

10 Innovation in business

10.1 Overview

Numerous **videos** and **interactivities** are embedded just where you need them, at the point of learning, in your learnON title at www.jacplus.com.au. They will help you to learn the content and concepts covered in this topic.

Having a new idea to help your business can be great, but is it worth taking the risk of trying it out?

10.1.1 The relationship between competition and innovation

It's a competitive world out there. Every business must find strategies that will enable it to survive. A business competes with other businesses to sell products in a market. If a business cannot sell its product to customers, it will not last for very long. There are more than two million businesses actively trading in Australia right now, with an estimated 2400 opening each week. Some will fail and some will flourish. A business is more likely to continue if it can achieve a **competitive advantage**. This occurs when it can produce and sell goods or services better than its competitors, possibly through lower costs or by differentiating the product from those of competitors. Creating a competitive advantage means that a business can meet the changing demands of the market and improve its profit margin.

Businesses must embrace innovation if they wish to achieve a competitive advantage. At a basic level, innovation refers to businesses coming up with new ways of doing things. When businesses come up with new ideas, processes or products, they give themselves an edge over their competitors. The next subtopic will examine the concept of innovation and look at some different ways that businesses can be innovative.

competitive advantage occurs when a business is able to produce and sell goods or services better than its competitors

on Resources

-  **eWorkbook** Customisable worksheets for this topic (ewbk-5735)
-  **Video eLesson** Being enterprising (eles-3498)

FIGURE 1 Businesses need to find a competitive advantage in order to survive.



10.2 Innovation

LEARNING INTENTION

By the end of this subtopic, you will be able to define and give examples of types of business innovation and outline how businesses can foster innovation.

10.2.1 Defining innovation

Innovation can mean many things to different people but essentially it is about coming up with new and improved ways of doing things. This can include many things such as: developing ideas for a new good or service (invention), improving an existing good or service, and changing the way that a good or service is produced or delivered. As Australian businesses are increasingly forced to compete on a global scale, they rely on innovation to help them establish an advantage over competitors.

FIGURE 1 Innovation involves many skills and processes.



10.2.2 Types of innovation

There are many different types of innovation, however, two of the most common types are **product innovation** and **process innovation**:

- *Product innovation* occurs when a new product is created or an existing product is improved. This may mean modifying the features of a product or changing the features altogether. Product innovation results in the final product or service being changed in some way. For example, each time that Apple releases a new iPhone, they change some of the phone's features.
- *Process innovation* occurs when changes and improvements are made to the production process of a product or service. The final product may not necessarily change but the way it is produced does change. Process innovation is usually aimed at improving efficiency; that is, producing the same product or service with fewer resources. An example of process innovation is the use of robotics in the manufacturing process of a car. While the final product is the same, innovation has occurred in the production process.

10.2.3 How can a business foster innovation?

The Department of Industry, Innovation and Science (DIIS) is a department within the Australian Government. The DIIS has created an online hub to provide businesses with practical advice on how they can foster innovation within their organisation. It encourages businesses to recognise that innovation is the key to establishing a competitive advantage. While all business are different, the online hub identifies six key steps towards business innovation. They are outlined in **FIGURE 2**.

product innovation when a new product is created or an existing product is improved

process innovation when changes and improvements are made to the production process of a product or service

FIGURE 2 The six key steps towards business innovation

1. Conduct an analysis of the trends in the market environment, your customers' wants and needs and your competitors.
2. Consult with customers and employees for ideas on improving processes, products and services, both internally and externally.
3. Seek advice. Use available resources such as business advisers, grants and assistance to drive innovation in your business. This may include seeking intellectual property (IP) protection to commercialise your ideas.
4. Be open to new ideas and adaptive to change.
5. Develop a strategic, responsive plan, which promotes innovation as a key business process across the entire business.
6. Train and empower your employees to think innovatively from the top down.

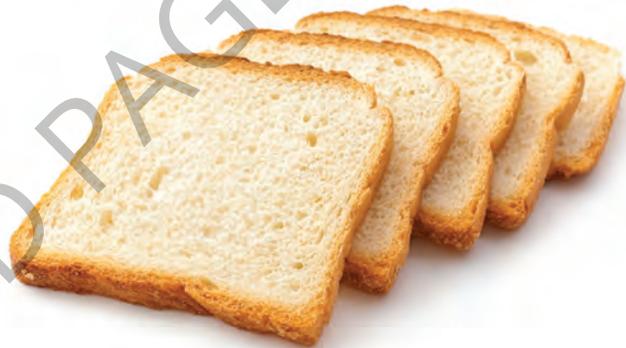
10.2.4 Examples of innovations in business

Process innovation

Example — Bertalli's Alpine Breads

Bertalli's Alpine Breads Benalla bakery recently completed a \$450 000 expansion of its production line, with a \$75 000 grant from the Victorian government's regional growth fund. Bertalli's Alpine Breads supplies specialty breads to Coles, Woolworths and independent stores in Victoria. An innovative new packaging machine, which replaced the traditional bread-loaf packaging with sealed clear packaging, extends the shelf life of the business's bread by up to 10 days. This means the business can now potentially supply a range of interstate markets including supermarkets, retail health food businesses and specialty food outlets.

FIGURE 3 Use of technology applications can make the customer experience simpler, quicker and more worthwhile.



Product innovation

Example — McDonald's 'Create Your Taste'

McDonald's is one of the world's most recognisable brands. Its products and business model have existed for many decades with very little modification. In light of increased competition, growing demand for customised products and greater health awareness of consumers, McDonald's has engaged in product innovation. In recent years, the business has developed its 'Create Your Taste' menu that now exists in a number of Australian stores.

This innovation to McDonald's product range allows consumers to design their own burger, either in-store or online. Furthermore, the interactive machines in selected stores are an innovation on the traditional fast food business model. This innovation is an attempt by McDonald's to differentiate itself from other businesses in the fast food industry and establish a competitive advantage.

FIGURE 4 McDonald's has engaged in product innovation with its 'Create Your Taste' menu.



on Resources

 **Video eLesson** Robotics in an automobile factory (eles-2609)

 **Weblinks** Research and innovation, Alpine Breads, Create Your Taste

10.2 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

Learning pathways

LEVEL 1

Questions
1, 2, 6

LEVEL 2

Questions
3, 4, 7

LEVEL 3

Questions
5, 8

Check your understanding

1. Define *innovation*.
2. Identify two examples of innovation in business.
3. Distinguish between product innovation and process innovation.
4. Explain how innovation can help a business achieve a competitive advantage.
5. Explain how a business can foster innovation.

Apply your understanding

6. Other than product and process innovation, how else might a business engage in innovation?
7. Undertake research to identify a business that has engaged in either product innovation or process innovation. Use your research to complete the following.
 - a. Identify the business.
 - b. Outline the nature of the business's innovation.
 - c. Classify the innovation as either product or process innovation.
 - d. Explain how this innovation has helped the business establish a competitive advantage.
8. Suggest three sources of information or strategies a business could use to conduct an analysis of the trends in the market environment, including their customers' needs and wants and their competitors' products.

For sample responses to every question, go to www.jacplus.com.au.

10.3 Emerging techniques

LEARNING INTENTION

By the end of this subtopic, you will be able to explain and discuss the benefits and drawback of a range of emerging techniques for gaining and maintaining a competitive advantage in the market.

10.3.1 Harnessing new ideas and techniques

The world is constantly changing. To keep pace with changing market conditions, businesses need to remain competitive by using emerging techniques — the latest ideas or new processes. Currently, this includes social media, blended marketing, open innovation and digital technologies.

10.3.2 Social media

The range of **social media** that individuals and businesses can access is both diverse and constantly changing. Social media includes social networks, blogs and microblogs, collaborative projects, content communities, virtual game-worlds and social worlds, social bookmarking and crowdsourcing.

Social media offers businesses a relatively inexpensive means to interact with customers and form stronger relationships with them. A business joining a social network can achieve a competitive advantage because it is able to communicate with customers directly and respond to their needs accordingly. This can develop customer loyalty. Social media also allows businesses to provide information about their products to customers and prospective customers that can be accessed by them at any time. By deciding who they will follow on social media, businesses can refine their target group and focus on communicating with a specific audience.

social media the websites, platforms and applications that enable users to interact in virtual networks and communities and create, share or exchange information and ideas

FIGURE 1 Examples of social media

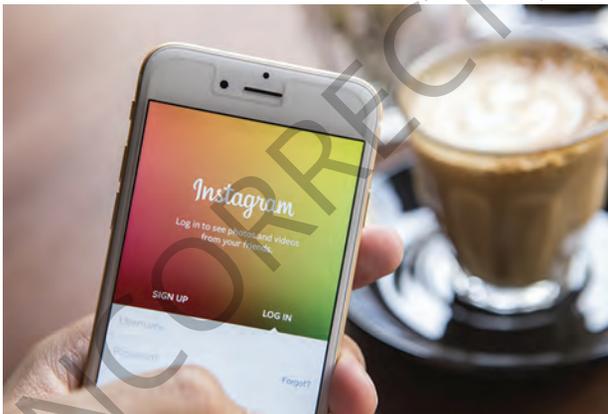


FIGURE 2 ANZ, which uses blended marketing, launched a new online media publication called *Blue Notes* that focuses on financial services news and trends for customers.



However, using social media can cause a business to lose control over what customers write or say about its product. Individuals using social media are free to discuss, review and criticise a product or a business. Various legal problems can arise from the use of social media such as false and misleading claims, copyright issues and privacy concerns. Nonetheless, customers today expect that businesses will have a social media presence. If a business does not meet this expectation, then customers may find an alternative outlet and the business will miss out on the chance to connect with them directly.

10.3.3 Blended marketing

Blended marketing is a mix of internet (online) **marketing** and traditional (offline) marketing methods to create a more wide-ranging and comprehensive marketing strategy. Successful businesses integrate the two methods to gain a competitive advantage. Because so many people spend substantial amounts of time online, it is vital that a business has an online presence. This can be done through online advertising, or by connecting or engaging with existing or potential customers through social media. Traditional marketing is still important because it allows a business to reach people who are not online and also appeals to a broad range of senses.

blended marketing a mix of internet and traditional marketing methods

marketing the process of planning and executing the development of the product as well as its pricing, promotion and distribution

10.3.4 CASE STUDY: BIRDSNEST BLENDS MARKETING STRATEGIES

When Jane Cay purchased a retail business in the regional New South Wales town of Cooma in 2004, she had no inkling of how large the store was going to grow. The business employed five staff and, after Ms Cay decided to focus on women's fashion and rename the business, it grew steadily over the following two years. Faced with the opportunity to open another store, Ms Cay opted for taking Birdsnest online and a website was launched in 2008. Since then, the business has grown to making approximately \$20 million in revenue annually and employing more than 100 people. The online business provides customers with the opportunity to shop by colour, by occasion or by body shape. Birdsnest now sells to customers throughout Australia and the world.

Birdsnest established a presence on social media and can be found on Facebook, Twitter, Pinterest, Instagram and Google+. The business also has its own blog. A full-time staff member is employed to manage Birdsnest's social media presence. More than 100 000 people visit its Facebook page. The page is updated daily with postings for outfits of the day and regular promotions. Ms Cay says, 'Our Facebook page is at the forefront of what we do.'

Birdsnest also uses traditional marketing methods as part of a blended marketing strategy. When a customer buys something online, the website will suggest accessories that complement the outfit. This is a form of suggestive selling, which has been around for a long time, just executed differently. The business has also used more conventional print advertisements. Mini-magazines advertising Birdsnest's fashions were recently included in *Australian Women's Weekly*, *InStyle* and *Country Style*.

FIGURE 3 Social media blended with traditional marketing techniques allows a retail business to reach and connect with more customers.



10.3.5 Open innovation

Open innovation is based on the notion that no business is capable or big enough to effectively innovate on its own. Open innovation can create opportunities for a business and make them more competitive because it can reduce costs, accelerate the time it takes to get a product to market, increase the differentiation of products in the market, and create new ways for a business to earn revenue.

A business might take advantage of open innovation by bringing suitable external ideas and technologies into its own innovation process. These ideas may come from universities, other businesses or individuals. A business may also realise that some of its own ideas and technologies are not suitable for its own purposes and could be better utilised by another business.

open innovation the use of internal and external ideas by a business to improve its processes or products

10.3.6 CASE STUDY: OPEN INNOVATION AT SAMSUNG

Samsung has introduced open innovation as an initiative to identify and grow future technologies and infrastructure. Samsung Group is a South Korean multinational company that includes several subsidiaries. The company produces goods and services in many industries, including electronics, heavy industry, construction, defence, insurance, advertising and entertainment. Samsung Electronics is the most recognised of its subsidiaries, known for producing mobile phones, tablet computers, televisions, cameras and other home appliances.

To put open innovation into operation, Samsung has adopted a number of approaches. The company actively participates in global consortiums (associations of two or more individuals, businesses or organisations) that perform research and development. Samsung builds links between its industry and top universities. The company encourages independent research, and sponsors the training of students and employees in universities around the world. By cooperating with suppliers of equipment and materials to influence their manufacturing and quality processes, Samsung ensures that its own products are competitive. Several research facilities have been set up in a number of countries.

Samsung recently launched the Open Innovation Center in Silicon Valley, California. The complex includes an accelerator division that will support small businesses in getting their products off the ground while they gain access to Samsung's people, products and plans. A venture capital arm will allow Samsung to invest in new businesses that are trying to create new technologies. A mergers and acquisitions team will acquire companies that could assist Samsung, and a partnerships team will allow Samsung to find ways to work with all the other businesses that wish to partner with it.

10.3.7 Digital technologies

The rapid expansion of digital technologies has allowed businesses and consumers to interact in different ways than ever before. These technologies allow for large amounts of information to be stored and transferred on tiny devices such as mobile phones. Many businesses have used digital technologies to try to differentiate themselves from competitors and gain an advantage. Businesses that do not engage with digital technologies run the risk of falling behind their competitors and losing some of their market share. Tesco, a British grocery retailer is one such business that has successfully used digital technologies.

The pricing of digital products has been a controversial topic, with many critics claiming prices are too high, as no physical goods need to be created. However, defenders claim that as much time and effort needs to be put into producing digital products as physical goods, and that reducing prices would create inferior products, as shortcuts would need to be taken to cover costs.

DISCUSS

Based on your experience purchasing apps, accessing streaming services and other digital products, do you think the pricing of digital products is fair? Discuss the impact that illegal downloading has in this industry; do you think if prices were lower that people would still steal content? **General capability: Ethical understanding**

10.3.8 CASE STUDY: TESCO'S VIRTUAL SUPERMARKETS

In response to falling domestic sales, British supermarket giant Tesco turned to the growing Asian market to reverse their fortunes. The business realised that their traditional model of bricks-and-mortar supermarkets was just not meeting the needs of many of their busy customers, especially in South Korea. Tesco's own research revealed that employees in South Korea worked some of the longest hours in the world and this greatly restricted the time they had available to buy their groceries.

Combined with this, a significant proportion of the South Korean workforce are young professionals who are very tech-savvy.

In 2011, Tesco combined with digital technology company Samsung to launch a 'virtual supermarket' in Seoul, South Korea. The virtual store consists of a series of posters designed to look like supermarket shelves (see **FIGURE 4**) that were placed on walls in public places such as subways and train stations. Customers download an app onto their phone and scan the QR code of the products they wish to buy. Once customers have scanned all the products they want to buy, they pay for groceries online and decide on a delivery time. The groceries are usually delivered on the same day that they are purchased. Tesco successfully used digital technology to gain an advantage over its competitors.

FIGURE 4 Tesco developed the virtual supermarket in South Korea in response to the busy lifestyle of many of their customers.



on Resources

 **Weblink** Birdsnest

10.3 ACTIVITIES

1. Use the **Birdsnest** weblink in the Resources tab to identify the variety of social media that it uses. Find its blog and make a list of some of the items you can read about there.

HASS skills: Questioning and researching
Economics and Business concept: Making choices

2. Visit the websites of at least two different retail stores and compare the types of social media they use.

HASS skills: Analysing

10.3 EXERCISE

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Learning pathways

LEVEL 1

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1, 2, 6

LEVEL 2

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3, 4, 7

LEVEL 3

Questions
5, 8

Check your understanding

1. List five examples of social media.
2. What is the difference between blended marketing and marketing?
3. Briefly outline what open innovation is about.
4. Describe *how* the following emerging techniques can support a business in gaining a competitive advantage:
 - a. social media
 - b. blended marketing
 - c. open innovation.
5. In what ways can social media damage a business's competitive advantage? Suggest some ways that a business might deal with these problems.

Apply your understanding

6. Read the case study 'Birdsnest blends marketing strategies' in this subtopic and answer the following questions.
 - a. Outline the types of online marketing techniques that Birdsnest uses.
 - b. What traditional marketing technique is Birdsnest beginning to utilise?
7. Read the case study 'Open innovation at Samsung' in this subtopic and answer the following questions.
 - a. How has Samsung put open innovation into action?
 - b. What has Samsung recently introduced to support open innovation?
 - c. Briefly outline how the new complex will support the use of open innovation at Samsung.
8. Outline the consequences of a business utilising emerging techniques.

For sample responses to every question, go to www.jacplus.com.au.

10.4 Pursuing a competitive advantage

LEARNING INTENTION

By the end of this subtopic, you will be able to describe strategies used by businesses to make profit and expand their market share.

10.4.1 Surviving and thriving

A business will generally seek a competitive advantage to ensure that it performs as well if not better than its competitors, so that the business survives. That is, the business seeks to make enough profit to be able to continue into the future. Businesses also seek to build or create a competitive advantage to meet the changing demands of a competitive global market.

10.4.2 Meeting the changing demands of a competitive global market

Businesses expect that they will operate in a **competitive market**. This is a market where a large number of businesses compete with each other to satisfy the demands of a large number of customers. In a competitive market no single buyer or seller has the power to exert control over the market or prices. Today, markets can be global. This means that goods and services are exchanged between businesses and customers across the world.

Demand is constantly changing in the global market. The demands of customers in any market can change due to:

- Changing incomes — either increasing (so customers are likely to demand more products, particularly luxury items) or diminishing (so it is likely that customers will demand fewer products).
- Changing tastes and fashions — which can increase or reduce the demand for certain products.
- Changing prices of complementary and substitute goods and services — some products are complementary (they go together like cars and petrol, or pens and paper); others are substitutes (they can replace each other like margarine and butter, or tea and coffee). This means, for example, that if the price of petrol increases then demand for petrol will fall, which can cause demand for cars to fall because cars and petrol are complementary. This may lead to the demand for cars switching from large to small cars that consume less petrol, because large cars and small cars are substitutes.
- Changing population — changes in age and gender distribution will impact on demand; for example, an ageing population is likely to demand products related to the health and retirement industries.
- Changing expectations about the market, including future prices and incomes — which means that customers will act in a certain way if they expect that something is going to happen.
- Changes in the number of potential customers — an increasing number of customers often generates greater demand for products, whereas a decline in the number of potential customers is likely to reduce demand.

If any of these factors change, then the demand from customers for a business's products will change — by increasing or decreasing. A business that operates in a competitive market will need to build or create a competitive advantage to meet these changing demands before competitors do.

competitive market a market where a large number of businesses compete with each other to satisfy the demands of a large number of customers

demand the amount of a particular good or service that a customer will want to purchase at a given price

FIGURE 1 Nike has created a competitive advantage by focusing on social media, including its own social network (Nike+), and introducing Nike concept stores.



10.4.3 Improving the profit margin

Profit is the financial reward that a business aims to achieve in return for taking the risk of producing a good or service and attempting to sell it to customers in a market. A business will normally have an owner (or owners) who have invested in the business and are relying on the business to make a profit so that they can earn a return. For this reason, profit is a good measurement of the success of a business. A business with a competitive advantage is more likely to make a profit.

Profit margin is more than just the difference between the money that has been collected from selling the completed product (sales revenue) and all the business expenses. Profit margin is an indicator of the financial health of a business. More specifically, it measures the amount of profit that a business earns from the sales of its product. Profit margin is expressed as a percentage and is calculated using the following formula:

$$\text{profit margin} = \frac{\text{profit}}{\text{sales}} \times \frac{100}{1}$$

Most businesses aim for a high profit margin. A business with a low profit margin would need to examine expenses to see whether reductions could be made. It follows then that a business with a competitive advantage, such as a low-cost manufacturer, should be able to improve its profit margin.

profit what remains after all business expenses have been deducted from the money that has been collected from selling goods and services

profit margin an indicator of the financial health of a business, expressed as a percentage, that measures the amount of profit that a business earns from the sales of its product

FIGURE 2 Aldi's competitive advantage is its low-cost strategy which it uses to offer customers value for money and improve its profit margin.



10.4.4 Achieving efficiencies and lower costs

As mentioned in the previous section, businesses seek to create a competitive advantage so that they can make a sufficient and sustainable profit in the long term. To do this, they must develop strategies to reduce their costs.

Many types of costs are incurred by a business, including:

- wages and other employee-related costs
- rent or mortgage repayments
- financial costs (such as interest on a loan)
- insurance
- cost of materials from suppliers
- advertising and other marketing costs.

While all businesses incur costs as part of their operations, it is important that a business look to achieve efficiencies in order to keep these costs to a minimum. By manufacturing products at a low cost, a business can generate more profit from each sale.

Consider the formula for net profit:

$$\text{net profit} = \text{total revenue} - \text{total expenses (costs)}$$

This formula clearly identifies two components of net profit: revenue and expenses (costs). Businesses are constantly seeking to establish a competitive advantage to improve their revenue and reduce their costs. That way, they are able to achieve their ultimate goal of sustainable profit maximisation.

FIGURE 3 Businesses aim to cut expenses (costs) in order to achieve their ultimate goal of sustainable profit maximisation.



10.4 EXERCISE

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Learning pathways

LEVEL 1

Questions
1, 2, 3, 7

LEVEL 2

Questions
4, 5, 8, 9

LEVEL 3

Questions
6, 10

Check your understanding

1. What is a competitive market?
2. List the factors that can cause the demands of customers in a market to change.
3. Define the term 'profit margin'.
4. Construct a diagram showing how the changing demands of a market can impact on a business.
5. Explain why a business would seek to build or create a competitive advantage.
6. Outline how a profit margin is calculated and explain what it reflects.

Apply your understanding

7. What might happen to a business if it did not attempt to build or create a competitive advantage when facing changing demands in a market?
8. Consider each of the following cases and suggest how:
 - a. an increase in people's income would affect the demand for jewellery
 - b. an increase in the number of people concerned about the environment would affect demand for plastic bags
 - c. a surge in the price of petrol would affect demand for large cars
 - d. a fall in the price of butter would affect the demand for margarine
 - e. an increase in the average age of the population would affect the demand for health services
 - f. a decrease in the number of people who think that the economy will perform well in the next year will affect the demand for electrical products
 - g. an increase in the number of customers willing to purchase products will affect the demand for fruit and vegetables.
9. For each of your answers to question 8:
 - a. Suggest if there is an opportunity for a business to develop a competitive advantage, and if so, briefly explain how this could be achieved.
 - b. Suggest if there is an urgent need for a business to develop a competitive advantage, and if so, briefly explain how this could be achieved.
10. Charlie owns and operates a teddy bear factory. Last year, he earned \$250 000 in sales revenue with expenses of \$190 000.
 - a. Calculate whether or not Charlie has made a profit.
 - b. Calculate the profit margin for Charlie's business.
 - c. Comment on how successful Charlie's business has been in generating profit.
 - d. How successful has the business been in generating profit if the industry standard is a profit margin of 20 per cent?
 - e. Advise Charlie on how he could improve his business's profit margin.

For sample responses to every question, go to www.jacplus.com.au.

10.5 Strategies to create a competitive advantage

LEARNING INTENTION

By the end of this subtopic, you will be able to explain a range of strategies that businesses use to gain a competitive advantage.

10.5.1 A range of strategies

Businesses use a variety of strategies to create competitive advantage. These include offering a lower cost product, achieving improved productivity, differentiation (including improving quality and speed of delivery), implementing efficient internal operations strategies, and research and development.

10.5.2 Reducing the cost of a product

The price of a product can be lowered in two ways. First, the business can simply reduce the price. This will create a competitive advantage if the price is lower than the price offered by competitors and if customers choose the lower priced product. However, it will have the effect of reducing the potential profit that the business can earn.

A second method is to reduce costs. If production costs are lowered, the business can reduce the price while maintaining a healthy profit margin. As illustrated, there are several ways that a business can reduce costs. In 2014, Optus engaged in **outsourcing** and **offshoring** more than 70 jobs from its customer division in an effort to drive down costs through an ongoing **restructure**. This meant that jobs were sent overseas (offshoring) or sent to another business (outsourcing). By reducing staff expenses or by cutting staff numbers, businesses can reduce costs.

Restructuring (reorganising the way the business is structured) is another way that businesses reduce staff and therefore cut costs. Coles is another business that engaged in restructuring in 2014. As a result, more than 400 jobs were lost at its store support centre in Melbourne.

A business can attempt to reduce costs by increasing the production capacity of its facilities. This is often referred to as achieving economies of scale, which means that the business will produce more units of a good or a service on a larger scale while reducing the per unit cost. Caltex Australia has expanded and upgraded facilities in Western Australia, Brisbane and Melbourne to keep up with the demand for its products from customers. For many businesses, reducing costs is a matter of working more efficiently (working smarter) by finding new and improved ways to manufacture goods or provide services.

FIGURE 1 Driverless trucks can help decrease costs and improve productivity.



FIGURE 2 Optus has lowered costs by offshoring and outsourcing jobs as part of a restructure.

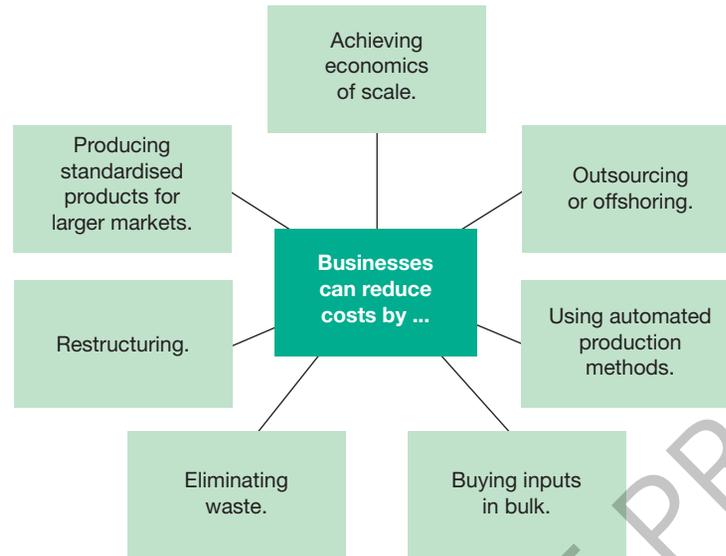


outsourcing reducing costs by transferring tasks normally completed by the business to outside suppliers

offshoring the practice of relocating a business's processes from one country to another, to take advantage of lower costs

restructure to significantly modify the management or ownership structure of a company

FIGURE 3 How business can reduce costs



10.5.3 Achieving improved productivity

One of the main objectives of a business is to improve the efficiency of its operations and **productivity**. Productivity measures the amount of **output** compared to the amount of **input** that goes into production. By improving productivity, businesses can be more competitive as they produce products at lower costs than competitors. Productivity can be improved by reducing the number of inputs required to obtain the same level of output or an increased output. Alternatively, productivity can be improved if inputs remain the same but output increases, thereby obtaining more from the inputs.

There are many strategies that businesses can use to improve productivity. Some of these strategies include:

- capital investment
- investing in technology applications
- materials management.

10.5.4 Differentiation

A business can create a competitive advantage through **differentiation**. This refers to a business's efforts to make a product stand out by providing unique or superior value to customers in comparison with the products of its competitors. Unique or superior value can be offered through adding features, packaging, marketing, creating a flexible product, and speed of delivery or quality. Let us look at two of these factors: quality and speed of delivery.

Quality

Many businesses compete on **quality**. Quality essentially means that the customers get what they want. A quality product has a high degree of excellence and achieves the purpose for which it was designed. A quality product should be reliable, easy to use, durable, well designed and delivered on time. It should include after-sales service and have an agreeable appearance. A business that competes on quality will produce the best good or service available in the market. Quality is important to National Australia Bank (NAB). The bank says: 'Each of

productivity a measure of efficiency; the amount of output produced compared to the amount of input required in production

output the end result of a business's efforts; the good or service that is delivered or provided to a consumer

input the resources — including materials, equipment and labour — used in the process of production

differentiation making a product stand out by providing unique or superior value to customers in comparison with competitors' products

quality the degree of excellence of goods or services and their fitness for a stated purpose

our brands is uniquely positioned, but built on a common commitment to provide our customers with quality products and services, fair fees and charges, and relationships built on the principles of help, guidance and advice.' This means that NAB listens to the needs of customers and addresses issues of concern. As illustrates, there are several ways that businesses can compete on quality.

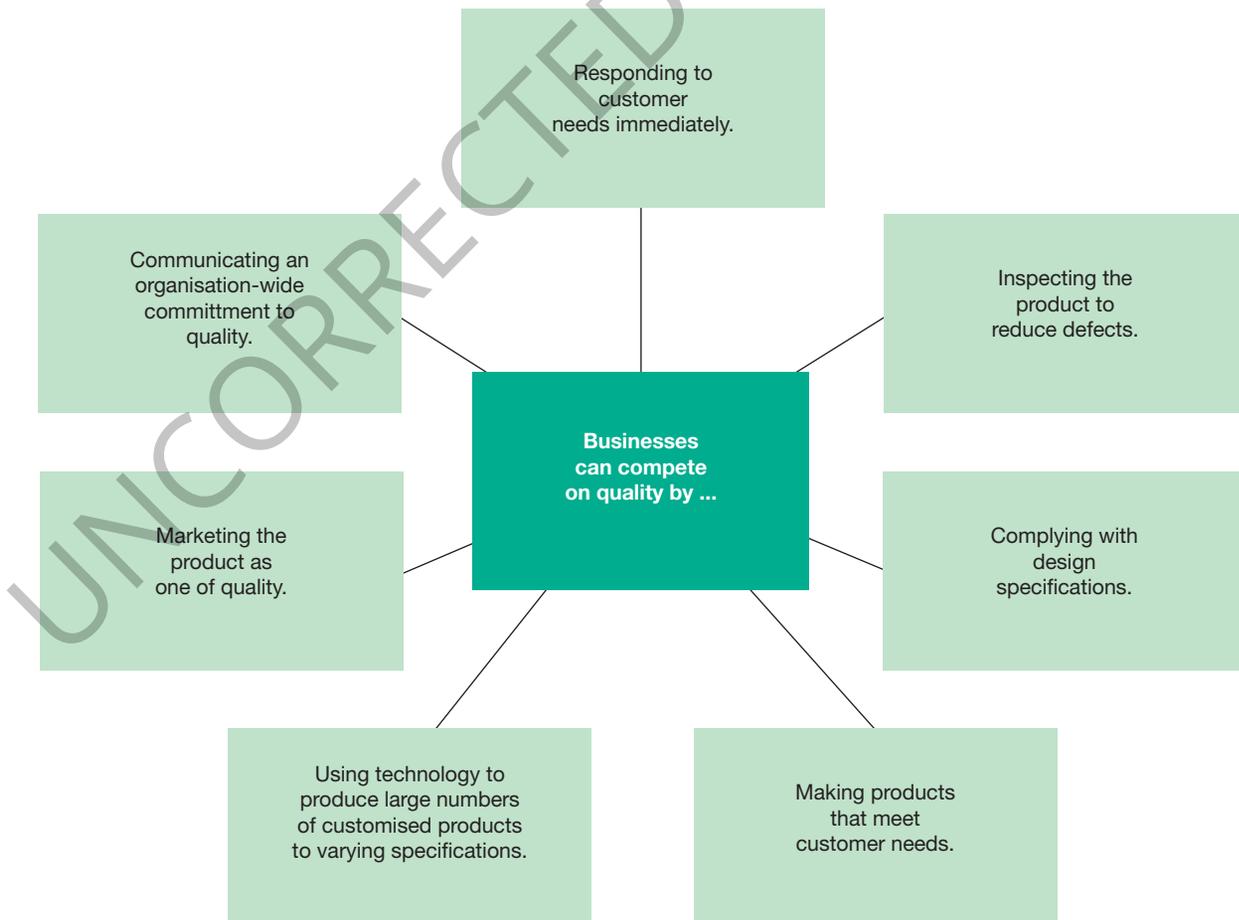
FIGURE 4 Businesses have differentiated bottled water through packaging: one water bottle is different from the next.



FIGURE 5 National Australia Bank emphasises quality products and customer service to create competitive advantage.



FIGURE 6 How businesses can compete on quality



Speed of delivery

Many businesses create a competitive advantage by improving their speed of delivery. There are several ways that businesses can compete on speed of delivery, including being prepared to change and act on new trends quickly. These methods can be used to differentiate the business's product from those of competitors. Amazon, the world's largest internet company, has worked hard to improve its speed of delivery. To reduce delivery times it has added new fulfilment centres (warehousing facilities that receive, process and fill incoming orders), and is beginning to deliver orders

directly to customers rather than using external package carriers. Increasingly high levels of automation are being developed to improve the speed of filling orders. The retail giant has also announced plans to use drones to improve the speed of package delivery.

FIGURE 7 Amazon creates a competitive advantage by ensuring that the products it sells are delivered quickly.



10.5.5 Implementing efficient internal operations strategies

Businesses can make use of **operations** strategies to reduce costs and differentiate a product. Operations strategies are used to manage the production of the business's product, whether it is a manufactured good or the provision of a service. Operations are responsible for the transformation of inputs, including materials, equipment and labour used in the process of production, into output — the finished product.

Operations strategies for lowering costs include:

- ensuring that there are stable production processes with limited interruptions
- ensuring that all resources are put to their best possible use
- constantly looking for opportunities to streamline production processes
- updating facilities and equipment with new, more efficient technology.

FIGURE 8 Operations strategies are used to manage the production of the business's goods and services.



operations the area of a business that consists of all the activities engaged in producing goods and services

FIGURE 9 Businesses invest millions of dollars in research and development to gain a competitive advantage.



Operations strategies for improving quality and speed of delivery include:

- evaluating processes to ensure that there are minimal defects
- relying on extensive use of integrated technology and computerisation to minimise defects and to develop strong links with the customer
- establishing efficient relationships between suppliers and the business to ensure that quality materials are delivered on time and in the right quantity
- adapting the process used to transform inputs into output to respond to the need for constant improvement.

10.5.6 Research and development

Businesses undertake **research and development (R&D)** in order to expand their knowledge of products and processes. **Invention** (developing something new) and innovation (improving something that already exists) are vital for providing a business with a competitive advantage. Researchers and scientists undertake R&D in a business to produce new products, improve existing products or develop new processes (find new ways to do things).

R&D can make a business more competitive. For example, it can develop new products in response to those of competitors, or improve existing products to make them superior to those of competitors. R&D can also lead to technological developments, such as robotics and information technology, that improve the way the product is produced or the way it is delivered to customers and thereby improve business competitiveness.

research and development (R&D) activities undertaken to improve existing products or create new products

invention the development of something new

10.5 ACTIVITIES

1. Draw a concept map that outlines how a business can implement efficient internal operations strategies to create a competitive advantage.
HASS skills: Analysing
2. Visit your local supermarket or convenience store and choose three different brands of bottled water. (If you can, take a photograph of your three bottles.) Describe the ways that each business has made its product appear to be different from the other water bottles.
HASS skills: Questioning and researching
Economics and Business concept: Making choices

10.5 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

Learning pathways

LEVEL 1

Questions
1, 2, 3, 8

LEVEL 2

Questions
4, 5, 6, 9

LEVEL 3

Questions
7, 10, 11

Check your understanding

1. List the ways that businesses can lower costs.
2. What is meant by the word 'restructure'?
3. Define differentiation.
4. Briefly outline the features that form a quality product.
5. List the ways that businesses can compete on quality.
6. What is meant by the word 'operations'?
7. Define research and development.

Apply your understanding

8. Outline the difference between outsourcing and offshoring.
9. Explain how Amazon has improved its speed of delivery.
10. Outline the difference between invention and innovation.
11. Explain how the following strategies will create a competitive advantage for a business:
 - a. Offering a lower cost product
 - b. Improving the speed of delivery
 - c. Improving the quality of the product
 - d. Implementing efficient internal operations strategies
 - e. Undertaking research and development

For sample responses to every question, go to www.jacplus.com.au.

10.6 Corporate social responsibility and competitive advantage

LEARNING INTENTION

By the end of this subtopic, you will be able to define the term ‘corporate social responsibility’ and explain the ways in which social responsibility can benefit a business financially.

10.6.1 Benefits of corporate social responsibility

Society today expects businesses to act in a socially responsible manner. Those that adopt strategies based around **corporate social responsibility** should improve their competitive advantage by bolstering their business reputation. Customers who believe that a business has a reputation for being socially responsible are more likely to continue to deal with that business. They are also likely to refer the business to other customers. Employees will want to work for the business, reducing the costs of replacing staff and increasing productivity. While it can be expensive and time consuming to introduce socially responsible strategies, doing so should increase sales and profits. Conversely, a lack of social responsibility can damage a business’s reputation and reduce its competitive advantage.

FIGURE 1 Many palm oil **producers** are trying to demonstrate corporate social responsibility by sourcing palm fruit from plantations that do not destroy the habitat of endangered species such as orangutans.



10.6.2 Corporate social responsibility strategies

Corporate social responsibility requires business managers or owners to take steps to ensure that the broader social welfare of the community — including employees, customers and suppliers, and the natural environment — is taken into consideration when conducting business dealings. A socially responsible business attempts to achieve two goals simultaneously: expanding the business and providing for the greater good of society. An important premise of social responsibility is to act in a way that is ‘above and beyond’ making a profit and obeying the law. Strategies based on corporate social responsibility include managing staff appropriately, sourcing raw materials from sustainable sources, managing customer relationships appropriately and conducting a social report.

corporate social responsibility a duty for management to take into consideration the broader welfare of the community, including its people and the environment, when making business decisions

producers individuals and businesses involved in the production of goods and services

Managing staff appropriately

A business that is socially responsible treats and pays its employees fairly, and maintains a safe working environment. We tend to take these responsibilities for granted in Australia, but they are often not legally required or enforced in developing countries. Irregular or incomplete maintenance of production facilities can result in injuries or even fatalities. Toxic production processes can threaten the health of employees, as has been the case with asbestos mining and manufacturing. Some businesses have been condemned for employing workers in sweat shops or using child labour. Others have been criticised for using suppliers that engage in these practices. Customers can react and stop purchasing a business's products if they learn that the business is exploiting employees or failing to meet their health and safety needs.

Many stores sell clothes that are made in sweatshops. On the other hand, ensuring that all products are produced in ethical conditions will significantly raise the prices of these goods.

Sourcing raw materials from sustainable sources

Many businesses work with their suppliers to ensure that the suppliers follow guidelines on socially responsible behaviour. Customers will reward businesses that source raw materials in a way that does not pollute the environment, threaten endangered species, waste natural resources or contribute to global warming.

Managing customer relationships appropriately

A business needs to make sure that the goods and services it produces are of the required quality — that they are safe and reliable. Dangerously defective or harmful products can result in the injury or even death of consumers. The delivery of a product can raise issues around the socially responsible behaviour of managers, such as fair and equitable treatment of customers regardless of whether they come from wealthier or poorer regions. A business that develops a reputation for not caring about its customers is likely to find that they no longer purchase its products.

FIGURE 2 Most businesses are serious about providing safe, reliable products.



Conducting a social report

Today, many businesses assess their progress towards fulfilling their corporate social responsibilities by conducting a **social report**. A social report may also be referred to as a corporate social responsibility report, a values report, a social audit or a sustainability report. The report details what a business has done, and continues to do, to address the social and environmental issues that are relevant to the business. The report also assesses how the business's practices and operations affect society.

social report a report outlining what a business has done, and is doing, to meet its corporate social responsibilities

10.6.3 CASE STUDY: THE BODY SHOP

Dame Anita Roddick founded The Body Shop in 1976 and since then it has grown to become a worldwide business. It has a range comprising 1200 products, including soaps, shampoos, moisturisers, cosmetics and make-up. There are over 2500 shops in more than 60 countries, with over 90 stores throughout Australia.

Anita Roddick's original vision was to build a socially responsible business that supports the community. She developed five values:

1. activate self-esteem
2. oppose animal testing
3. support community fair trade
4. defend human rights
5. protect the planet.

These values guided The Body Shop's employees and the business decisions they make for three decades.

Although Anita Roddick died in 2007 and the company now operates as an independent subsidiary partly owned by Natura, The Body Shop has maintained a reputation for acting ethically and gained a competitive advantage by advocating for social and environmental causes.

The Body Shop pioneered the use of social audits and continues to produce a values report. It is renowned for its global campaign to raise self-esteem in women and rally against the beauty industry's stereotyping of women. More recently, the company has conducted a campaign to stop sex trafficking.

The Body Shop has a history of campaigning against animal testing. Its website explains, 'We believe that testing cosmetics on animals is unethical, unnecessary and should be banned. We do not test our cosmetic products or ingredients on animals, nor do we commission others to do so.' It is also among the few companies who comply with the requirements of the internationally recognised Humane Cosmetics Standard.

Community Fair Trade was a program launched by The Body Shop with the aim of supporting direct trade with marginalised communities around the world. The Body Shop Foundation was established in 1990 to fund human rights and environmental protection groups. In 1998, The Body Shop organised a worldwide campaign with Amnesty International to raise awareness of the plight of human rights defenders throughout the world. More recently, The Body Shop has developed an ethical trade strategy with five steps for improving the working conditions of its staff and suppliers.

The Body Shop promotes environmental sustainability through such means as working with Greenpeace and funding energy efficiency projects in the developing world. The company has launched sustainable stores (called Pulse stores), attempted to reduce its carbon footprint by tracking the transportation of its products, reduced water consumption and energy use, and invested in renewable energy supplies. Waste has been cut, post-consumer recyclate (materials that have been recycled) has been incorporated into its packaging, and sustainable materials are used in its products.

FIGURE 3 Social responsibility increases The Body Shop's competitive advantage by setting it apart from other businesses selling body care products and cosmetics.



FIGURE 4 Anita Roddick called on the Cosmetic, Toiletry and Perfumery Association in 1996 to back a European Union (EU) ban on cosmetics testing on animals.



10.6 ACTIVITY

Visit The Body Shop in your area. Collect evidence of the values that the business holds by examining products, checking ingredients and packaging, observing evidence of environmental concerns, and reading any information that challenges traditional views. Present your findings to the class by way of a talk, a computer application or a poster.

HASS skills: Questioning and researching

10.6 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

Learning pathways

LEVEL 1

Questions
1, 6

LEVEL 2

Questions
2, 3, 4, 7

LEVEL 3

Questions
5, 8, 9

Check your understanding

1. What is corporate social responsibility?
2. Make a list of strategies based around corporate social responsibility.
3. What is the purpose of a social report?
4. Explain three benefits to a business of corporate social responsibility.
5. Read the case study 'The Body Shop' in this subtopic and answer the following questions:
 - a. In not more than 60 words, identify and explain the chief reasons for The Body Shop's success.
 - b. Outline the socially responsible strategies that The Body Shop has introduced.

Apply your understanding

6. The Body Shop aims to reduce the impact on the environment and empower local communities to share knowledge and trade equally. Use the internet to search for **The Body Shop – Community Trade** and complete the following table:

Product	Community producer
All-in-One BB cream	The Eudafano women's Cooperative in northern Namibia
Cocoa butter hand and body lotion	
Shea lip butter	
White musk libertine eau de parfum	
Honeymania lip balm	
Wild argan oil bubbling bath	

7. Evaluate the link between social responsibility and treating the workforce ethically and appropriately.
8. Outline why both producers and consumers are important in a socially responsible business.
9. What do you think might happen to the competitive advantage of a business that does not adopt socially responsible strategies?

For sample responses to every question, go to www.jacplus.com.au.

10.7 Thinking Big research project: The next big thing

Scenario

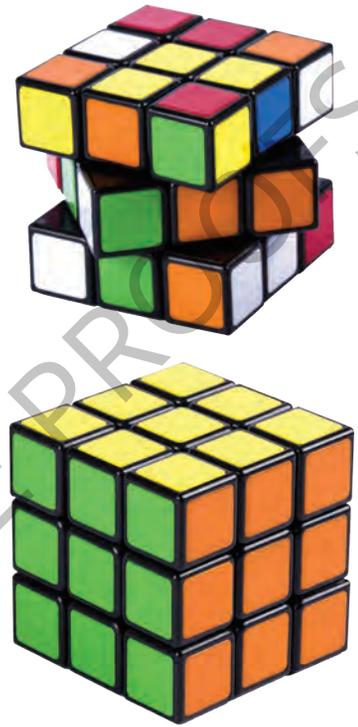
Fads come and go. Every now and then a new item hits the shops and creates a sensation, becoming the must-have item that everybody wants.

You will investigate past fads and bring your entrepreneurial talents to the fore to devise a new product designed to grab the attention of a specific target market. Can you create the next big thing?

Task

You will need to complete the following elements for your project.

- Conduct research and prepare a brief report on five fad items.
- What were they do?
- When were they introduced?
- Who made them?
- Design a new fad product.
- Create a report detailing:
 - the type of market your product is targeted at
 - what the product would be used for
 - what is unique about your product and why it would be successful
 - costing details — how much it would cost to make and for how much you would sell it.



Process

- Open the ProjectsPLUS application in the Resources for this topic. Click on the **Start new project** button to enter the project due date and set up your project group. Working with a partner will allow you to swap ideas and share responsibility for the project. Save your settings and the project will be launched.
- Navigate to the **Research forum**, where you will find starter topics loaded to guide your research. You can add further topics to the Research forum if you wish. When you have completed your research, you can print out the **Research report** in the Research forum to easily view all the information you have gathered.
- In the **Media centre** you will find an assessment rubric to guide your work and some weblinks that will provide a starting point for your research.
- Conduct research and decide upon the five fad items you will report on. For each item, compile the information outlined in the Task section. Find an image or create your own illustration of each item to include in your report.
- Design your new product — create a diagram showing how the item works, to be included in your report. You might like to create a prototype of the item if you are able to, and if time allows.
- Identify your market, the product's use(s), its unique features and why it would be successful. Write up this information in your report.
- Develop your product costing and add to your report.
- Check your report thoroughly to ensure you have used correct spelling and grammar, and that you have completed all elements listed in the **Task** section. When you are happy with your work, present your 'next big thing' to the class and submit your report to your teacher for assessment.

Resources



ProjectsPLUS Thinking Big research project: The next big thing (pro-0202)

10.8 Review

10.8.1 Key knowledge summary

10.2 Innovation

- Businesses seek to build or create a competitive advantage, often through innovation, to meet the changing demands of a competitive global market and improve their profit margins.

10.3 Emerging techniques

- Businesses can use emerging techniques — such as social media, blended marketing, and open innovation – to gain an advantage over competitors.
- Open innovation involves the use of internal and external ideas to support the business in improving its processes or products.
- Using social media to interact with customers directly and promote products, and making use of online and offline marketing techniques (blended marketing), can improve the competitiveness of the business.

10.4 Pursuing a competitive advantage

- Reducing the price of the product or reducing costs (by restructuring, increasing production capacity or working more efficiently) can achieve a lower cost product.

10.5 Strategies to create a competitive advantage

- Businesses use strategies such as offering a lower cost product or a differentiated product to create a competitive advantage. Implementing efficient internal operations strategies or investing in research and development can support the business in introducing these strategies.
- Differentiation can be achieved by offering a product that stands out as being unique or offering superior value through such means as packaging, marketing, quality or speed of delivery.

10.6 Corporate social responsibility and competitive advantage

- Business strategies based on corporate social responsibility can also increase competitive advantage by improving reputation.
- Socially responsible strategies include managing staff appropriately, sourcing raw materials from sustainable sources, managing the customer relationship appropriately and conducting a social report.

10.8.2 Key terms

blended marketing a mix of internet and traditional marketing methods

competitive advantage occurs when a business is able to produce and sell goods or services better than its competitors

competitive market a market where a large number of businesses compete with each other to satisfy the demands of a large number of customers

corporate social responsibility a duty for management to take into consideration the broader welfare of the community, including its people and the environment, when making business decisions

demand the amount of a particular good or service that a customer will want to purchase at a given price

differentiation making a product stand out by providing unique or superior value to customers in comparison with competitors' products

input the resources — including materials, equipment and labour — used in the process of production

invention the development of something new

marketing the process of planning and executing the development of the product as well as its pricing, promotion and distribution

offshoring the practice of relocating a business's processes from one country to another, to take advantage of lower costs

open innovation the use of internal and external ideas by a business to improve its processes or products

operations the area of a business that consists of all the activities engaged in producing goods and services

output the end result of a business's efforts; the good or service that is delivered or provided to a consumer

outsourcing reducing costs by transferring tasks normally completed by the business to outside suppliers

process innovation when changes and improvements are made to the production process of a product or service

producers individuals and businesses involved in the production of goods and services

product innovation when a new product is created or an existing product is improved

productivity a measure of efficiency; the amount of output produced compared to the amount of input required in production

profit margin an indicator of the financial health of a business, expressed as a percentage, that measures the amount of profit that a business earns from the sales of its product

profit what remains after all business expenses have been deducted from the money that has been collected from selling goods and services

quality the degree of excellence of goods or services and their fitness for a stated purpose

research and development (R&D) activities undertaken to improve existing products or create new products

restructure to significantly modify the management or ownership structure of a company

social media the websites, platforms and applications that enable users to interact in virtual networks and communities and create, share or exchange information and ideas

social report a report outlining what a business has done, and is doing, to meet its corporate social responsibilities

10.8.3 Reflection

Complete the following to reflect on your learning.

Revisit the inquiry question posed in the Overview:

Having a new idea to help your business can be great, but is it worth taking the risk of trying it out?

1. Now that you have completed this topic, what is your view on the question? Discuss with a partner. Has your learning in this topic changed your view? If so, how?
2. Write a paragraph in response to the inquiry question, outlining your views.

Resources

-  **eWorkbook** Customisable worksheets for this topic (ewbk-5735)
- Reflection (ewbk-5734)
 - Crossword (ewbk-5733)
 - Student Learning Matrix (ewbk-5730)

10.8 Review exercise

Multiple-choice

1. The use of robotics in manufacturing is an example of:
 - A. strategic planning.
 - B. process innovation.
 - C. product innovation.
 - D. blended marketing.
2. Which of the following websites is *not* (primarily) an example of social media?
 - A. Wikipedia
 - B. Facebook
 - C. Twitter
 - D. Amazon
3. Which of the following is *not* a type of cost incurred by a business?
 - A. Wages
 - B. Advertising
 - C. Net profit
 - D. Mortgage repayments
4. R&D is an abbreviation for:
 - A. recruitment and delivery.
 - B. rewards and dividends.
 - C. research and development.
 - D. restructuring and differentiation.
5. Which of the following refers to moving a company's processes or services overseas?
 - A. Offshoring
 - B. Outsourcing
 - C. Restructuring
 - D. Differentiation
6. Businesses can be more directly socially responsible by:
 - A. giving out staff bonuses.
 - B. implementing efficient internal operations strategies.
 - C. sourcing raw material from sustainable sources.
 - D. fostering innovation.
7. Which of the following is *not* a way that a business can compete on quality?
 - A. Inspecting products to reduce defects
 - B. Reducing prices
 - C. Responding to customer needs immediately
 - D. Complying with design specifications
8. Which of the following is *not* a strategy used to improve productivity?
 - A. Capital investment
 - B. Investing in technology applications
 - C. Materials management
 - D. Conducting a social report

9. Which is the best description of how a profit margin is calculated?
- A. Profit divided by sales expressed as a percentage
 - B. Sales divided by number of staff
 - C. The average unit cost of each item sold
 - D. Sales divided by income expressed as a percentage
10. What does CSR stand for?
- A. Computer segmented trade
 - B. Corporate social responsibility
 - C. Corporate social respect
 - D. Corporate section responsibility

Short answer

11. Define the term 'innovation'.
12. Explain the difference between product innovation and process innovation.
13. What is a competitive market?
14. What does productivity measure?
15. Why do businesses seek to build or create a competitive advantage?
16. Describe three corporate social responsibility strategies a business could implement to increase their competitive advantage.
17. Explain how investing in technology can improve a business's competitive advantage and increase productivity.
18. Describe how having stock or inventory can cost a business.

This is a summary of the digital resources you will find online for Topic 10 to help support your learning and deepen your understanding. When you see these icons next to an image or paragraph, go to learnON to access video eLessons, interactivities, weblinks and other support material for this topic.

10.1 Overview

-  **Video eLesson**
 - Being enterprising (eles-3498)

10.2 Innovation

-  **eWorkbook**
 - Being enterprising (ewbk-5731)
-  **Video eLesson**
 - Robotics in an automobile factory (eles-2609)
-  **Weblink**
 - Research and innovation, Alpine Breads, Create Your Taste

10.3 Emerging techniques

-  **Weblink**
 - Birdsnest

10.5 Strategies to create a competitive advantage

-  **eWorkbook**
 - Reducing the cost of a product (ewbk-5732)

10.7 Thinking Big research project: The next big thing

-  **ProjectsPLUS**
 - Thinking Big research project: The next big thing (pro-0202)

10.8 Review

-  **eWorkbook**
 - Reflection (ewbk-5734)
 - Crossword (ewbk-5733)
 - Student Learning Matrix (ewbk-5730)

To access these online resources, log on to www.jacplus.com.au.