, shop managers and shop staff a clear focus and the incentive they need to stay with the business and work hard to develop their careers with us. A clear set of quantifiable targets for each region and shop within our business will definitely improve employee performance within FF.’

**Location of a new shop**

This week the directors are to decide between two locations for a new shop. The Operations Manager has produced the data in the following table and this is to be considered by directors at this week’s board meeting.

<table>
<thead>
<tr>
<th>Financial data for the two locations</th>
<th>Location X</th>
<th>Location Y</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Site</strong></td>
<td>Town centre</td>
<td>Out of town</td>
</tr>
<tr>
<td><strong>Capital cost of 5-year lease</strong></td>
<td>$2.0 m</td>
<td>$1.0 m</td>
</tr>
<tr>
<td><strong>Forecasted annual net cash flows</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 1</td>
<td>$0.3 m</td>
<td>$0.2 m</td>
</tr>
<tr>
<td>Year 2</td>
<td>$0.35 m</td>
<td>$0.26 m</td>
</tr>
<tr>
<td>Year 3</td>
<td>$0.42 m</td>
<td>$0.32 m</td>
</tr>
<tr>
<td>Year 4</td>
<td>$0.58 m</td>
<td>$0.4 m</td>
</tr>
<tr>
<td>Year 5</td>
<td>$0.85 m</td>
<td>$0.65 m</td>
</tr>
<tr>
<td><strong>Payback period</strong></td>
<td>3 years, 2 months</td>
<td>2 years, 2 months</td>
</tr>
<tr>
<td><strong>Forecasted annual average profit (first 5 years)</strong></td>
<td>$0.08 m</td>
<td>$0.03 m</td>
</tr>
<tr>
<td><strong>Annual average rate of return</strong></td>
<td>24%</td>
<td>38%</td>
</tr>
</tbody>
</table>

**New clothing range**

The success of the business is based on ‘fast fashion’ — creating new designs and distributing them to shops quickly — and low prices. ‘Quality is relative — no one expects our clothes to last for years’ is a quote from the managing director that most FF managers recall well. Progress in the first six months of 2019 has slowed; sales are still growing but margins have fallen. Profits are being affected by increasing costs of materials.

The directors have developed a plan to start selling a range of clothes, to be called Top Look, aimed at high-income consumers. ‘Demand from consumers with high incomes tends to be less price elastic than the demand of our existing shoppers. If the products are fashionable and well designed they buy them at prices that will give us much higher margins’, said
the managing director at the most recent board meeting. The marketing manager suggested that the Top Look range of clothes should be in a separate part of every shop and that promotion could be limited to in-store displays and special offers.

**Legal and corporate social responsibility issues**

Business leaders in Australia are increasingly concerned about the impact of the growing number and significance of legal controls on their operations, as well as a growing awareness of operating in a socially responsible manner. Managers of retail businesses are particularly concerned about the following legal changes and corporate social responsibility issues:

- the use of labour in other countries to manufacture most of the clothing range
- minimum wage increases
- improvements in consumer rights to reject or return goods.
- tougher health and safety regulations in shops.

‘With continued slow economic growth, the last thing we need is higher costs forced on us by more legal controls’, said FF’s managing director at last year’s annual general meeting.

**6.11 Activities**

**EXTEND your understanding**

1. Write a report for the Managing Director to be reviewed at the upcoming board meeting. The report is to comprise four sections, one for each of the areas identified above that require decisions or action by the board.

Each section of the report should provide:

- an identification and explanation of the driving forces for the change in that area
- an identification and description of the relevant key performance indicators (KPIs) that have led to the issue in each area
- a description of possible strategies the business could implement to overcome the issue(s) identified in each area.

The report should be a minimum of 200 words for each section.

**6.12 EXTEND YOUR KNOWLEDGE The concept of business change**

**KEY CONCEPTS**

- Change is continuous and businesses must always look for areas in which they can gain an advantage.
- Sometimes change is out of the control of a business and there are forces impacting upon change — driving and restraining forces and key performance indicators that are a source of change.
- Lewin and Porter are theorists who have provided strategies to help businesses deal with change.
BUNNINGS TO REASSESS CHANGE

It has been an interesting 12 months for Wesfarmers and Bunnings. As the parent company, Wesfarmers has made some decisions in relation to Bunnings that haven’t worked out as well as they may have liked.

Certainly, early profit figures suggest the company is suffering. Despite a rise in sales, profits for the half-year in 2018 have shown a significant decline.

In making the announcement of the decline in profit, the following key points were highlighted:

- Bunnings UK purchased two years ago for $700 million was written down by $900 million.
- The Bunnings UK impairment coupled with a $306 impairment in Target dragged Wesfarmers net profit down by almost 90 per cent.
- Earnings in Coles supermarkets fell 14 per cent for the half.
- Bottom-line profit was $212 million in the six months to December 2017—a fall from its previous first-half profit of $1.58 billion.
- Dividends to shareholders will remain unchanged with a payment to shareholders of $1.03 per share, fully franked.

On top of this, Coles supermarket chain also reported a 14 per cent slide in earnings to $790 million for the half. Coles attributed the result to a range of accounting measures, lower fuel and financial services earnings as well as a one-off gain from a property sale last year washing through.

Other aspects of the Wesfarmers stable also had mixed results—stronger sales at Kmart were dragged down by a weaker result from Target. Target copped a $306 million impairment charge. The company said the write-down reflected tougher competition and moderating retail conditions. However, combined, department store sales rose 7 per cent to $4.15 billion, the highest level of earnings in eight years.

However, the real story behind the result was the failure of one key venture and a less than enthusiastic response to another venture. Bunnings, Wesfarmers’ flagship hardware chain, made a venture into the United Kingdom market two years ago and this has not been as successful as it was hoped to be.

### Wesfarmers half-yearly results 2012–2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Net profit after tax</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>31/12/2012</td>
<td>20 000</td>
<td>31 000</td>
</tr>
<tr>
<td>31/12/2013</td>
<td>25 000</td>
<td>31 000</td>
</tr>
<tr>
<td>31/12/2014</td>
<td>30 000</td>
<td>31 000</td>
</tr>
<tr>
<td>31/12/2015</td>
<td>35 000</td>
<td>31 000</td>
</tr>
<tr>
<td>31/12/2016</td>
<td>40 000</td>
<td>31 000</td>
</tr>
<tr>
<td>31/12/2017</td>
<td>45 000</td>
<td>31 000</td>
</tr>
</tbody>
</table>
In 2016, Bunnings ventured into the United Kingdom market through its purchase of Homebase, which was Britain's number two hardware chain. The plan was to turn it into Bunnings and replicate the success that has made Bunnings, by far, the biggest hardware player in Australia.

However, consumers in the United Kingdom did not see the appeal. A $1 billion write-down and a half-year loss of $165 million for a chain that was making money before Wesfarmers bought it in 2016 resulted in a calamity that rivals Woolworths' ill-fated creation of Masters in Australia.

What caused these issues for Bunnings?

Steve Delo, a former senior executive at Britain's leading hardware chain, B&Q, is now a managing director at London-based consulting house Pragma.

‘When Bunnings sought to set out its stall in the United Kingdom, by moving itself very close to the number one in the United Kingdom it effectively lost a lot of its points of differentiation,’ Mr Delo told ABC TV's The Business. That is because the United Kingdom already has a successful Bunnings-style store, B&Q.

According to IBISWorld research, B&Q and its online stablemate Screwfix hold 41 per cent of the United Kingdom market. Homebase had 13 per cent before the Wesfarmers takeover, and was a very different store, focusing on home furnishings rather than DIY.

Another concern seems to be that Bunnings misunderstood the market in the United Kingdom.

‘The United Kingdom market has evolved over the last 10 to 15 years, away from people that understand DIY themselves, and they’ve moved more away from DIY to “do it for me”,’ Mr Delo said.

‘The need and the requirement to have home improvement done in their homes has changed — people no longer want to do it themselves but rather want it to be done by professionals.’

Much of that is arranged online, with the internet having a much bigger presence in the British hardware market — another issue Wesfarmers apparently misread.

Not that Wesfarmers and Bunnings haven’t tried a venture into the online market.

In 2017, Bunnings in Australia announced the opening of its online store. Since 2018, DIY devotees have been able to purchase items from Bunnings' Special Orders range online.

There are currently more than 20 000 items in the Special Orders range, including products such as playgrounds and taps. These products aren’t available in-store, they can be ordered online to be delivered to you or your local branch. True online shopping is not yet here though, with products from the store’s regular range not included in the online offering.

This development by Bunnings is seen as a counter to moves by other competitors. JB Hi-Fi has announced it will offer same-day delivery, which retail experts believe is part of a wider e-commerce trend.

In addition, the arrival of Amazon has made Australian retailers rethink their approach to sales and shopping.

6.12 Activities

TEST your understanding

1. Identify and describe three key performance indicators referred to in the case study.
2. Identify the trend in each of those key performance indicators.
3. Given the performance of Bunnings in the United Kingdom, it would appear that Bunnings did not do their homework in terms of what the United Kingdom market was like and what it needed. Explain how Lewin's Force Field Analysis could have been used in this situation.

4. Outline two driving forces for change that may have led Bunnings to commence operations in the United Kingdom.

**EXTEND your understanding**

5. The case study refers to the differentiation strategy of Bunnings not being successful. Explain the differentiation strategy proposed by Porter.

6. Explain the other strategy suggested by Porter.

7. Suggest one restraining force that Bunnings has had to overcome.

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### 6.13 Review

#### 6.13.1 Summary

**The concept of business change**

- All businesses need to undergo change to remain competitive.
- Managers and management can be proactive in managing change or reactive.
- All management skills need to be utilised to effectively manage change.

**Analysis of business performance**

- All businesses measure their performance.
- Businesses seek to improve their efficiency and effectiveness.
- Key performance indicators are specific criteria used to measure the efficiency and effectiveness of the business’s performance.
- The performance of a business can be analysed using the following key performance indicators as sources of data:
  - percentage of market share
  - net profit figures
  - rate of productivity growth
  - number of sales
  - rates of staff absenteeism
  - level of staff turnover
  - level of wastage
  - number of customer complaints
  - number of workplace accidents.
- A business may benchmark its performance against the performance of a business recognised as a market leader.

**Key principles of the Force Field Analysis theory**

- Kurt Lewin developed a theory of change management based on a Force Field Analysis.
- A Force Field Analysis examines the driving and restraining forces for change.
- A Force Field Analysis requires an action plan.

**Driving forces for change in business**

- Driving forces are those forces that initiate, encourage and support the change.
- The main driving forces for change include:
  - managers (want the business to remain profitable and competitive)
  - employees (working in a supportive and innovative environment are free to suggest ideas)
• competitors (fear of loss to a rival if the changes are unsuccessful)
• legislation (changes to the law that impact operational practices)
• pursuit of profit (the greater the profit the greater rewards for business owners)
• reduction of costs (financial cost of operating a business can affect profit)
• globalisation (the need to compete with overseas businesses)
• technology (stay up to date or risk falling behind)
• innovation (the drive and desire to be a market leader)
• societal attitudes (the need to reflect what society values).

Restraining forces in business
• Restraining forces work against the change.
• The main reasons for resistance to change include:
  • managers (due to either poor decision-making or fear of loss of control or power)
  • employees (fearful of changes that threaten job security or require new work routines)
  • time (either poor timing, or lack of time)
  • organisational inertia (prefer to stay with the safe and predictable status quo)
  • legislation (restrictions placed on certain operational practices)
  • financial considerations (financial cost of implementing major changes can be substantial).

Strategic management by Porter’s Generic Strategies (1985)
• Michael Porter developed a Generic Strategies approach to strategic management.
• Porter identified five competitive forces:
  • the entry of new competitors
  • the threat of substitutes
  • the bargaining power of buyers
  • the bargaining power of suppliers
  • the rivalry among existing competitors.
• Change can be managed utilising lower cost or differentiation approaches from the three generic strategies:
  • cost leadership
  • differentiation
  • focus.

6.13.2 Key terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>benchmarking</td>
<td>occurs when a business measures its performance against that of other leading businesses known for their excellence</td>
</tr>
<tr>
<td>business change</td>
<td>the adoption of a new idea or behaviour by a business</td>
</tr>
<tr>
<td>change</td>
<td>any alteration in the internal or external environments</td>
</tr>
<tr>
<td>competitive advantage</td>
<td>occurs when a firm, industry or economy has a lower cost price structure than its rivals. In this situation, goods and services can be sold more cheaply, undercutting competitors, and expanding domestic and foreign sales. The concept can also be extended to product quality range and flexibility in adapting to new trends in the market.</td>
</tr>
<tr>
<td>driving forces</td>
<td>those forces that support the change</td>
</tr>
<tr>
<td>efficiency</td>
<td>how well a business uses resources to achieve objectives</td>
</tr>
<tr>
<td>effectiveness</td>
<td>the degree to which a business has achieved its stated objectives</td>
</tr>
<tr>
<td>Force Field Analysis</td>
<td>outlines the process of determining which forces drive and which resist a proposed change</td>
</tr>
<tr>
<td>globalisation</td>
<td>the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers</td>
</tr>
<tr>
<td>innovation</td>
<td>a process that occurs when something already established is improved upon</td>
</tr>
</tbody>
</table>
**Key performance indicators** specific criteria used to measure the efficiency and effectiveness of the business’s performance

**Level of wastage** the amount of unwanted or unusable material created by the production process of a business

**Net profit figures** the numbers found in an income statement that show net profit — what remains when expenses are deducted from the revenue earned

**Niche market** a narrowly selected market segment within a larger market

**Number of customer complaints** the amount of customers expressing their dissatisfaction with the business, either spoken or in written form

**Number of sales** a measure of the amount of goods or services (products) sold

**Number of workplace accidents** indicates how safe the workplace is for employees

**Organisational inertia** an unenthusiastic response from a business to proposed change

**Percentage of market share** the business’s share of the total industry sales for a particular good or service, expressed as a percentage

**Proactive** to initiate change rather than simply to react to events

**Product differentiation** the use of factors such as brand names, delivery methods and advertising to establish differences between substitutable products

**Productivity** a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services)

**Rate of productivity growth** the change in productivity in one year compared to the previous year

**Rate of staff absenteeism** the number of workers who neglect to turn up for work when they are scheduled to do so

**Reactive** to wait for a change to occur and then respond to it

**Restraining forces** those forces that work against the change

**Staff turnover** the number, or the rate, of employees who are leaving the business over a specific period of time, and need to be replaced by new employees

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**6.13.3 Review questions**

**TEST your understanding**

1. What is meant by the term ‘transforming a business’?
2. Distinguish between a proactive and a reactive manager when dealing with change.
3. Outline two skills a manager should utilise when managing change.
4. Define the term ‘key performance indicators’.
5. List and briefly outline three of each of the following:
   (a) driving forces for change
   (b) restraining forces for change.
6. Distinguish, using an example, the difference between driving and restraining forces.
7. Outline why resistance to change in management and employees is common.
8. Distinguish between efficiency and effectiveness.
9. List the key performance indicators that may lead to change.
10. Explain why setting achievable goals can help managers implement change more successfully.
11. Explain what is meant by a Force Field Analysis.
12. Outline the benefits of preparing an action plan as part of a Force Field Analysis.
13. List the five steps in a Force Field Analysis.
14. Outline three of Porter’s five competitive forces.
15. Using examples, explain the difference between low cost strategies and differentiation strategies.
16. Explain a niche market and how a focus strategy will assist a business achieve a competitive advantage.

APPLY your understanding
17. ‘Successful businesses are those that empower their employees to adapt readily to changes within the business environment, whereas those businesses that attempt to resist change and disempower their staff will ultimately fail.’
(a) Identify the main reasons for employee resistance to change.
(b) Demonstrate why it is important for managers to communicate effectively when introducing changes in the workplace.
18. ‘In response to data collected through key performance indicators, businesses are constantly changing.’
(a) Describe the key performance indicators that cause businesses to change.
(b) Using a current example, describe and explain the responses of that business’s management to these KPIs.

EXAM practice
19. Andrew Farris has been working for a hardware business for over 15 years but has decided to leave and commence operating his own small business in this area. Describe a key performance indicator that Andrew could use to assess whether the commencement of his new business has been successful. (2 marks)
20. Evaluate Porter’s Generic Strategies as an approach to managing change. (4 marks)
21. Evaluate Lewin’s Force Field Analysis theory. (6 marks)
22. Describe the concept of business change. (2 marks)
23. Identify two restraining forces for change. (2 marks)
24. The following information was provided for a business in the health care industry.

<table>
<thead>
<tr>
<th></th>
<th>Level of staff turnover</th>
<th>Rate of staff absenteeism</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>2017</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>2018</td>
<td>12%</td>
<td>2%</td>
</tr>
</tbody>
</table>

(a) Define ‘level of staff turnover’. (1 mark)
(b) Using the key performance indicators provided, evaluate the ability of the business to meet shareholder expectations. (4 marks)
6.13.4 School-assessed coursework

OUTCOME 1

Explain the way business change may come about, use key performance indicators to analyse the performance of a business, discuss the driving and restraining forces for change and evaluate management strategies to position a business for the future.

ASSESSMENT task — structured questions

Time allowed: 80 minutes
Marks allocated: 50 marks (The marks for each question are indicated at the end of each question.)
Conditions: Closed book (No notes or textbooks may be used when completing this task.)

The cost of flying

Operating an airline like Qantas is an expensive business. The cost of planes, fuel, staff and landing fees are high and vary from country to country. Once scheduled it is almost impossible to cancel a flight and a half-empty plane is a source of lost revenue.

Factors such as terrorism, rising fuel costs, increased competition from low-cost competitors and general concern regarding international travel can all have an impact on the success of an airline.

The cost of a plane alone can be substantial, let alone the other associated costs.
Review the financial data below from Qantas’s 2017 Annual Report.

### Operational statistics

<table>
<thead>
<tr>
<th>Group Underlying Income Statement Summary</th>
<th>June 2017 $M</th>
<th>June 2016 $M</th>
<th>Change $M</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net passenger revenue</td>
<td>13 857</td>
<td>13 961</td>
<td>(104)</td>
<td>(1)</td>
</tr>
<tr>
<td>Net freight revenue</td>
<td>808</td>
<td>850</td>
<td>(42)</td>
<td>(5)</td>
</tr>
<tr>
<td>Other revenue</td>
<td>1392</td>
<td>1389</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td><strong>Revenue and other income</strong></td>
<td><strong>16 057</strong></td>
<td><strong>16 200</strong></td>
<td><strong>(143)</strong></td>
<td><strong>(1)</strong></td>
</tr>
<tr>
<td>Operating expenses (excluding fuel)</td>
<td>(9683)</td>
<td>(9529)</td>
<td>(154)</td>
<td>(2)</td>
</tr>
<tr>
<td>Fuel</td>
<td>(3039)</td>
<td>(3235)</td>
<td>196</td>
<td>6</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(1382)</td>
<td>(1224)</td>
<td>(158)</td>
<td>(13)</td>
</tr>
<tr>
<td>Non-cancellable aircraft operating lease rentals</td>
<td>(356)</td>
<td>(461)</td>
<td>105</td>
<td>23</td>
</tr>
<tr>
<td>Share of net loss of investments accounted for under the equity method</td>
<td>(7)</td>
<td>-</td>
<td>(7)</td>
<td>(&gt;100)</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td><strong>(14 467)</strong></td>
<td><strong>(14 449)</strong></td>
<td><strong>(18)</strong></td>
<td></td>
</tr>
<tr>
<td>Underlying EBIT*</td>
<td>1590</td>
<td>1751</td>
<td><strong>(161)</strong></td>
<td><strong>(9)</strong></td>
</tr>
<tr>
<td>Net finance costs</td>
<td>(189)</td>
<td>(219)</td>
<td><strong>30</strong></td>
<td><strong>14</strong></td>
</tr>
<tr>
<td>Underlying PBT*</td>
<td>1401</td>
<td>1532</td>
<td><strong>(131)</strong></td>
<td><strong>(9)</strong></td>
</tr>
</tbody>
</table>

### Operating Statistics

<table>
<thead>
<tr>
<th>June 2017</th>
<th>June 2016</th>
<th>Change</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available Seat Kilometres (M)</td>
<td>150 323</td>
<td>148 691</td>
<td>1632</td>
</tr>
<tr>
<td>Revenue Passenger Kilometres (M)</td>
<td>121178</td>
<td>119 054</td>
<td>2124</td>
</tr>
<tr>
<td>Passengers carried (’000)</td>
<td>53 659</td>
<td>52 681</td>
<td>978</td>
</tr>
</tbody>
</table>

*Underlying EBIT refers to earnings before interest and tax. Underlying PBT refers to profit before tax.

Read the case study above, then answer the following questions.

1. Define the following terms and provide an example for each.
   - Driving forces **(2 marks)**
   - Restraining forces **(2 marks)**
   - Key performance indicators **(2 marks)**
   - Competitive forces **(2 marks)**
   - Generic strategies **(2 marks)**

2. Identify and describe the key features of Lewin’s Force Field Analysis. **(4 marks)**

3. Explain two key performance indicators provided in the case study. **(4 marks)**

4. Describe three other key performance indicators that could be useful for the business to evaluate to assess success of the business. **(6 marks)**

5. Describe how a Force Field Analysis could have been used to prepare the business for making the necessary changes to improve performance. **(4 marks)**

6. Outline the process involved in completing a Force Field Analysis. **(5 marks)**

7. Describe two benefits of completing a Force Field Analysis when considering change. **(4 marks)**

8. To improve profit the business could implement a low-cost strategy or a differentiation strategy. Identify and analyse the most appropriate strategy in this situation. **(5 marks)**

9. Evaluate two driving forces and two restraining forces that may affect an airline in the current climate. **(8 marks)**

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**Resources**

- Digital doc: School-assessed coursework (doc-29455)

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