Chapter 5: Improving business productivity

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Chapter 5: Improving business productivity

Overview

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, therefore obtaining more from the inputs.

There are many strategies that businesses can use to improve productivity. We will explore these strategies in this chapter.

**Figure 1** Car manufacturers can improve productivity by reducing the number of inputs required to obtain the same number of cars, or more cars. Alternatively, they can improve productivity if inputs remain the same but the number of cars produced increases, resulting in more cars from the inputs.

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**STarter questions**

1. What is productivity?
2. Why is productivity important for a business?
3. Explain in your own words how a business can improve productivity.
4. Identify some strategies that a business might implement to improve productivity.
5. What might happen to a business that cannot improve productivity?
5.1 Managing operations and improving productivity

Operations is the area of a business responsible for making the business’s product, whether it is manufacturing goods or providing a service. Operations oversees the transformation of inputs — including the materials, equipment and labour used in the process of production — into output; that is, the finished product. Operations can influence improvements in productivity because it involves capital investment, investment in applications of technology and the use of materials management strategies such as just-in-time inventory systems.

Figure 1 Operations is responsible for turning inputs into goods (such as these bottles of soft drink) or services.

Capital investment

Capital investment involves putting financial resources into physical resources such as machinery, equipment and facilities. These investments are essential for a business to be able to provide goods and services to customers. Investing in capital can improve productivity. For example, building a modern assembly line in a factory will reduce costs and the use of labour while producing more products, which increases the productivity of the business’s capital. An investment in capital also increases the productivity of labour and other resources employed by a business.

CASE STUDY

Fortescue invests in gas conversions and automation

Fortescue Metals Group, an Australian iron-ore company, announced in 2014 that it was planning to improve efficiency by converting its operations to gas and introducing more
automated trucks. The company said that utilising local gas could halve its annual operating costs.

‘It is very much focused on driving efficiency and productivity of our business,’ said Fortescue chief executive officer Nev Power. He explained that the process would comprise a switchover of Fortescue’s power stations to gas, as well as a progressive changeover from diesel to gas throughout the company’s mining fleet. This would involve the replacement of existing trucks by buying new trucks that run on gas, as well as the conversion of existing equipment.

![Figure 2](image_url) Fortescue Metals Group chief executive officer Nev Power announced plans to convert the company’s operations to gas and introduce more automated trucks.

**Investment in technology applications**

Investment in technology is another way businesses can improve productivity. Regardless of whether they are manufacturing a good or producing a service, businesses can use technology to speed up or shorten processes and maximise the use of resources. Using technology means production can take place using less labour or fewer materials.

Technology also enables businesses to drive innovation. New technology can support a business in designing or developing new products or processes. It can also be used to actually produce new or improved products or as part of a new innovative process.

**Office technology**

Office and communication technologies such as the ones in figure 3 have enabled new markets to open up because businesses can now reach more customers around the world. Developments in business technologies have created the opportunity for workers to complete a greater range of tasks in less time. Many office technologies also enable employees to work from locations outside the business.
Customer relationship management

Customer relationship management (CRM) refers to the systems that businesses have introduced to maintain customer contact. CRM applications can be used to improve productivity by storing information about existing and potential customers.

This information can be entered and retrieved by employees from different areas in the business, including the sales, marketing and operations departments. In this way, the business can improve customer service because services can be provided directly to customers. This reduces costs and improves productivity.

![Customer service team](image)

**Figure 4** Customer relationship management is used to learn about and store information regarding customers’ needs and behaviours.
Robotics

Robotics is a special form of technology capable of complex tasks. Robots are often used in manufacturing, on assembly lines, in engineering or in research where a programmable machine capable of doing several different tasks is required. They are capable of performing tasks with greater precision and accuracy than any human worker can. Robots work without complaint and do not demand higher wages. They work in conditions that are often far too dangerous for employees. By performing tasks faster and with greater accuracy in places where humans often cannot, robots improve productivity.

![Image of robots in a manufacturing setting](image)

**Figure 5** Robotics technology is used in many areas of business, including manufacturing and packing.

Computer-aided design

Computer-aided design (CAD) is software that generates two-dimensional or three-dimensional diagrams from a set of given input data (parameters). Once a design has been created it can be viewed from multiple angles, which assists both the designer and the end user to visualise the product. A lot of information can be obtained from the design. The costs of materials can be calculated and the time to complete the task of production can be determined, enabling the costs of the overall project to be quantified. In this way, CAD can improve productivity. If the cost is too high or if the design is too limited, the input parameters can be easily altered to reflect any new requirements. The normal drafting process can be very expensive, time consuming and less accurate. CAD can also be used to design the process that would be used to create the product in the shortest possible time using the least number of materials.

CASE STUDY

Innovative technologies

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 other
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.

Technology is not used only by businesses that manufacture goods. Businesses that produce services also use technology to improve productivity. Snap Laundromat in Brisbane has introduced an innovative new technology to its washing machines and dryers that enables customers to pay for and operate the laundry services with their smartphones. The founder of Snap Laundromat, Ian McFarlane, created a small network controller about the size of a cake of soap to go inside each machine.

The customer can either swipe a QR code on the machine or visit a website to create an account. Once the account has a balance, they can select a dryer or washing machine of their choice. Mr McFarlane said that customers, particularly young people and travellers, have been very quick to take up the new technology. He has started a new business, Eziwash, to make the controllers available to other laundromats. The use of this technology application means that customers can quickly and easily pay for their laundry service, particularly if they do not have cash, and could encourage more people to use the laundromat. Eventually the technology will have the ability to download customer data and to reward customers for their loyalty.

![Image](image_url)

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

### Materials management

**Materials management** is concerned with managing the way materials are received and stored and making sure they are available to the operations process when required. Many businesses have large quantities of materials on hand to complete production. This is called stock, or inventory. Businesses hold large inventories to make sure they do not run out of materials. However, this can become a huge cost for a business because the stock has to be stored. Stock that takes up storage space for a long time can also result in the business missing opportunities to invest money
in other places. In addition, materials can become unusable after a certain period of time. It is very important to manage materials effectively so that costs can be kept down.

The ‘just-in-time’ inventory system

Some businesses use an inventory system called just-in-time (JIT). This system ensures that the correct materials arrive just as they are needed for production, which can reduce storage costs and reduce the risk of waste occurring in storage, thereby improving the business’s productivity.

CASE STUDY

Just-in-time real estate

REA Group is a global online real-estate advertising company based in Melbourne that owns and operates property-advertising sites in Australia, including www.realestate.com.au. The business has applied the just-in-time system to software development. Decisions are made based on having access to the right information at the right time. This supports its efforts to be focused on customers and their rapidly changing needs. The business avoids carrying out excessive planning or documentation because this is considered to be a waste. In this way, innovation and creativity are encouraged.

FIGURE 7 REA Group uses the just-in-time system to access the right information about customer needs at the right time.

ACTIVITIES

Remember

1. What is operations management responsible for?
2. List four types of technology applications used by business to improve productivity.

3. Define the term ‘innovation’.

4. What is the just-in-time inventory system?

**Explain**

5. Describe how the following strategies can improve productivity:
   1. capital investment
   2. investment in technology applications
   3. materials management.

6. Read the case study ‘Fortescue invests in gas conversions and automation’ and answer the following questions.
   1. What type of capital is Fortescue investing in?
   2. How will this investment improve productivity at Fortescue?

7. Read the case study ‘Innovative technologies’ and answer the following questions.
   1. What innovative technology did Bertall’s Alpine Breads Benalla bakery introduce and how is it innovative?
   2. In what way is the technology that Snap Laundromat introduced innovative?
   3. How could Snap Laundromat’s new technology be used to make the customer experience more worthwhile?

8. Read the case study ‘Just-in-time real estate’ and answer the following questions.
   1. Explain how REA Group has applied just-in-time to software development.
   2. In what way would this system improve productivity?

**Discover**

9. Use the **FM magazine** (Facility Management) weblink in your Resources section to find out how operations management can improve productivity. Search the website for articles relating to productivity and write a list of at least five ways that operations management can improve productivity.

10. Ask your teacher to invite an operations manager in as a guest speaker to talk to your class about investment in capital, technology applications and materials management. Think of one or two questions you could ask if given the opportunity.
5.2 Improving productivity through human resource management

Human resources is the area of a business that is responsible for coordinating all the activities related to the employees of a business. It manages the relationship between the employer and employees. The strategies used by the human resource department, such as training and flexible workplace conditions, focus on improving the motivation of employees and meeting their expectations. By improving motivation, human resources can influence improvements in productivity.

Training

The aim of training is to improve the skills, abilities and knowledge of employees so they can perform their job more efficiently and effectively. Both new employees and existing employees require training, depending on their level of experience. By giving them the opportunity to develop their skills and increase their knowledge, employees are more likely to feel valued within the business. Well-trained staff are likely to be more motivated and perform their jobs more efficiently. This will result in improved productivity. Staff who are well-trained are also less likely to leave the business, which results in reduced costs.

Training can take many forms. Common methods of training include:

- **off-the-job training.** This takes place at a site away from the workplace. It may involve classroom activities, lectures and simulations.

- **on-the-job training.** This takes place at the workplace. It may involve coaching, hands-on training and job rotation (where workers move from one area of a business to another).

- **competency-based training.** This involves employees learning one competency and identifying areas where further training is required.
CASE STUDY

Training at Tata Consultancy Services

Tata Consultancy Services (TCS) is a multinational information-technology services, consulting and business solutions company with its headquarters in India. Its services are offered across a number of sectors including banking and finance, retail, utilities, energy and telecommunications. TCS was recognised as a Top Employer Australia 2014 by the Top Employer Institute. Certification is awarded to the best employers around the world; that is, companies that demonstrate the highest standards of employee offerings. These employee offerings include primary and secondary benefits and working conditions, training and development, career development and culture management.

Deborah Hadwen, chief executive officer (CEO) of TCS Australia and New Zealand, says, ‘We have a world-class talent management program that enables our employees to receive excellent career opportunities, training and benefits, positioned within an energetic working environment that delivers cutting-edge IT services and business solutions to leading enterprises across Australia’.

Training at TCS is delivered through many means. Internal social-networking sites provide a facility for training, online training is made available through video libraries and traditional classroom training, and virtual labs and video-sharing portals are also offered. TCS launched ‘Knome’, an internal social platform inspired by Facebook and Twitter, in 2012. This enables employees around the world to form communities so they can acquire and reuse learning and knowledge, collaborate, and discuss and develop solutions to business challenges.

Keeping employees’ skills up to date is very important to TCS because its core business is technology, and technology is changing at an ever-increasing pace. One way the company remains in step with technology change is by using a co-innovation network, where it is...
aligned with academic institutions that partner with its research and development labs and software vendors. This gives the business early insight into what is happening in the market.

**FIGURE 2** Tata Consultancy Services makes use of the social-networking platform ‘Knome’, which enables employees to share learning and knowledge.

**Flexible workplaces**

Flexible working conditions help many employees achieve a better work–life balance. This means employees can achieve the right combination of time devoted to work, and time devoted to family and personal life. Many businesses actively seek to improve their employees’ work–life balance to improve productivity. Flexible workplace conditions enable employers to attract and retain staff by facilitating flexible employment options to meet individual staff needs and to access a larger pool of employees. Businesses can provide flexible working conditions by varying the hours their employees work; varying where employees may work from; making leave entitlements available, including sick leave and long-service leave; or offering other arrangements such as childcare facilities. Some forms that flexible working conditions may take can be seen in figure 3.
Research suggests that flexible working conditions do improve productivity. A small-to-medium enterprise (SME) study in 2012 by workplace consultant Regus surveyed more than 16,000 senior business managers around the world. It found that four out of five Australian SMEs claim that flexible working practices are achieving higher levels of productivity. Sixty-nine per cent of SMEs recorded increased revenue and better performance results from flexible work compared to larger companies. William Willems, Regus Regional Vice President of South-East Asia, Australia and New Zealand says, "As workforce expectations and demands continue to evolve, flexible work is becoming an attractive option for workers looking to achieve a better balance between work life and life."
A 2013 report by accounting firm Ernst & Young outlined the potential for improved economic productivity if more businesses adopted flexible work policies. The study focused on women’s workplace participation and discovered that women in flexible work waste less time (about eleven per cent less) than their colleagues, who waste 14.5 per cent of their time at work. The report, ‘Untapped opportunity: the role of women in unlocking Australia’s productivity potential’ concluded that the productivity potential of women in the workforce is an untapped opportunity that businesses cannot afford to overlook.

CASE STUDY

Shell’s flexible workplace

Shell Australia provides flexible working conditions for office roles wherever required and operationally possible. This means, for example, that employees may be able to ‘telecommute’ and work from home or start their working day earlier or later, depending on staffing needs. Shell attempts to provide a working environment where employees are able to balance their work and family commitments. For example, Shell offers an Employee Assistance Program, which is a professional, confidential counselling service for employees and their immediate family members.

Amber-Liza Guster, a senior commercial manager at Shell Australia and mother of two children, works three days a week with the possibility of working extra time when needed. ‘In the team I work in we have three mums who work part-time and two dads who have flexible work arrangements,’ she says. ‘Across the industry I see different views and it comes primarily down to a company’s beliefs of what value flexible arrangements bring to a business. To make flexible work arrangements successful there needs to be a commitment from the individual and the company.’

The human resources manager at Shell Australia, Helen Reid, says that more than half of Shell’s workforce has taken advantage of the flexible work arrangements.

FIGURE 5 Shell Australia provides flexible working conditions for its employees, including variable working days and the opportunity to telecommute.
ACTIVITIES

Remember
1. What is human resource management responsible for?
2. List two types of training.
3. Identify four ways that businesses can provide flexible workplaces.

Explain
4. Describe how the following strategies can improve productivity:
   1. training
   2. flexible workplaces.
5. Read the case study ‘Training at Tata Consultancy Services’ and answer the following questions.
   1. Identify some of the ways that TCS offers training to employees.
   2. Outline the benefits to TCS and its employees of having training provided.
6. Read the case study ‘Shell’s flexible workplace’ and answer the following questions.
   1. List some of the ways Shell offers flexible working conditions.
   2. How, do you think, does Shell benefit from offering Ms Guster flexible work arrangements?

Discover
7. Use the Inside HR web link in your Resources section to find out how human resource management can improve productivity. Search the website for articles relating to productivity and write a list of at least five ways human resource management can improve productivity.

8. Ask your teacher to invite a human resource manager in as a guest speaker to speak to your class about training and flexible workplaces. Think of one or two questions you could ask if given the opportunity.

Predict
9. Outline what might happen to a business if it does not use human resource management strategies such as offering training or flexible working conditions to staff.
5.3 Ethics, social responsibility and the triple bottom line

Society expects businesses to act ethically and to be socially responsible. Businesses that incorporate ethical and socially responsible practices into their business activities experience positive reputations, leading to increased sales and profits. Employees will want to work for the business, reducing the costs of replacing staff and increasing productivity. By comparison, unethical behaviour, or a lack of social responsibility, can damage a business’s reputation.

Ethical workplace practices

Ethics are standards that define what is acceptable and unacceptable behaviour. Workplace ethics are standards that apply to business, such as being honest in business dealings with others. Business people make decisions every day. In many decisions involving ethical questions, it can be difficult to give a definitive answer about what is acceptable and what is unacceptable. It often depends on the individual circumstances surrounding the situation. For example, what should a business do in the following situations?

- a loyal, long-serving employee cannot adapt to new technology
- confidential information about a competitor’s pricing policy has been leaked by a disgruntled employee
- the business is asked for a cash payment to help hasten a decision about a tender contract

Honest and fair behaviour

Society expects businesses to be truthful in the way they communicate information and fair in the way they deal with people. Customers and suppliers expect to be dealt with honestly and fairly. If, for example, a business’s advertising includes words such as ‘special’, ‘sale’, ‘low fat’ or ‘light’, customers would expect that the business was not being misleading or deceptive. Not only is false or misleading advertising unethical, it is also illegal. A business using these words in an attempt to knowingly mislead customers is engaging in unethical practices. Suppliers would expect that if a business has arranged for a delivery of certain items and promises to pay within a set period of time, apart from exceptional circumstances, the business would honour its commitment to the supplier.

Employees also expect to be dealt with honestly and fairly. For instance, confidential information about employees should be kept secret; obligations to employees, such as fair pay, should be fulfilled; and harassment or discrimination should not occur. Occasionally, a business may become aware of an unethical business practice of one of its employees. This can place the business in a difficult position, especially if the employee is important to the successful operation of the business. At other times, some employees may place an employee in a difficult ethical position, such as when older employees decide to play a practical joke on a young apprentice. Sometimes, these ‘practical jokes’ get out of hand and may develop into a serious harassment or negligence case.
Conflict of interest

Conflict of interest can occur when a person in a position of trust has competing personal or professional interests; for example, when gifts or payments are on offer. There is a fine line between what is regarded as a gift and what may become a bribe. Corruption undermines the integrity of the business and, if unchecked, infiltrates the workplace culture. Once a pattern of corruption takes hold and is perceived to be acceptable behaviour, it quickly becomes entrenched within the business. Changing the attitudes and practices of individuals within such a business is extremely difficult. What start off as small incidents to which most people turn a blind eye may develop into corruption on a grand scale. When such corrupt practices are eventually exposed, the business’s image can be severely damaged.

Social responsibility

Socially responsible management involves the managers or owners of a business taking steps to ensure that the broader social welfare — including employees, customers, suppliers and the environment — is taken into consideration when conducting business dealings. Socially responsible management therefore involves ethics, because a business that is socially responsible will consider its impact on people and the environment rather than just making a profit. For example, Heinz Australia takes responsibility for its staff, customers, community and environment. It gives back to the community through community partnerships, fundraising and a volunteer program that provides employees with up to two paid days leave each year to volunteer at registered charities or organisations. Heinz uses an environmental management system to track environmental targets and has plans for reducing greenhouse emissions and packaging materials.

Triple bottom line business planning

The traditional view of business is that it exists to produce products, earn a profit and provide employment. As society’s expectations of acceptable business behaviour increase, socially aware business owners recognise the importance and necessity of planning sustainable business objectives; that is, focusing on financial outcomes while also being conscious of environmental and social performance. Many businesses today plan for the triple bottom line: financial (or economic), environmental and social performance. Businesses that take their social and ethical responsibilities seriously are often ‘rewarded’ with improved business performance.

![Figure 1](image-url) Triple bottom line business planning incorporates economic, environmental and social aspects.
CASE STUDY

The triple bottom line at Bulla

The Royal Agricultural Society (RAS) named Bulla Dairy Foods the best food producer for 2014. Bulla is an Australian dairy manufacturer that produces a range of chilled and frozen dairy products including cream, cottage cheese, yogurt, dairy desserts, ice cream and frozen yogurt. The company employs more than 450 people across its manufacturing sites, head office and distribution centre in Victoria.

Bulla was presented with the RAS President’s Medal after its 35 per cent Thick Cup Cream won the champion cream award at the 2014 Sydney Royal Cheese and Dairy Produce Show and gained the medal nomination.

Robert Ryan, President of the RAS, congratulated Bulla on being named the ‘best of the best’ in Australian food and agricultural production. ‘The President’s Medal recognises Australian producers that create the highest quality products by sustainable means, which is an outstanding achievement,’ he said.

Judges for the best food producer award inspected the company’s processing sites and found that the company was very aware about its triple bottom line. Bulla has worked hard to reduce waste, landfill volumes and greenhouse gas emissions through its ‘cogeneration’ project. A wellbeing program offers staff health support, including fitness programs and nutrition boosts, such as a free weekly winter soup.

The implications of ethical and socially responsible practices

The use of ethical practices and acting in a socially responsible manner can have negative implications for a business. For example, introducing policies and documentation related to ethics and social responsibility, such as codes of conduct and social reports, often involves a financial
cost and can be time consuming. This can reduce a business’s profit or inhibit employees from completing other tasks.

However, ethical and socially responsible practices can also bring significant benefits to a business. For example, adopting these practices can:

- *improve the reputation of the business*. This, in turn, can make the business more competitive as customers will be drawn to its products rather than those of competitors, bringing an increase in sales and profits

- *encourage employees to want to stay with the business*. This reduces staff turnover (the number of employees leaving the business) and increases productivity

- *improve the atmosphere of the workplace*. This increases motivation and productivity

- *attract potential employees to the business*. This can reduce the cost of recruitment and enable the business to acquire the most talented employees

- *increase investment in the business*. Many investors prefer to invest in businesses with integrity and responsible practices.

Ethical and socially responsible practices also have implications for the broader economy. These practices affect employment, wages and employment standards, environmental regulations and other legislation, products in the market, infrastructure, tax income and income distribution.

![Figure 3](image.png)

*Figure 3*  
A positive business reputation can be the difference between success and failure. Ethical and socially responsible practices can improve the reputation of a business.

**ACTIVITIES**

**Remember**

1. Define ethical management.

2. Suggest three ethical and three unethical workplace practices.
3. Define ‘socially responsible management’.
4. Name the three aspects of the triple bottom line.

**Explain**

5. Describe the possible implications of planning for the triple bottom line on the following:
   1. the business
   2. employees
   3. competitors
   4. the broader economy.

6. Refer to the case study ‘The triple bottom line at Bulla’ and outline how Bulla Dairy Foods has planned for the triple bottom line.

**Discover**

7. Use the St James Ethics Centre weblink in your Resources section to find out more about ethics. Search the website for articles relating to business ethics. Read one of the articles and write a list of at least five things you did not know about business ethics.

8. Use internet resources to find the website of a business and record the ethical or socially responsible practices it has introduced.

9. Ask your teacher to invite a manager as a guest speaker to talk to your class about ethics and social responsibility. Think of one or two questions you could ask if given the opportunity.

**Predict**

10. What are some of the consequences of a business not acting in an ethical and socially responsible manner?

### 5.4 Responding to variations in economic conditions

Australia’s economic conditions have improved over the past two decades, with the country experiencing economic growth for more than 20 consecutive years. More recently, a resources boom has driven this growth, with mining investment as a proportion of GDP (the monetary value of all goods and services produced in Australia over a single year) quadrupling over the past decade. Businesses typically respond to conditions such as this by increasing capital investment and recruiting more employees, but they have also responded to these improving conditions in
other ways, such as increasing their research and development funding to create innovative products; adjusting marketing strategies to expand their market share; and upskilling their workforce to improve productivity.

Resources investment is now expected to decline, resulting in a slowdown in the growth of Australia’s living standards. Many economists expect that other areas of the economy, such as home building and mining exports, will drive future economic growth. Businesses in Australia will need to respond accordingly.

**Increasing research and development expenditure**

Businesses undertake research and development (R&D) in order to improve their knowledge, as well as to improve existing products or create new ones. Invention (developing something new) and innovation are at the heart of Australia’s economy. Researchers and scientists undertaking R&D in businesses have produced many new products. Finding new ways to do things results in improved efficiency and increased productivity.

![Businesses in laboratory](image)

**FIGURE 1** Businesses invest millions of dollars in R&D in Australia each year. The main purpose of R&D is to discover and develop innovative products.

According to the Australian Bureau of Statistics, Australian businesses spent $18.32 billion on R&D from 2011 to 2012, which is 2 per cent more — a significant increase of $300 million — than the amount spent on R&D from 2010 to 2011. Cochlear, the global company that designs, manufactures and supplies cochlear implants — which enable people to hear — spent more than $500 million on research and development between 2010 and 2014.

Federal and state governments support businesses in carrying out research and development via direct funding, grants and tax incentives. Using a number of means, the federal government provided approximately $8.6 billion in funding to research and development in Australia in 2013. Funding is provided to universities, publicly funded research agencies such as the CSIRO, and businesses. Government support for businesses comes through the research and development tax incentive, which provides a tax offset to encourage businesses to engage in research and development.
CASE STUDY

Global Health invests in research and development

Global Health is an Australian company that develops and sells software applications for the health-care industry. To stay competitive, Global Health must invest in research and development. Its revenue is largely earned from the sale of software licences and annual subscriptions to overnight and day hospitals (referred to as the acute sector) and specialists, general practitioners, community health and allied health providers (referred to as the non-acute sector). One of its main products is an electronic medical record system called MasterCare.

Global Health invests approximately twenty per cent of its total revenue to research and development. Between 2013 and 2014, the company took advantage of an AusIndustry Research and Development Grant. AusIndustry is an area of the federal government that aims to help Australian businesses become more innovative and internationally competitive. The grant was for approximately $413 000 and it increased Global Health’s research and development spending by more than 33 per cent. This meant that it spent approximately $1.1 million developing software that should benefit the business and its shareholders for years to come.

Adjusting marketing strategies

The marketing department is the area of a business that is responsible for the marketing mix, often referred to as the 4 Ps (product, price, promotion and place). Marketing strategies undertaken by businesses arise through the marketing mix: developing the product, pricing, promoting and distributing products to present to potential customers. When facing improving economic conditions, businesses adjust these strategies to expand their market share.

Businesses focus on the following elements when adjusting their marketing campaign:
• research: gathering information from potential customers about their new wants and needs
• product: making changes to existing products or introducing new ones
• price: adjusting the price accordingly, based on customer demand and the need to make a profit
• promotions: providing information about the new product or launching the new products (for example, at events or through advertising)
• place: reviewing the methods used to distribute the product
• evaluation: finding out how successful a modified or new product or campaign is.

CASE STUDY

Bellamy's Australia changes its marketing strategy

Bellamy's Australia is a wholesale distributor of a range of organic food and formula products for infants. As a wholesale distributor, it sources its products from established dairy producers. The business started as a family-operated company in Tasmania in 2004. Bellamy's products are sold directly to retail customers through their website and are also sold in Coles, Woolworths, Chemist Warehouse, Costco and Big W stores. Select supermarkets in New Zealand, China, Singapore, Hong Kong, Malaysia and Vietnam also distribute the products.

The company has grown rapidly, with revenue growing on average 55 per cent every year since 2010, and it listed on the Australian sharemarket in 2014. In the early stages, print media was used to promote the product, but this strategy was not overly successful. Bellamy's then changed its marketing strategy to improving its shelf displays in stores and using social media to connect with new mothers. In Australia, Bellamy's has a presence on the two commonly used social media platforms, Facebook and Twitter. As it expands into China, it will need to use Sina Weibo and Weixin. Bellamy's has employed a mix of Chinese-Australians and local Chinese people to manage its China marketing team and also works with the Australian consultancy business ChinaSEO to help target Chinese customers with its web campaigns.
Upskilling the workforce

It is vital that both managers and employees have skills that help them complete tasks effectively. **Upskilling** involves providing training and further education for a business's workforce so it can learn these additional skills. Employees who have appropriate skills are more likely to be productive and motivated.

The Organisation for Economic Co-operation and Development (OECD) collects and analyses data that assists governments around the world in understanding the level and distribution of skills among their adult populations as well as the use of skills in different contexts as part of its Programme for the International Assessment of Adult Competencies (PIAAC). The Australian Bureau of Statistics (ABS) released the PIAAC results in 2013. Developed with the support of the Australian Council for Educational Research (ACER), the study assessed people aged 15 and 74 years in 25 countries in terms of proficiency in literacy, numeracy and problem solving in a technology-rich environment.

According to experts from ACER, the fact that a large number of Australians have low literacy and numeracy skills has a negative impact on individuals, the economy and productivity. Mr David Tout, Senior Research Fellow at ACER and a member of the numeracy expert group for PIAAC, noted that Australia needs to lift its population's skill levels to ensure a healthy society and a robust economy. "The twenty-first century requires its citizens and workers to have increasingly higher-level literacy and numeracy skills," Mr Tout said.
ACTIVITIES

Remember

1. Briefly outline how Australia’s economic conditions have improved over the past two decades.

2. Define the term ‘market share’.

3. What is upskilling?

Explain

4. Describe how the following strategies can support a business in responding to improving economic conditions:
   1. increasing research and development expenditure
   2. adjusting marketing strategies
   3. upskilling the workforce.

5. Read the case study ‘Global Health invests in research and development’ and answer the following questions.
   1. Approximately how much money does Global Health spend on research and development?
   2. What innovative product does this research and development result in?

6. Read the case study ‘Bellamy’s Australia changes its marketing strategy’ and answer the following questions.
   1. How did Bellamy’s Australia originally promote its products?
   2. Why did Bellamy’s change its marketing strategy?
   3. What marketing strategy does Bellamy’s use now?
   4. Why will Bellamy’s need to change its marketing strategy in China?
   5. How might the changes to Bellamy’s marketing strategy impact on its market share?

Discover

7. Use the Business weblink in your Resources section to find out more about research and development, marketing, and skills and training. Search the website for each strategy and use the table to record the information you find on the website under each appropriate heading.
Predict

8. What might happen to a business that does not respond to improving economic conditions?

Think

9. In groups of three or four, plan and create a video presentation that is interesting and catchy and will help people understand the ways businesses respond to improving economic conditions. Use video editing programs and internet resources in your planning.

SkillBuilder: Analysing a business

Tell me

What is a business case study?

A business case study helps you understand business concepts. It is a real-life example that shows how businesses work and how business concepts apply to individual situations. See the case study, ‘Google’s healthy and flexible workplace’, for example.

CASE STUDY

Google’s healthy and flexible workplace

Many businesses in Australia have developed healthy and flexible workplaces as a means of encouraging less stressed and more satisfied employees. By doing this they significantly reduce absenteeism and improve productivity.

Healthy and flexible workplaces make good economic sense. Research conducted by Medibank in 2013 shows that 85 per cent of Australian workers experience severe stress in the workplace, with half of our full-time workers feeling seriously pressured for most weeks of the year. Consequently, 15 per cent of Australian employees take sick days at least once a month resulting in more than 20 million days off each year due to stress. This costs the economy $14.81 billion annually.
One business that offers employees a healthy and flexible workplace is Google Australia. More than 800 staff work at its head office in Sydney. Google Australia was voted Australia’s best place to work in 2011, according to BRW magazine’s annual list of Best Places to Work. It is a regular feature in this list. Google recognises that the most important resource it has is its people. It offers employees a better work–life balance and the opportunity to be more productive. People who work at Google have fun. In fact, they refer to this as ‘googley’: having fun while doing great things as well as what is right.

Google’s Sydney office is a creatively designed space as evidenced by the chill-out lounge provided for employees, incorporating different themes including ocean, forest and futuristic. The open-plan layout of the workplace also features a games room, which includes table tennis and pool tables, electronic games consoles, chess and musical instruments, and relaxation rooms with sleep pods. Casual work areas feature hammocks for napping and there are also standing desk areas for convenience. Some staff make use of scooters to travel between areas in the workplace.

Google Australia staff work on projects in teams. The company offers employees ‘20 per cent time’: time for its employees to spend pursuing their own projects or ideas (which, incidentally, has yielded products such as Google Maps and Gmail across its global operations). Employees are supplied with free food (breakfast, lunch and dinner in one of the three cafeterias), free exercise classes and massages, and free health checks. The company offers 18 weeks’ maternity leave at full pay, while new fathers receive four weeks’ pay. Google Australia also offers employees the GoogleServe20 program, which makes available one full week and 20 additional hours of free volunteering time.

‘It’s very self-directed. There are no prescriptive times when you need to be here or set structure,’ Google human resource manager Shannon Stephenson says. ‘You can come in and be flexible in the way you are working as long as you are producing results at the end of the day that you as an individual and we as a business expect.’

![Google Australia](image)

**Figure 1** Google Australia offers its employees a healthy and flexible workplace.
Why are business case studies useful?

Business people use case studies to understand the strategies that other businesses have introduced and to identify which ones have succeeded or failed. When you have identified the elements of a case study you will be able to better understand business concepts.

Show me

How to analyse a business case study

You will need:

• your workbook
• any material you collected in your research
• sticky notes and highlighter pens.

Procedure

Step 1:
Read the case study twice: once to get the general idea of the content and the second time to identify the key issues. As you read through it the second time, use a highlighter, arrows and sticky notes to identify the key issues.

Step 2:
Identify and define important terms. Use a dictionary or the internet to find out what they mean.

Step 3:
Write your answers in dot points under the headings provided on the proforma shown in figure 2.
Let me do it

Developing skills for analysing a business case study

Read the case study, ‘Google’s healthy and flexible workplace’. Use the steps on the proforma shown in figure 2 to analyse the case study.

Read the case study, ‘Inside the PODISTA pod factory, making Nespresso compatible coffee and hot chocolate pods’. Use the steps on the proforma shown in figure 2 to analyse the case study.

CASE STUDY

Inside the PODISTA pod factory, making Nespresso compatible coffee and hot chocolate pods

I pull on a hair net and a fluoro coat and step into a very noisy factory.

It’s a little cold, and as I round the corner of a box-like room, the sweetest smell hits me. Now I could be in an apple packing warehouse or a bakery, but I’m at Podpac HQ, the Australian owned and operated manufacturer of Nespresso compatible pods. They’re in the throes of brewing up some hot chocolate goodness, and boy, can’t you smell it!

‘I think I’ve tried every kind of hot chocolate available,’ groans Toby Strong, CEO of Podpac — but his efforts are well worth it. Podpac has managed to produce the world’s first Nespresso compatible hot chocolate range. Its hot chocolate pods, like the coffee pods
before them, are specially designed to withstand the 19 bars of pressure a Nespresso machine uses, and retain a smooth, creamy taste.

**FIGURE 3** Podpac was the first to launch Nespresso compatible coffee pods and is now also the first to launch a Nespresso compatible hot chocolate range.

It's not easy for a pod to get to this stage, though. Any pod made by Podpac has to go through no less than a dozen processes before being packaged into a supermarket-ready box, ready to be sold under the brand name PODiSTA.

'We have one production line, but we need two,' Mr Strong explains, indicating to a specially modified U-shaped machine which produces 240 pods per minute. At capacity, this machine can produce a staggering 20 million pods per year.

'We have outgrown this space within four months, it has been phenomenal,' he says — and that growth is only set to rise with the introduction of a sugar-free pod range for kids.

Since launching in late 2016, Podpac have sold over 8 million pods from their headquarters in Adelaide, South Australia. If you are one of the 1.4 million Australians who own a Nespresso machine, you'll probably have a bit of an idea as to why this is, too.

Podpac have neatly squeezed themselves into a market full of frustrated buyers, who can only purchase Nespresso pods from one of the 12 boutiques across Australia or through Nespresso’s website.

But since Nespresso’s patents ran out, the pod business has become anyone’s game — and readily stepping up to the mark is Podpac. And while they might have the world’s first hot chocolate pod range as a point of difference, is it really possible to produce a caffeinated brew to rival Nespresso’s?

'Our pods are made especially for the Australian palette, to go with milk,' explains Mr Strong.

'We found from consumer research that a lot of people were saying other pods they’d tried were too weak, because over in Europe, they drink their coffee straight. Here, it’s diluted with milk, so the coffee itself has to be stronger. Flavour intensity is the real issue, and we don’t just benchmark ourselves against other pods — we look at cafes, too.'
Market research told Podpac that its coffee flavour needed to be stronger.

Taking this into account, Podpac’s coffee PODISTA pods have been crafted from a painstakingly-chosen blend of beans from all over the world, and then roasted to consumer perfection in Australia. The beans are then packed into a special pod design, which not only dodges all of Nespresso’s trademarking stipulations, but produces smooth, delicious coffee.

‘For Nespresso, their trademarks revolve around the shape and the piercing of their pod,’ Mr Strong says.

‘The first person to try out a compatible pod once the patent expired was actually the ex-director of Nespresso. We looked at what he did and what other people were doing, and developed our pod from that. We looked at a peel off aluminium top to keep the coffee fresh, but oxygen still permeated. It was trial and error.’

‘We settled on a pod which has a base that collapses under the pressure of the Nespresso machine, that doesn’t get pierced like other pods do. It’s fully sealed so there’s no need for individual wrapping and wastage. The pods are foil wrapped collectively in a container that’s half the size of most other brands, and it has a 24 month shelf life.’

Considering the PODISTA range hasn’t even been on the market for a year, their success and their growth are certainly impressive — and prove that making something in Australia was indeed an achievable dream for 31-year-old Strong.

‘I was told time and time again just to continue having our products made offshore,’ he explains. ‘Many potential investors just didn’t feel comfortable investing millions of dollars in local manufacturing.’

‘I am a big believer in local manufacturing. To keep our economy strong retailers and consumers must take this issue more seriously and support Australian made products. Buying Australian means you can take comfort in the knowledge that you are likely receiving a better made product and you can feel proud about supporting local business.’

1. Refer to the case study, ‘Google’s healthy and flexible workplace’, and answer the following questions.
1. Outline the ways Google Australia has provided a flexible working environment.

2. What are the benefits — to both the business and employees — of a flexible working environment?

2. Refer to the case study, ‘Inside the PODiSTA pod factory, making Nespresso compatible coffee and hot chocolate pods’, and answer the following questions.
   1. Outline the methods that Podpac has used to improve productivity.
   2. In which ways has Podpac responded to improving economic conditions?

3. What is a business case study?

4. Why are business case studies useful?

5. How did you identify the key issues in the two case studies?

6. Explain how you identified and defined important terms in the case studies.

Review and reflect

Review

Improving productivity — the amount of output compared to the number of inputs — is one of the main objectives of a business. Businesses can improve productivity through operations management; for example, by making use of capital investment, investment in applications of technology and just-in-time inventory systems. Businesses can improve productivity through human resource management; for example, by making use of training and flexible workplaces. Society expects that businesses will act in an ethical and socially responsible manner. Businesses that do so and plan for the triple bottom line will experience positive reputations, leading to increased sales and profits. Businesses have responded to improving economic conditions by, for example, increasing their research and development funding to create innovative products, adjusting their marketing strategies to expand market share and upskilling their workforce to improve productivity. Other ways productivity can be enhanced include:

- by investing in new technological applications and capital, including equipment and facilities, as well as through the use of materials management strategies such as just-in-time inventory systems
- by using technology to drive and allow innovative responses
- by introducing workforce management strategies such as training and flexible workplace conditions to improve the productivity of workers
- by acting in an ethical and socially responsible manner; this will impact on employees, competitors and the broader economy
- by planning for the triple bottom line, thereby considering financial (or economic), environmental and social performance
by increasing research and development funding to create innovative products, adjusting marketing strategies to expand market share and upskilling the workforce to improve productivity.

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**Case Study**

**Pops Dollarakis**

Victor Dollarakis is the chief executive officer (CEO) of Pops Dollarakis, a global manufacturer of biscuits, crispbread and crackers. Its headquarters are in Sydney.

Mr Dollarakis has been reading a great deal about theories of management lately and is very interested in the ideas behind improving productivity in particular. Pops Dollarakis is considering the use of technology as a source of innovation. The business also realises that economic conditions are improving and is considering how it will respond accordingly. Mr Dollarakis comes to you seeking your advice.

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**Figure 1**

Pops Dollarakis produces biscuits, crispbread and crackers, and like many businesses it must organise itself to improve productivity and respond to changing economic conditions.
1. Describe the ways in which Pops Dollarakis might improve productivity.

2. Explain how the use of technology might support Pops Dollarakis in developing innovation.

3. Identify some ethical workplace practices and explain how these would impact on Pops Dollarakis.

4. Outline to Mr Dollarakis why it would also be worth considering planning for the triple bottom line and how it may benefit the business, its employees and the broader economy.

5. Explain to Mr Dollarakis some ways that the business might respond to improving economic conditions.