Planning a business —
external environment

WHY IT IS IMPORTANT

Climbing to the peak of a mountain requires thorough planning. The route needs to be carefully plotted, weather forecasts studied and essential equipment organised. It is the same in the world of business. Anybody who is starting a new business should spend time planning. Planning is the process of setting goals, or objectives, and deciding how they will be achieved. Significant amounts of time, energy and money will go into the business, and if an owner expects to make a profit, then they need to have a plan.

A business plan is a written summary and evaluation of the business idea. It shows the clear direction of the business, and how it will maintain its focus. It enables the owner to think through all the facets of a new business and to examine strategies relative to management, marketing, finance and resources. The business plan identifies areas of strength and weakness, opportunities and threats, and shows the owner the probability of success. Businesses operate within what is referred to as the internal environment and the external environment, and both have an effect on the planning of a business. In this chapter, you’ll be studying how factors in the external environment affect the business planning.

WHAT YOU WILL LEARN

Key knowledge

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

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<tr>
<th>EXTERNAL ENVIRONMENT FACTORS AFFECTING BUSINESS PLANNING</th>
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<td>• Economic conditions, such as how interest rates, tax rates, business and consumer confidence levels affect business planning</td>
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<td>• Technological issues, such as how the market may change in the future and developments in technology</td>
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<td>• Global issues, such as overseas competitors, overseas markets, offshoring labour, exchange rates, patenting, copyrights, trademarks and online sales</td>
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<td>• Corporate social responsibility issues, such as environmental considerations and planning the production of goods and services which are in society’s best interests</td>
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<td>• Customer needs and expectations</td>
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<td>• Suppliers and the supply chain, such as the resources required for a business and considerations about where these resources are sourced and how they reach the business</td>
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<td>• Special interest groups, such as environmental lobby groups, business associations and unions</td>
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Key skills

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

• Define, describe, and apply relevant business management concepts and terms
• Acquire, record, interpret and share business information and ideas
• Research and analyse case studies and current examples of business management applicable to planning a business
• Apply business management knowledge to practical and/or simulated business situations
• Explain the benefits and costs of corporate social responsibility management practices with respect to business planning
Atlassian’s plans and the external environment

Scott Farquhar and Mike Cannon-Brookes (pictured, standing left and right) started their enterprise software business in Sydney in 2002 as university drop-outs, working in a garage with some servers and $10 000 on a credit card. This young technology company now sells software to some of world’s largest companies, and has grown from two to more than 1400 employees. It is currently valued at $4.3 billion.

Now with offices in four countries, Atlassian is truly a business that has to deal with global issues. Not only does Atlassian need to manage the problems associated with being a global company, but it also needs to contend with large competitors such as Slack and GitHub.

Initially, Atlassian’s goal was to gain 50 000 customers. It has achieved this goal — more than 51 000 large and small businesses now use its products — but the company will not stop there. Atlassian has said that its objective is now 100 million monthly active users. Another of Atlassian’s goals is to ‘unleash the potential in every team’. Its products help teams to collaborate, build software and serve their customers better. Over time, the company’s customers have begun to use its software in ways that the founders never imagined and Atlassian has changed its products accordingly.

Atlassian makes its software free for use by not-for-profit organisations and charities. Another way the company fulfils its corporate responsibility obligations is by donating 1 per cent of profit, products and employee time to charity. This pledge has raised more than $40 million, including funding for the education of thousands of children in developing countries.
The **business environment** refers to the surrounding conditions in which the business operates. It can be divided into two broad categories: internal and external.

The **internal environment**, sometimes called the micro environment, includes those factors over which the business has some degree of control. Over time, the internal environment influences the students and the teacher in your classroom. Teachers and students can shape and influence what occurs.

The **external environment** includes those factors over which the business has little control. It may be further divided into two categories: operating and macro.

The **operating environment**, sometimes called the task environment, refers to the specific outside stakeholders with whom the business interacts in conducting its business.

The **macro environment** is made up of the broad conditions and trends in the economy and society within which a business operates.

### The internal environment

The internal environment is made up of elements created by the people within the business. These include the interactions of the people within the business. Teachers and students can shape and influence what occurs. Over time, these forces interact with each other to give each business its unique characteristics.

The following are among the main elements that make up the internal environment:

- **Employees**: These are the people working for a business who expect to be paid fairly, trained properly and treated ethically in return for their contribution to
production. Employees are a business’s most important resource. Businesses that provide a work environment that maximises employee satisfaction achieve high levels of output.

- **Managers.** These are the people who have the responsibility for successfully achieving the objectives of the business. Every business, whether they be for-profit or not-for-profit, small, medium-sized or large, needs effective management to succeed. The skills and expertise of the management team in coordinating the business’s resources largely determine whether the objectives of the business are achieved.

- **Location.** The location of the business will determine whether or not the business is visible and accessible to potential customers. A good location is an asset to the business and can lead to high levels of sales and profits.

- **Legal business structure.** One of the main decisions that the business owner will need to make is the most appropriate legal structure to use. The four main structures include sole trader, partnership, private limited company or publicly listed company. Each structure has its own advantages and disadvantages.

### The operating environment

A business’s operating environment, sometimes called the task environment, is made up of stakeholders external to the business which have a direct impact on the operation of the business. The business has less control over these factors than internal environment factors. The four main stakeholders are:

- customers — the people who purchase goods and services from the business, expecting high quality at competitive prices
- competitors — other businesses or individuals who produce and sell rival, or competing, goods or services to the ones offered by the business
- suppliers — the businesses or individuals that supply materials and other resources that the business needs to conduct its operations
- special interest groups — the groups of people who attempt to directly influence or persuade a business to adopt particular policies or procedures, including lobby groups, business associations and unions.

### The macro environment

Changes in the macro environment can affect all businesses. This environment comprises the broad forces, conditions and trends in the economy and society within which the business operates. The business has no control over these factors. Changes within the macro environment make it necessary for managers to make adjustments to the business’s planning. New government regulations may require, for example, a business to plan to install pollution-control devices. Or, in response to changing social attitudes, businesses may plan to alter traditional work practices to accommodate more family-friendly policies and fewer discriminatory policies. The main factors that make up the macro environment are:

- political and legal influences — the laws or regulations made by parliaments and courts which affect how businesses operate and behave
- societal attitudes — the factors relating to changes in the attitudes, behaviour, tastes and lifestyles of communities on a local, national and international scale

**Did you know?**

Union membership in Australia more than halved between 1990 and 2013, from 40.5 per cent of the workforce to just 17 per cent, according to Australian Bureau of Statistics data. The trend is partly due to a shift from blue-collar jobs to those in the service sector, which is less unionised.
3.1 Business environments

- economic conditions — the set of influences that relate to economic activity, including interest rates, wages, unemployment, exchange rates and inflation
- technological issues — the issues related to the growing use of tools, techniques or systems
- global issues — the pressures that arise as a result of businesses operating in worldwide markets and competing on a global scale
- corporate social responsibility issues — the pressures on a business to take into account in its operations the broader social welfare of the community

**TEST your understanding**

1. What is meant by the term ‘business environment’?
2. Using an example, explain the difference between the internal and the external business environments.
3. Explain the relationship between the external environment and the internal environment.
4. Read the following scenarios and explain what factor in the internal environment is either likely or unlikely to lead to the business’s success.
   - (a) Employees at Southbound Logistics are encouraged to work in teams in order to brainstorm creative solutions. A person’s position within the business is not considered a barrier because everyone is asked to provide ideas about how to improve the business.
   - (b) At Lancowen Legal Practice they’ve been serving customers in the same way for years and the manager, Bill Beaumont, says there is no need to change the recipe. He regularly briefs his employees on the direction he thinks the business should take and demands that employees get on with their designated duties and leave the big ideas to him.
   - (c) At Edwards they have no stated position on equal opportunity in the workplace, or any other issue for that matter. The human resource manager says he makes it up as he goes along.
   - (d) When Kay started work at Bellgowan she felt ill at ease. There were so many rules and regulations to follow. Drinks were held every Friday night for employees, but it wasn’t a case of ‘come along if you would like’ — it was a case of ‘you must come’. The company has designated this hour as ‘fun time’ and everyone must be involved.
   - (e) Beth Harket has decided to locate her new café in a shopping centre.
   - (f) Gil is planning his new business and hopes to start an auto parts store. He intends to name the business ‘Gil’s Auto’.
5. What is meant by the term ‘operating environment’?
6. List the four main stakeholders in the operating environment.
7. Fill in the gaps in the following definitions.
   - A ___________ is any business or individual who purchases goods and services from the business, expecting high quality at competitive prices.
   - A business’s ___________ are those businesses and individuals that supply the materials and other resources that the business needs to conduct its operations.
   - ___________ are groups of people who attempt to directly influence or persuade a business to adopt particular policies.
8. What is meant by the term ‘macro environment’?
9. Identify which macro force is affecting the business in each of the following cases.
   - (a) Julie runs a small busy restaurant. She recently introduced technology that allows wait staff to electronically send orders to the kitchen. This means better service for the customer because the order is taken more efficiently and more time can be devoted to other tasks such as the prompt delivery of food and drinks.
   - (b) John Anderson is the manager of a function centre that hosts large weddings and conferences. He makes sure to include an acknowledgement of the traditional owners of the land, the Wurrungjeri people, in his opening remarks.
   - (c) Mia has to design and print new labels for the foods sold in her deli. This is because changes to the food labelling laws require that all foods list the ingredients by particular portion size. This allows customers to more easily compare different food items. She thinks that this may affect which foods customers choose.
   - (d) A local bottle shop is no longer allowed to sell imported premixed alcoholic drinks because of a government ban on food imports from particular countries.

**APPLY your understanding**

10. In a small group, brainstorm the elements that determine the environment of your Business Management class. Choose a speaker to share your comments with the other groups in your class.
11. Choose a business that you have heard about and use the internet to research the following:
   - (a) The internal environment of the business — for example, you could find out about the business’s ethical standards or equal opportunity policy. How many employees does the business have? Who are its managers?
   - (b) The operating factors that affect the business — for example, who are its competitors, customers and suppliers? Does it currently face pressure from interest groups such as environmental lobby groups or unions?
   - (c) The macro factors that affect the business — for example, does the business use technology? What laws must it comply with? Does it consider corporate social responsibility to be important?
12. Write a two-paragraph response to the following: ‘Large businesses have no control over the external environment in which they operate. They are at the mercy of any external change.’
Society expects business owners to abide by the laws made by parliaments and in rulings set down by the courts. In Australia, each level of government (federal, state and local) imposes its own direct and indirect regulations, to which all businesses must adhere. Elected governments also attempt to make or change the laws that have an impact on businesses. In the past two decades, significant changes have occurred in the legal framework within which businesses must operate. In addition to new interpretations of existing laws, a large number of new statutes have been introduced, which have a major impact on business planning. This new legislation includes laws on taxation, industrial relations, occupational health and safety, equal employment opportunity, anti-discrimination and protection of the environment. Some of the key legal and government regulations that businesses need to consider in the planning stage of a business are summarised in the following figure.

Almost every aspect of a business will be affected by legislation and government regulation.

It is essential that business owners have a sound working knowledge of the laws that will affect their operations when they are planning their business. Businesses that do not obey the law risk losing customers and their reputation, being fined, or losing the right to continue trading.
3.2 Key legal and government regulations

Laws related to establishing a new business

When a business is first established, a business name must be registered with the Australian Securities and Investments Commission (ASIC) unless the owner is trading under their own name, in which case registration is optional. New business name registrations require an Australian business number (ABN), and a partnership or company requires its own tax file number. If the business is established as a company, it is required to register with ASIC to receive a Certificate of Registration and an Australian company number (ACN).

Laws related to location

The acquisition and development of business premises will be influenced by local government zoning and building regulations, as well as regulations relating to the position and size of signage. Fire regulations and parking regulations will also affect the layout and location of business premises.

Health regulations

Local government also imposes health regulations under the Food Act 1984 (Vic). Each local council supplies businesses (primarily those dealing with food, such as cafes, restaurants, butcher shops and bakeries) with the regulations and standards they have to meet in order to obtain a licence to operate. Some regulations relate to:

- temperature for food storage
- kitchen layout
- employee clothing requirements
- correct food handling

A health inspector will assess premises regularly and often without warning to ensure the business owner maintains standards. If problems occur, the business is given a period of time to rectify the situation or it will be closed down.

Employment regulations

While the majority of businesses are owner-operated, many do employ casual, part-time or permanent staff. Business owners who are planning to employ staff will need to comply with a variety of employment laws and regulations. Legislation covers conditions of employment, unfair dismissal, dispute settling methods, protection of human rights in employment, and employer responsibilities for tax payments on behalf of employees. Employee welfare is provided for through occupational health and safety legislation. Business owners also need to be aware of their legal responsibilities when recruiting and selecting staff, especially in regard to discrimination and equal employment opportunities.

Anti-discrimination regulations

Several federal and state laws aim to end discrimination in the workplace. Business owners will need to be aware of this during the planning stage. One of the most important pieces of legislation in this area is the Equal Opportunity Act 2010 (Vic). This Act makes it unlawful to discriminate against an employee on the basis of attributes such as age, impairment, marital status, physical features, political belief, race, religious belief, sex or sexual orientation.
Under this Act, an employer must take reasonable steps to eliminate discrimination, sexual harassment and victimisation from the workplace. An employer may be held liable if discrimination occurs in the workplace, or if the obligation to make any adjustments necessary is not met.

**Work health and safety regulations**

Each state and territory in Australia has its own health and safety laws (both acts and regulations). A business owner must plan to meet the requirements set out in the acts and regulations in their state or territory. In Victoria, the *Occupational Health and Safety Act 2004* (Vic) is the main legislation covering occupational health and safety. The objects of the Act include:

- securing the health, safety and welfare of employees and other persons at work
- eliminating, at the source, risks to health, safety or welfare of employees and other persons at work
- ensuring that the health and safety of other members of the public is not placed at risk by the conduct of undertakings by employers and self-employed persons
- providing for the involvement of employees, employers, and organisations representing those persons, in the formulation and implementation of health, safety and welfare standards.

**Taxation laws**

Taxation laws apply to all businesses. All registered businesses are required to prepare a set of accounts — the **business activity statement** (BAS) — at regular intervals, either monthly or quarterly. The BAS details the collection of the **goods and services tax** (GST), and payment of pay as you go (PAYG) income tax instalments on behalf of employees. The business may also have to pay state government payroll tax, as well as tax payable on its own earnings. A business owner will need to plan to comply with tax laws.

**Trade practices and consumer protection**

An area of law that has significantly altered business conduct is legislation that promotes fair trade and competition, and provides consumer protection. The legislation provides explicit guidelines for trade practices, fair trading, advertising and credit. Specifically, the Australian Consumer Law, set out in Schedule 2 of the *Competition and Consumer Act 2010* (Cwlth), states that consumers have the right to purchase goods that are of good quality and fit for the purpose for which they were bought. These rights are part of the contract between the retailer and the consumer. If goods are faulty, then the retailer has breached the contract and the consumer is entitled to a replacement or a cash refund. The Competition and Consumer Act also covers product safety and labelling, unfair market practices, price monitoring and industry codes.

**Environmental protection legislation**

Federal, state and local governments jointly administer environmental protection laws in Australia through bilateral agreements. A business owner will need to understand which laws apply to their business when they are in the planning stage. The *Environment Protection and Biodiversity Conservation Act 1999* (Cwlth) covers the protection and management of matters of national environmental significance. In Victoria, the *Environment Protection Act 1970* (Vic) applies to noise emissions as well as preventing pollution and environmental damage to the air, water and land.
If business owners plan to meet their legal responsibility to protect the environment, it is likely that the business will benefit in the long term through cost savings, competitive advantage and operational efficiencies. Minimising the environmental impact of the business will also be good for the health and safety of employees and customers.

### TEST your understanding

1. Why is it important for business owners to have a good working knowledge of their legal rights and responsibilities?
2. Identify and describe three aspects of running a business that involve legal responsibilities.
3. List three business activities over which local government has control.
4. Outline the features of some of the other legal and government regulations by completing the table below.

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<thead>
<tr>
<th>Regulation</th>
<th>Explanation</th>
<th>Application to business planning</th>
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<tr>
<td>Anti-discrimination regulations</td>
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<tr>
<td>Work health and safety regulations</td>
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<tr>
<td>Trade practices and consumer protection</td>
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</tr>
<tr>
<td>Environmental protection legislation</td>
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### APPLY your understanding

5. Examine each of the following situations, and explain whether the owner has met their legal obligations, and why.
   
   (a) Dennis is an electrician who is planning to own and operate his business. He does not apply for an ABN because he believes it is not necessary for a sole trader.
   
   (b) Katie and Marie are planning a partnership in a dressmaking shop. They decide to use Marie’s tax file number as the official TFN for the business.
   
   (c) Gino is planning to open a fish and chip shop. He is not intending to find employees, but wants to give his teenage children extra pocket money for helping out in the shop at busy times. He does not think that he will need to include any PAYG information on his BAS.
   
   (d) Dianne has recently opened a babywear shop. She inadvertently sells a type of dummy that has been banned because it is dangerous. She claims she did not know about the ban.

6. Arrange to have a representative from the school canteen outline the laws and regulations that apply to this business.
Another factor in the macro environment that businesses should consider is the societal attitudes and behaviours that may affect the planning stage of a business. Societal attitudes are the ideas, values and beliefs held by people in a particular society. These attitudes sometimes affect the way that people behave. Behaviour relates to the actions that express these ideas, values and beliefs. Societal attitudes and behaviours are constantly changing. This affects how individuals live, work and consume products, how businesses operate and how stakeholders view the business in which they have an interest.

Values and beliefs

Values and beliefs refer to the shared principles and morals of a group of people or society — ideals about what is good or bad and necessary or unnecessary. These are often a learned way of life and can be passed on to younger members of society by older members. Values and beliefs can be reflected in the way people behave, the way they treat each other and what they prioritise. Values and beliefs determine, for example, what people do, what they wear, what and how they eat, and where and how they live. People in a particular society may have certain attitudes towards work, leisure time and customer service based on their values and beliefs. These attitudes will need to be considered by the business owner during the planning stage.

Society's attitudes about what is right and wrong are constantly changing and this affects the ways in which businesses plan and the way that they are managed. Increased access to rapid communications has made the world's population acutely aware of what businesses are doing. Pressure from society has forced businesses to implement procedures to preserve and protect the natural environment. One recent example of this is the response of supermarkets, including Coles, Woolworths, IGA and Aldi, to customer pressure over sustainable seafood. They all now claim varying degrees of sustainable sourcing for their seafood. Marine Stewardship Council (MSC) is an independent non-profit organisation that offers certification for sustainable seafood to fisheries, seafood producers and brands. You may have seen the blue MSC label on seafood products — this assures customers that the seafood can be traced back to a sustainable source. Coles has full MSC-certification and traceability in place for their fresh and packaged seafood, while Woolworths, IGA and ALDI all sell MSC-certified frozen and canned seafood.

Society requires that businesses sell acceptable products and treat staff with respect. Businesses today are also expected to contribute to society by giving something positive to the communities in which they operate. As part of their ‘Energy for Life’ community program, AGL Energy gives back to the community and supports families who are struggling to pay their energy bills. Under the program, employees are provided with the opportunity to be involved in giving to causes that they have an interest in, volunteering or participating in fundraising events.

Because many people value the preservation and protection of the natural environment, many supermarkets now sell seafood products with the MSC label — an assurance that sustainable fishing standards have been met.
A trend is the general direction in which people’s attitudes or behaviour in society is developing or changing. One trend businesses should consider when planning relates to demographics. Demographics are the characteristics of the human population. You may have heard of Australia’s ageing population. This means that the median age of the population is rising, and there are more elderly people living in the community than ever before. For a business, the effect of this social change might provide an opportunity when planning, particularly in the area of healthcare. On the other hand it could provide some challenges, such as labour shortages, in some areas. Businesses that plan for changing demographics are likely to thrive, while those that do not may struggle to survive.

Another trend that may affect a business in the planning stage is the demand for businesses to provide family-friendly workplaces. There is a growing belief that businesses must support families, and the provision of better childcare options and more flexible hours are increasingly being considered by businesses. There is also a growing belief that businesses must cater for workplace diversity. Employees will have different issues that may be related to gender, age, language, ethnicity, cultural background, disability, sexual orientation and religious belief. Businesses are required to effectively manage a diverse range of employees and cater for their specific needs. For example, if a business employed a person with a disability, it would be expected that the business takes some steps to ensure the needs of that employee are met in order for them to perform their job appropriately.

Trends

Workplace diversity refers to the multitude of individual differences that exist among people in the workplace.

Workplace diversity is a permanent feature of today’s workplace.

TEST your understanding

1. Distinguish between ‘societal attitudes’ and ‘societal behaviours’.
2. In your own words, outline what values and beliefs are.
3. Using an example, explain the impact that changing values and beliefs have on the decisions made when planning a business.
4. What is a trend?
5. Outline two trends that have lead to significant change and have the potential to influence business planning.

APPLY your understanding

6. ‘Societal attitudes and behaviours affect the decisions that are made by business owners when planning a business.’ Discuss the extent to which this is true.

7. Use the Creating a family-friendly workplace weblink in your eBookPLUS to find some information about how to create a family-friendly workplace. Read through the ways suggested on the website and then summarise each way in your notes.

8. In groups of four or five, research and report on a social issue confronting businesses in your local area. You may wish to either prepare a PowerPoint presentation or use a word-processing package for your report.
   (a) Outline the issue.
   (b) How have local businesses reacted to the situation?
   (c) What indicators would you use to determine the success or failure of a business’s response to the situation?
3.4 Economic conditions

**KEY CONCEPT** Business owners need to consider the state of the economy when planning a business. Interest rates, tax rates, business and consumer confidence levels have an effect on the decisions made during the planning stage.

**Economic conditions** refer to the many influences that relate to economic activity in a country, region or the world and include interest rates, wages, unemployment, exchange rates and inflation. Economic forces have an enormous impact on both business and customers. They influence a business’s capacity to compete and customers’ willingness and ability to spend. Economies do not always experience constant growth. Rather, the level of economic activity changes from periods of growth (‘boom’) to recession (‘bust’) and back to boom conditions. The following figure shows the impact of each phase of the business cycle on a business’s performance.

**Expansion — key features**
- Increasing consumer spending
- Business expectations increasingly optimistic
- Increasing business investment
- Sales and profits rising
- Unemployment falling

**Contraction — key features**
- Decreasing consumer spending
- Business expectations increasingly pessimistic
- Decreasing business investment
- Sales and profits falling
- Unemployment rising

**Peaks — key features**
- Wages and salaries at high levels
- Business operating at full capacity
- Sales and profits at highest levels
- Low level of unemployment

**Troughs — key features**
- Wages and salaries at low levels
- Business operating at below full capacity
- Sales and profits at lowest levels
- Consumer spending at lowest levels
- High level of unemployment

Phases of the business cycle — all of the economies in the world go through fluctuations, experiencing good times and downturns.

When an economy is in a downturn, it will most likely mean that customers are not spending as much. Reduced spending translates to reduced opportunities for business. When an economy is booming, lower levels of unemployment and rising incomes are likely to increase the overall level of spending in the economy. There are many opportunities for businesses to do well in this situation, and business owners may plan to expand as sales and profits increase.

Information on economic growth, inflation trends, average weekly earnings, consumer confidence, interest rates, consumer spending and unemployment provide businesses with insight into economic trends. This information on the level of economic activity allows businesses to predict possible threats to, and opportunities for, business activity during the planning stage.

**DID YOU KNOW?**
Recently an Australian Bureau of Statistics survey of bankrupt businesses found that 35.2 per cent of owners blame ‘economic conditions’ as the reason for failure. Twenty-five years ago, the main reason for business failure was lack of business ability. Today only 10.1 per cent of businesses fail for this reason.
An interest rate is the price charged or paid for the use of money that has been deposited or borrowed.

Interest rates

An interest rate is the price charged or paid for the use of money. It is used to calculate the proportion of a loan that is charged as interest to the borrower (or the proportion of a deposit paid to the depositor), and is typically expressed as an annual percentage of the total amount loaned or deposited. For a business, interest generally represents a cost involved in generating revenue. Typically, interest rates rise in periods of inflation and when there is more demand for credit. A rise in interest rates tends to stifle business activity (because credit becomes more expensive).

Changing interest rates can significantly affect a business’s planning. Any loan repayments that the business has will be affected by falling or increasing interest rates, as will the opportunities to obtain finance. A high interest rate will reduce the likelihood of a business making a large profit, which will undoubtedly influence the business owner’s planning. Prospects for expanding or growing the business will also be reduced. Falling interest rates, however, may result in business loans becoming more affordable. Consequently, a business owner may plan to expand their business under these circumstances.

Tax rates

Taxes also represent a cost for businesses. A tax rate is the percentage of income or value of a good, service or asset paid as tax. In Australia, for example, income tax and company tax is imposed as a percentage of a business’s net income. Some taxes, such as land tax, are levied on the value of an asset. The tax rates on certain activities may affect the decisions that the business owner makes when planning the business. For example, an activity that offers tax deductions may prove to be an attractive option when in the planning stage.
Business and consumer confidence levels

Business and consumer confidence levels refer to how businesses and customers are feeling about the economy. When consumer confidence is high, for example, consumers will generally be optimistic about their financial condition, particularly their ability to find and maintain employment, and they are more likely to make purchases. If a business owner is feeling positive about the future, or if they sense that consumer confidence is high, then this is likely to be reflected in the decisions that they make during the planning stages of a business. For example, if business and consumer confidence levels are high, it is possible that a business owner will plan to expand the business, take on more debt or employ more workers.

When an economy is booming, the level of consumer confidence is likely to be rising. This means that consumers are generally feeling positive, especially in their ability to obtain and hold on to employment. Consumers will therefore be likely to increase the amount of money that they spend. This may lead to businesses expanding and increasing the number of people they employ.
3.5 Technological issues

**KEY CONCEPTS**

- Business owners need to consider technological issues when planning a business.
- These issues relate to markets changing in the future and technological development.

Technological issues refer to the issues relating to the growing use of tools, techniques or systems by businesses to solve problems or serve a purpose.

**DID YOU KNOW?**

According to the ABS, 1.7 Exabytes, or 1.71 million Terabytes, was downloaded in Australia in the three months ending 31 December 2015. This was a 49.5 per cent increase in data downloads when compared with the three months ending 31 December 2014.

**DID YOU KNOW?**

‘It’s pretty incredible to look back 30 years to when Microsoft was starting and realise how work has been transformed. We are finally getting close to what I call the digital workstyle.’ Bill Gates, founder of Microsoft

Technological issues relate to the growing use of tools, techniques or systems by businesses to solve problems or to serve a purpose in operations. Innovation in technology has increased at a remarkable pace, revolutionising the workplace and every aspect of daily life. With appropriate technology, businesses can increase efficiency and productivity, create new products and improve the quality and range of goods and services. For survival, businesses must monitor and adapt rapidly to technological innovations. Failure to detect and adopt new technology could result in products and businesses becoming rapidly obsolete.

**Developments in technology**

The use of hi-tech robotics in many manufacturing industries is improving productivity, reducing operating costs and eliminating many boring and repetitive tasks. The cost of global communications is declining and the tools of information technology are becoming easier to use. New communication technologies allow information to be transmitted rapidly to an ever-increasing number of customers, with a speed that now makes communication almost instantaneous. Global communications systems make it possible for businesses to coordinate design, production and distribution worldwide. The internet, mobile phones, interactive video and electronic funds transfer, for example, are helping to open up the global marketplace at an unprecedented rate. The internet, mobile phones, interactive video and electronic funds transfer are helping to open up the global marketplace at an unprecedented rate. The latest ABS statistics reveal that there are 12.9 million subscribers to the internet in Australia, more than 2 million of which are business and government subscribers.

While the development of new technology brings many benefits to a business, it does have shortcomings. Technological change has led to a decrease in the number of employees required by many businesses as they have been replaced by the technologies that reduce costs, improve quality and delivery speed. The speed of change has resulted in product life cycles becoming shorter, which means that products do not last for a long time and constantly need to be updated. A consequence is that businesses need to spend more time and money on research and development to remain competitive. On the other hand, changing technology opens up new markets, which can present opportunities for businesses.

When a business owner is planning a business, they will need to consider the benefits and limitations of technology. The planning stage must incorporate the opportunities that developments in technology provide.

**The future of business technology**

It is impossible to predict the future, but it is expected that over the next five to ten years we will live with more internet-connected devices, including computers, phones, appliances, vehicles and robots. This will generate huge amounts of data, presenting a challenge to businesses — what data is useful and...
what is not? The ability to analyse this big data will also present opportunities for businesses. There is no doubt that technology will become smarter, meaning that robots and computers will replace more workers completing dangerous, repetitive or mundane jobs. Many businesses will take advantage of 3D printing and wearable technology. Driverless vehicles are already in use in industries such as agriculture and mining. More people will be using autonomous vehicles, and it is likely that pay-per-use will be gradually replacing car ownership. This provides opportunities for more people to work creatively while they are being driven to their destination.

**DID YOU KNOW?**
A report released by the Committee for Economic Development in Australia (CEDA) in 2015 entitled ‘Australia’s future workforce?’ found that there is a high probability that almost 40 per cent of the jobs that exist in Australia today could be replaced by automation within the next 10 to 20 years. This statistic represents more than 5 million people. The report identifies five emerging technologies: cloud services, the Internet of Things, Big Data, Artificial Intelligence and robots, and immersive communications.

Technology will undoubtedly change at an ever-increasing pace. Australia Post is already trialling small parcel deliveries by drone and expects that the device will revolutionise the way parcels are delivered within the next five to ten years. A human using a video system currently operates a drone, but how long will it be before they are fully autonomous?

**TEST your understanding**

1. What is technology?
2. Make a list of technologies currently used by businesses.
3. Explain the benefits of technological development.
4. Outline the limitations or costs of new technology.
5. In your opinion, what developments in technology will we see in five to ten years’ time?

**APPLY your understanding**

7. There are so many new applications of technology. For example, many supermarkets have equipment that allows you to scan your own groceries and pay for them using a debit or credit card. QR codes can allow you to easily access complicated URLs by scanning with a mobile phone. Can you think of any ways that the technology you use might affect the planning of businesses with which you interact?
8. Using the internet, research the latest trends in technology. Suggest any technological developments that will be applicable to businesses in the near future.
3.6 Global issues

**KEY CONCEPTS** When planning a business, business owners need to consider global issues. These issues include overseas competitors and markets, offshoring labour, exchange rates, protection of intellectual property at a global level and online sales.

Globalisation is the effect of hi-tech communications, lower transport costs and unrestricted trade and financial flows turning the whole world into a single market, producing a more integrated global economic system.

Elements within the macro environment can combine and operate at a global level. Globalisation means that businesses now operate in a worldwide market. Better technologies, methods of transportation and unrestricted trade have allowed the whole world to become a single market. This presents both challenges and opportunities for businesses. The major challenge that many businesses face is that they now find themselves competing on a global scale. Globalisation also allows businesses to buy and sell goods and services internationally, opening the door to increased profits and a level playing field.

Successful business owners understand the necessity to adapt to the constant and rapid changes in the global environment. When planning a business, the business owner needs to consider many global issues including overseas competitors and markets, offshoring labour, exchange rates, protection of intellectual property at a global level and online sales.

**Overseas competitors and markets**

When undertaking business planning a business owner must take into account the possibility that they will face competitors from overseas. Global competition exists because of rival, or competing, businesses that serve customers internationally. Business owners planning to compete against overseas competitors know that they must build a competitive advantage based on the strengths of the business, as well as by reducing costs and improving the quality of the product. It is also important to have knowledge of all competitors — whether they are found in a local market, nationally or overseas. Business owners who are aware that they will face overseas competition must stay informed of their rivals’ strategies, and their strengths and weaknesses. Businesses may plan to differentiate their goods and services from other businesses in order to be competitive. A possible source of this differentiation is innovation.

Harry’s Café de Wheels is an iconic pie cart located on Bowper Wharf Road in Sydney. The café was founded in 1938 and there are now ten other Harry’s Café de Wheels operating in Sydney and Newcastle. The business recently expanded into China, with plans to build hundreds of pie carts across the country over the next 15 years. The owner of Harry’s Café de Wheels, Michael Hannah, has worked with business partners in China to ensure that the sites and food are authentically Australian. The majority of ingredients are currently sourced in Australia and shipped monthly to China. Austrade supported the project.
Just as overseas competitors can sell their goods and services in Australia, local businesses can also sell their products in overseas markets. Selling goods and services to overseas markets spreads the business’s risk and allows it to grow. However, there are unique issues for the business owner to consider, such as transportation and distribution, conversion of currency, taxes and duties, marketing and packaging requirements. When planning to sell to overseas markets, business owners need to consider the different requirements of these markets, such as customs and cultures. The product that they sell locally may need to be modified or tailored to suit the needs of an overseas market. It is always a good idea for the business owner to speak to someone who has experience in exporting to overseas countries. The Australian Trade Commission (Austrade) supports businesses in growing overseas markets, and can provide information, assistance and advice about exporting, understanding foreign regulations and best business practices.

**Offshoring labour**

The opportunity to use labour in overseas countries is something that the business owner needs to consider when in the planning stage. **Offshoring** refers to the practice of moving some of a business’s processes or services to the same or another business located in an overseas country. Businesses usually do this to take advantage of lower costs, including labour and transportation, as well as more favourable economic conditions in other countries. Many businesses choose to offshore their labour-intensive stages of production (e.g. the assembly of car engines) or complex services (e.g. using call centres in overseas countries to assist Australian customers). Telstra uses offshore labour in the Philippines and India in its call centres and for other support roles. Qantas uses offshore maintenance facilities to perform maintenance checks on many of its aeroplanes.

**Exchange rates**

An exchange rate is the price of one country’s currency expressed in terms of another country’s currency. Essentially, the exchange rate determines how much of one currency has to be given up in order to buy a given amount of a different currency. Australia’s exchange rate is commonly measured using the US dollar. For example, in the media you will often hear Australia’s exchange rate quoted in Australian dollars per US dollar (AUD/USD). In this case, if the AUD/USD is $0.77, this means that one Australian dollar is worth 77 US cents.

Exchange rates are affected by many factors such as:

- interest rates
- the rate of inflation
- the balance of trade
- political stability
- the general state of the economy
- the quality of a country’s governance.

The exchange rate plays an important part in the planning of businesses that intend to export goods and services or import materials. Any changes in exchange rates will affect businesses. Basically, a depreciation (a fall in the value of a country’s currency in relation to another currency) will usually make exports cheaper and imports more expensive. This means that exporting businesses will benefit while manufacturers or retailers importing materials or goods will face increasing costs. Whereas, an appreciation (an increase in the value of a country’s currency in relation to another currency) makes exports more expensive and imports cheaper, and reduces the competitiveness of businesses that export.

Business owners also need to be aware of exchange rates because they may pay overseas suppliers for materials. The supplier is likely to invoice the business in...
the currency of the supplier’s country. Furthermore, businesses may need to locate or develop a method for converting payments they have received from overseas customers.

Exchange rates affect any financial transactions that a business may make, as well as demand for its products and the price of imported materials.

Protection of intellectual property at a global level

In chapter 2 we examined the range of options available to the business owner for protecting intellectual property (IP). It is important to ensure that competitors do not copy any creations of the mind that a business has developed such as new inventions, brands, designs or artistic creations, as these can provide a competitive advantage. As it is likely that businesses will face overseas competitors it is essential to protect intellectual property at a global or international level. This can be done through the use of:

- **patents.** A patent is an exclusive right granted for any device, substance, method or process that is new, inventive and useful. This is legally enforceable and gives the owner exclusive rights to use the invention for commercial purposes for the life of the patent. However, an Australian patent will generally only protect the rights of the patent owner in Australia. At present there is no ‘international patent’. A patent must be obtained in each country in which the business seeks protection for its invention, in accordance with the laws of that country. A second option for businesses seeking patent protection in several countries is to file an international application under the Patent Cooperation Treaty (PCT), administered by the World Intellectual Property Organization (WIPO). IP Australia supports businesses in making this application.

- **trademarks.** A trademark is a right granted over a letter, word, phrase, number, sound, smell, shape, logo, picture or aspect of packaging that a business will use to represent its products and services. However, an Australian trademark only provides protection within Australia. Similarly to patenting, trademark owners can seek trademark protection overseas by applying for protection in each separate country. Another option is to make a single international application filed through IP Australia nominating the Madrid Protocol countries in which protection is required. The Madrid Protocol is a treaty that provides a solution for registering and managing trademarks worldwide.
• **Copyright.** Copyright is a free and automatic protection of original works such as writing, music, art, films, sound recording, broadcasts and computer programs. Copyright is generally obtained automatically without the need for registration or other formalities. Although it is not necessary to do so in Australia, and in a majority of countries, placing a copyright notice in a prominent place on any work can act as a reminder to competitors. Nearly 180 countries have ratified the Berne Convention — an international treaty that sets a minimum set of standards for the protection of the rights of creators of copyrighted works around the world. Nevertheless, some countries have not signed the treaty, so a business owner must be aware that it can be a requirement in some countries to establish copyright.

**Online sales**

Large numbers of businesses now sell products to consumers directly over the internet. When a business owner is planning they will need to consider the options of selling through a physical store, an online store or both. Online sales present many opportunities for businesses. Firstly, long-term costs will be reduced as the business is not required to pay for premises and expenses such as electricity and water. Online sales means that the business will reach a wider market, as customers can purchase the business's products from around the world. However, the business owner needs to realise that setting up and maintaining a professional-looking website can be expensive, and some expertise may be required. Websites crash, and when the website is down customers will not be able to make purchases. However, when planning the business, a business owner needs to be aware that failing to go online could result in the business being uncompetitive.

**TEST your understanding**

1. Define the term ‘globalisation’.
2. Explain why overseas competitors need to be considered by business owners during the planning stage.
3. How can a business compete against overseas competitors?
4. Outline the benefits and costs involved in selling products in overseas markets.
5. Explain what offshoring is and why businesses offshore their labour.
6. Define the term ‘exchange rate’.
7. What effect do exchange rates have on business planning?
8. Briefly explain the methods for protecting intellectual property at a global level.
9. Identify the benefits and costs of online sales.

**APPLY your understanding**

10. Use the [Austrade](https://www.austrade.gov.au) weblink in your eBookPLUS to find a video featuring a business that sells its products to overseas markets. Once you have selected a video, work in a group to answer the following questions.
   (a) What is the name of the business, and what product does it sell?
   (b) Name the overseas market or markets that the business sells to.
   (c) What advice does the video provide for business owners planning to export to overseas markets?
   Present your answers to the rest of your class.

**11.** Identify the global issue or issues that the following businesses are dealing with:
   (a) Vic Gas uses a call centre in India to aid and assist its customers.
   (b) My Electronics, which sells consumer electronics, video games, Blu-ray discs, DVDs and CDs through its stores in Australia, is planning to set up on online store. It will need to install a currency converter on its website.
   (c) Jan has had problems with other businesses and individuals copying her products and selling them on the market.

12. Use the [Intellectual property](https://www.ipaustralia.gov.au) weblink in your eBookPLUS to watch a video about intellectual property. Write down five suggestions that IP Australia has made for businesses.

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**Weblinks**

- [Austrade](https://www.austrade.gov.au)
- [Intellectual property](https://www.ipaustralia.gov.au)
3.7 Corporate social responsibility issues

KEY CONCEPTS
- A business must plan to operate in a socially responsible manner.
- Corporate social responsibility management practices have benefits and costs.

Corporate social responsibility refers to managing a business in such a way that the broader social welfare of the community, including its employees, customers, suppliers and the environment, is taken into consideration when making business decisions.

The triple bottom line refers to the economic, environmental and social performance of a business.

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 change, socially aware business owners recognise the importance and necessity of planning business objectives that incorporate corporate social responsibility. Businesses today are very much concerned with planning for the triple bottom line. This means that they are no longer simply focused on making a profit at all costs — the business’s financial or economic performance — but rather, they recognise that environmental and social performance are also important.

Businesses that take their social responsibilities seriously are often rewarded with improved business performance. Customers will purchase products from socially responsible businesses. Planning to incorporate socially responsible practices can result in the business becoming more competitive. The relationships that the business has with stakeholders such as other businesses, governments, the media, suppliers, specific interest groups and the community are also much more likely to be positive. Obviously, socially responsible behaviour costs money in the short term, and it can be very time consuming to introduce policies and practices that are socially responsible, but in the long run corporate social responsibility does turn out to be in the business’s, and society’s, best interest.

There are many ways in which a business can be socially responsible. Some of these issues are summarised in the diagram below.

The triple bottom line business planning incorporates economic, environmental and social aspects.

HOW A BUSINESS CAN BE SOCIALLY RESPONSIBLE
- Avoid conflicts of interest
- Ensure that a fair price is paid for all materials
- Minimise waste and pollution
- Develop the skills of employees
- Conserve the use of energy
- Work with suppliers to ensure that they have socially responsible policies in place
- Protect the health and safety of customers
- Ensure that the business is free of corruption
- Become involved in the community

Some of the ways in which a business can be socially responsible

Etiko plans for corporate social responsibility

The founder of Etiko, Nick Savaidis, believes that businesses should make a positive contribution to society. Etiko is a small business based in the outer south-eastern suburbs that planned for corporate social responsibility from the outset. Mr Savaidis started the business when he realised that it was impossible to purchase sports products that came with full guarantees that no employee exploitation was involved in production.

Etiko sells fashion, footwear and sports equipment that are made using offshore labour in a carefully chosen factory in Sri Lanka. Etiko fully integrates the principles of sustainability from all

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perspectives: economic, environmental and social. The company combines socially responsible production practices with environmentally sound materials to produce a range of products that are Fairtrade certified and sweatshop free. However, purchasing products that are manufactured in a socially responsible manner means that Etiko must pay up to three to four times the price that other fashion brands pay for their products.

Mr Savaidis wants Australians to know that they can buy a range of socially responsible fashion items from t-shirts to underwear and even footwear. He says, ‘No-one likes the idea of wearing clothing that is potentially made with child, sweatshop or slave labour. However, the reality is that most people in Australia have got wardrobes full of items made by people, young and old, who have been exploited … simply because we as consumers want cheap fashion. Our brand proves that it is possible to put social and sustainable values into the market and succeed.’

It is no coincidence that Etiko has won many awards in the area of corporate social responsibility, including an Australian and New Zealand Fairtrade Product of the Year award in 2013. Etiko was recently ranked Australia’s most ethical fashion brand in the Australian Fashion Report, which assesses measurements such as the supply chain, worker pay and welfare. From the sales of its products, Etiko also helps to fund community development, microcredit and healthcare programs in many developing countries.

Etiko received a $75 000 Impact Investment Readiness Fund grant from NAB at the end of 2015, which is hoped will support the further growth of the business. The company has plans to export and will invest in marketing and distribution to be able to compete against larger retailers.

TEST your understanding
1 Define the term ‘corporate social responsibility’.
2 Name the three aspects of the triple bottom line.
3 Why do many businesses plan for the triple bottom line?
4 Describe the possible implications of planning for the triple bottom line on:
   • the business
   • employees
   • competitors.
5 Outline what Etiko does that makes it socially responsible.
6 What are the benefits of managing a business in a socially responsible manner?
7 What are the costs of managing a business in a socially responsible manner?
8 Why is corporate social responsibility important to consider in the way a business plans?

APPLY your understanding
9 In groups of three or four, research the arguments for and against corporate social responsibility. Which set of arguments do you support? Provide reasons for your answer.
10 A business decides to undervalue its inventories and debtors to indicate favourable liquidity and thus better short-term financial stability of the business. In groups of three or four, record the advantages and disadvantages of this decision and its corporate social responsibility implications. Choose a spokesperson to share the group’s comments with the rest of the class.
11 Use the ISO weblink in your eBookPLUS to find out who the International Organization for Standardization (ISO) is and what standards the organisation offers in the areas of environmental management, energy management, sustainable events and social responsibility. Choose one of the standards and record its ISO number. Take thorough notes explaining what the standard covers.
12 Use the Etiko weblink in your eBookPLUS to read or watch an interview with Nick Savaidis. Summarise what Mr Savaidis has to say about corporate social responsibility.

DID YOU KNOW?
Fair Trade is a trading partnership which seeks greater equity in international trade. It promotes the rights of marginalised producers and workers, especially in low-income countries.

DID YOU KNOW?
According to research undertaken by Global Business Responsibility Centre, businesses that plan for and implement a policy of caring for the triple bottom line outperform other businesses in the market.
Understanding the triple bottom line

Being sustainable means taking into account the impact your business has on the environment and communities in which it operates. By paying attention to the social and environmental bottom line, you can run your business in a more efficient and effective way. This can have a positive impact on your financial bottom line, and it makes good business sense.

Sustainability expert John Elkington coined the term ‘triple bottom line’ and argued that there should be three bottom lines:
1. The ‘profit’ bottom line, which is a measure of the traditional ‘profit and loss’ financial bottom line.
2. The ‘people’ bottom line, which is a measure of how socially responsible a business has been.
3. The ‘planet’ bottom line, which is a measure of how sustainable and environmentally responsible the business has been.

All of us understand the basic concept of living within our means. If we spend more than we earn, then at some point we hit the wall financially. However, when it comes to the environment and our use of its resources, the people of the world are not living within their means.

According to the Global Footprint Network, we currently use the equivalent of 1.4 planets to provide the resources we use and to absorb the waste we produce. This is not sustainable. Based on estimates from the United Nations on resource use and population, the Global Footprint Network predicts that between 2035 and 2050 we will reach the point where we need the equivalent of two planets to support us.

The fundamental issue is that as the world’s population increases and consumerism continues to grow, the demand for the planet’s limited resources will also increase. In 1950, global population stood at 2.55 billion people. In 2010 it was more than 6.8 billion, and by 2020 it is estimated that it will exceed 7.6 billion.

The 1950s signalled the beginning of a consumer spending boom that started in the United States and quickly spread across the globe. This consumer-led boom generated major improvements in the quality of people’s lives, but it also changed the way we interacted with, and impacted on, the environment.

Today, it means that the world is living on ‘environmental credit’. At some point, future generations are going to have to pay a price for the overuse of our natural resources.

The number of vehicles purchased each year has increased from less than 10 million in the 1950s to more than 50 million in 2007. At the same time, oil consumption has increased by tens of millions of barrels per day. In addition to using up the world’s limited supply of oil, this has led to increased exhaust emissions that harm humans and contribute to global warming.

Sustainability and your business

Managing your business sustainably means managing it in a way that maximises the bottom line but optimises environmental, economic and social benefits for society as a whole. The initiatives that sit under such a sustainability strategy are what many large businesses call ‘corporate responsibility’, ‘corporate social responsibility’ or ‘corporate citizenship’.

Business is changing

A 2008 IBM worldwide survey of senior executives highlights this business shift towards sustainability. Sixty-eight per cent of business respondents said they were implementing sustainability ‘as an opportunity and platform for growth’, and more than 50 per cent said their company’s sustainability activities were giving them an advantage over their top competitors.

Despite this positive shift, nearly two-thirds of businesses questioned by IBM admitted they didn’t fully understand their customers’ concerns around sustainability. Understanding and responding to your customers on this issue is vital for your business relationships. As it currently stands, only 17 per cent of the IBM survey respondents said they really engaged and collaborated with customers regarding their sustainability activities.
The report also highlighted the need to involve employees in any sustainability initiatives. A key reason for this is your customers will increasingly be asking your employees about the actions your business is taking for the community and the environment.

What do Australians think about businesses and sustainability?

In 2008 Unilever Australia commissioned AMR Interactive Research and Newspoll to look at Australians’ attitudes towards corporations and sustainability. It found:

- 90 per cent wanted Australian businesses to invest more in sustainable practices
- 72 per cent thought companies had a broad responsibility to act responsibly
- 81 per cent thought companies could still make a profit while being environmentally responsible and taking the welfare of their workers into consideration
- 64 per cent thought companies needed to focus on sustainability to maintain their future profits.

The Net Balance/Australian Fieldwork Solutions (AFS) SME Sustainability Index

The Net Balance/AFS SME Sustainability Index was compiled from interviews with 800 decision makers from across 14 industries, with companies that employ 5 to 199 people. When asked which challenges they considered a major concern for their businesses, compliance and economic sustainability issues scored highest:

- maintaining revenues — 74 per cent
- finding the right talent for your industry — 70 per cent
- meeting government regulations — 55 per cent.

However, the results also suggest that some Australian SMEs were not yet fully aware of the cost-saving benefits that come from improving the efficiencies of their operations. Six out of 10 SMEs did not consider energy efficiency a major concern when it came to saving money, yet this is one of the easier money-saving actions businesses can implement as part of their sustainability strategy.

There’s an old saying that ‘waste is another word for lost profit’, yet only a third of SMEs had a major concern about managing their waste. And despite the extensive media coverage about the need for businesses to reduce their greenhouse emissions, only 25 per cent of SMEs said this was a major concern.

The survey did, however, uncover some positive indications. On the recruitment front, 26 per cent of organisations nationally said a ‘sustainable image’ helped them to recruit the best employee talent. On a very positive note, 65 per cent of SME managers said they wanted to take action on climate change.

The research showed there was a gap between perception and reality when it came to how SMEs saw themselves on environmental issues. Asked if their business was ‘environmentally friendly’, 72 per cent of those surveyed indicated that they were. However, less than 15 per cent were actually undertaking relevant activities that are sustainable enough to be considered environmentally friendly. Clearly there is still a long way to go. According to the Index, those SMEs that had undertaken sustainability-related actions had experienced cost savings.

Those who were experiencing success were very positive about the sustainability results that were being obtained. New business opportunities, manufacturing efficiencies, improved employee morale, cost savings and resource savings were just some of the benefits outlined by SMEs interviewed by AFS.

The results also show more than one in five SMEs were being pressured directly by customers to be more sustainable.

How will sustainability benefit my business?

It is reasonable for Australians to want the same lifestyle and opportunities they have right now, but, as the research reveals, they want business to fix the problems caused by their current lifestyles. This is where the opportunity lies. Businesses that respond to this concern with a price-sensitive quality product or service that makes a difference will stand a better chance of getting a sale.

TEST your understanding

1. Read ‘Understanding the triple bottom line’. What does being sustainable mean?
2. Why is sustainability important?
3. List some of the expected benefits of implementing a sustainability strategy.
4. Read ‘Plantic fantastic’. Outline the socially responsible strategy that Plantic Technologies has implemented.

EXTEND your understanding

5. Do you think that sustainability is something that needs to be added to the list of things to do, or should it be something that business owners do naturally?

6. Using the articles, suggest strategies that business owners can use to meet the following socially responsible expectations.

<table>
<thead>
<tr>
<th>Corporate social responsibility expectations</th>
<th>Strategy that a business can use</th>
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<tbody>
<tr>
<td>Customers demand healthy lifestyle products</td>
<td></td>
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<tr>
<td>Society wants a clean environment</td>
<td></td>
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<tr>
<td>Society expects businesses to treat employees appropriately</td>
<td></td>
</tr>
<tr>
<td>Customers expect businesses to understand their needs</td>
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</tbody>
</table>
Social responsibility for a business includes obligations to the community, above and beyond making a profit, obeying laws or honouring contracts. It is the awareness of a business's management of the social, environmental, political and human consequences of its actions. A socially responsible business will attempt to achieve two goals simultaneously: (1) expanding the business and (2) providing for the greater good of society. It recognises that business activities have an impact on society globally and, as such, that it needs to give careful consideration to its actions. The central theme is ‘above and beyond’ making a profit and obeying the law.

It is important to note that social responsibility is not just about helping the local community. A business that is truly socially responsible will be mindful of the welfare of its employees through providing benefits such as childcare or flexible working arrangements.

Pennicott Wilderness Journeys

Pennicott Wilderness Journeys was planned with the intention of operating sustainably, in harmony with the environment and the local community. The company offers six experiences in Tasmania: cruises along the coast of Bruny Island and Tasman Island, both of which are located on the south-eastern coast of Tasmania; a land-based day tour of Bruny Island; two cruises that depart from Hobart; and the new Three Capes Track, a multi-day walking experience. The ultimate goal of this business is to use its financial success ‘to reinvest into the local community and the environment that we live and work in’.

The company, which was founded in 1999 and is operated by Robert Pennicott and his family, has a very strong focus on sustainability. It attempts to employ members of the local community and source services from local businesses. Twenty-five per cent of the profits from the business are donated to local, national and international conservation, community fundraising and research and analysis case studies and current examples of business management applicable to planning a business.
humanitarian projects. All of the tours are 100 per cent carbon offset and its energy use, water consumption and waste output are assessed through the EarthCheck system. All of the business's products have achieved Advanced Ecotourism certification.

It is no coincidence that the business has won many awards, including the Qantas Award for Excellence in Sustainable Tourism for 2012, 2013 and 2014. Their Bruny Island Cruise also won Australia’s Best Tourist Attraction in 2014 and 2015.

Pennicott Wilderness Journeys is now planning to expand the business further. A Wilsons Promontory Cruise, departing from Tidal River, will soon open. The venture is expected to cost $3.5 million and produce $9.7 million in economic benefits for the local community each year as well as create 16 jobs for the region. More jobs will be created over the next five years and the project will also directly contribute to the conservation of Wilsons Promontory. The expansion was made possible with a $650 000 Federal government grant.

Mr Pennicott says that Wilsons Promontory is well known from the land but few people have experienced the same beauty from the sea. ‘We’re honoured to have the opportunity to operate cruises that showcase Wilsons Promontory. We understand how important it is to work with the community and together help protect it for future generations. Sustainability is at the heart of everything we do and we will work hard to ensure this venture operates with environmental best practice,’ he says.

A highlight of the cruises offered by Pennicott Wilderness Journeys is observing sea and coastal wildlife in its natural habitat, including these fur seals off Bruny Island. As well as operating with the environment and local community in mind, the business also donates to a range of conservation projects. It has donated more than $100 000 towards coastal conservation projects undertaken by the Tasmanian Parks and Wildlife Service.
cut n curl hair salon: corporate social responsibility with style

Kristen Lowe, owner of the highly successful small business cut n curl hair salon, is aware of the business’s social responsibilities towards her employees and the wider community.

Interviewer: What must you do to be a socially responsible employer?

Kristen: I have fantastic employees who are one of the main strengths of my business. I have a responsibility for their welfare at work, as well as their future development. All my employee processes, therefore, must meet rigorous criteria. I have policies that encourage equal employment opportunities and anti-discrimination. I am also conscious of my employees having to balance their work and family responsibilities. Consequently, I use a flexitime roster, which allows an employee, within specified limits, to select the hours she will work. The benefit to the business is that I am able to retain my experienced, dedicated staff.

Interviewer: Do you have a social responsibility to the wider community?

Kristen: Definitely. The community is where my customers and I live so I must always be mindful of the business’s reputation. One of my main business goals is for cut n curl to have a good reputation within the wider community; something I feel very proud about. Consequently, I must act honestly and ethically in all my business dealings. I must also constantly monitor and evaluate how I operate the business in order to maintain this good reputation. Being a reputable business is good business, as it results in a large number of loyal, repeat customers.

Interviewer: What community organisations is your business involved with?

Kristen: I am passionate about rescuing injured wildlife and we actively support WIRES (the Wildlife Information and Rescue Service). The business also provides financial and non-financial assistance to the RSPCA Million PAWS walk, fundraising events for our local hospital such as the ‘Cut-a-thon’ festival, and each month we provide free haircuts for seriously ill, home-bound elderly people. My employees and I gain a great deal of satisfaction from being able to fulfil these activities.

TEST your understanding

1. What effect have corporate social responsibility issues had on Pennicott Wilderness Journeys’ planning?
2. Outline what Pennicott Wilderness Journeys does that makes it socially responsible.
3. Identify any other macro or operating factors that have affected Pennicott Wilderness Journeys’ planning.
4. In your own words, what do you think is meant by the term ‘corporate social responsibility’?
5. Do you consider cut n curl to be a socially responsible business? Give reasons for your answer.
6. Explain why it was important for Kristen to plan a socially responsible business.
7. Explain the benefits and costs of corporate social responsibility management practices.

APPLY your understanding

8. (a) Find two businesses that you consider are known for their socially responsible actions. Name them and explain why you think they are socially responsible.
(b) How might their actions in turn assist the business?
9. Working in a small group, copy the table on the right. In the first column, list examples of actions taken by businesses that you consider to be socially irresponsible. Complete the second column with a list of the affected stakeholders. In the third column list the possible consequences for that business. One example has been completed for you.

<table>
<thead>
<tr>
<th>Socially Irresponsible action</th>
<th>Stakeholders</th>
<th>Effects</th>
</tr>
</thead>
</table>
| Soft drink manufacturer produces an energy drink with excessive sugar and caffeine content | • retail outlets  
• consumers  
• health authorities  
• employees | • decreased orders for that manufacturer’s products  
• negative media image  
• consumers will not buy products from that manufacturer  
• loss of customers and profit  
• employee dissatisfaction |
Customers are the reason that businesses exist. They buy a business's goods or use its services, expecting high quality at competitive prices. Businesses must respond to the needs of customers, making sure that the right product is delivered at the right time. High levels of customer service result in improved customer satisfaction.

Successful business owners are aware that the consumer is a powerful stakeholder in the external environment. They will take this into account when planning their business. Today's consumers are astute, better educated and informed. They are increasingly prepared to seek compensation if they believe they have either been unfairly treated or purchased a product that did not perform as promised. For these reasons, business owners need to plan to produce high quality products. Businesses that sell products that do not live up to customer expectations are not likely to continue running for long. To ensure its future viability and profitability, a business needs to recognise and assess changes in consumer tastes so it can constantly satisfy consumers' needs and wants.

Consumers are increasingly putting pressure on businesses (through their spending decisions) to be environmentally aware, demanding products that are 'clean, green and safe'. Examples include recycling, environmentally friendly packaging, reduced packaging and lower factory emissions. An example of consumer power was the pressure put on supermarkets to replace plastic bags with reusable bags. Consumer groups are also prepared to mount publicity campaigns aimed at embarrassing those businesses that do not act ethically or responsibly. One recent example was the consumer backlash against a manufacturer of sports shoes that was perceived to be exploiting cheap labour in a developing country.

Many businesses are changing their operations in order to meet customer expectations and help protect the natural environment. As part of its corporate sustainability strategy, Virgin Australia minimises the environmental impact of its business by offering customers the opportunity to offset carbon emissions on their flight. Under this program, the customer's seat emissions are calculated and an equivalent amount of carbon offset credits are purchased, directly supporting the preservation of Tasmania’s native forests.
Customers have become more health conscious and this has also forced some businesses to change their products or practices. Today, customers expect to be able to buy products that are low in salt and fat, are free of gluten, nuts, eggs, dairy and other allergens, are GMO free, and have no artificial colouring or flavours. For example, many restaurants and cafés today offer healthy food and provide options for people with a variety of dietary requirements. Because of customer pressure, fast-food restaurants such as McDonald’s have been forced to offer customers healthier options. Many customers now demand fresh, natural and organic products. Oliver’s Real Food is a growing health food chain that was started by founder Jason Gun when he could not find any healthy food to eat while driving. He thought that other customers might be thinking the same thing and located the first Oliver’s store next to McDonald’s in Wyong, New South Wales. There are now more than 20 stores located at highway roadhouse stops in New South Wales, Victoria and Queensland, with more under development.

**Competitors**

**Competitors** are the businesses or individuals that offer rival goods or services. Not only do businesses need to be aware of existing competitors, but they also have to monitor the environment for potential newcomers. Businesses must respond to any change in the actions of competitors. For example, the launch of Virgin Blue airline caused Qantas to significantly alter the operation of its business — new marketing approaches were adopted, discount airline Jetstar was established, cost-cutting measures were implemented, discount fares and travel packages were redesigned, and customer loyalty was rewarded in frequent flyer points. The actions of competitors have been crucial in driving change in the airline industry, as the newer airlines attempt to take a profitable market share from the existing airlines.

In 2008, Unilever supported Greenpeace International’s call to stop rainforest destruction caused by a global demand for palm oil by committing to buy palm oil from sources that are certified as sustainable. Unilever owns many well-known home and personal care product brands (e.g. Dove, Impulse, and Omo) and food and beverage product brands (e.g. Flora, Lipton and Streets). Palm oil is used in many of Unilever’s best-selling products, such as Dove body care products and Flora margarine. Unilever is the largest single buyer of palm oil in the world.

Competitors are other businesses or individuals who offer rival, or competing, goods or services to the ones offered by the business.

Netflix has disrupted the media industry, resulting in the demise of competitors such as Blockbuster. However, by providing customers with the convenience of a wide selection of high quality streamed media at a low price, the company appealed to a mass market. Netflix now serves over 190 countries, with more than 75 million subscribers, and earns billions of dollars in revenue.
The free-to-air commercial television networks have also faced increasing competition from pay television, which took away some of the networks’ market share. As a result, the networks’ advertising revenue has fallen. In response, the networks needed to modify their business practices in relation to their clients: the advertisers. Now, providers of streaming movies and TV series, such as Netflix, threaten both the television networks and pay television companies. In response to this new threat, Foxtel launched online streaming company Presto, which is now jointly owned with Seven West Media, and Nine Entertainment Co. has partnered with Fairfax Media to introduce Stan.

Occasionally, competition can be reduced through the takeover of a competitor. For example, Qantas bought rival airline Impulse in June 2001. FedEx acquired rival courier group TNT Express in 2016, meaning that it will be more competitive globally against other logistics companies such as Deutsche Post, the US Postal Service and UPS. However, this takeover creates new challenges for its competitors in Australia, such as Australia Post and Toll Holdings.

From a planning point of view, the awareness of competition can stimulate the necessity for efficiency in production. To achieve a sustainable competitive advantage over competitors the business owner will need to plan to produce a high quality good or service at the lowest cost.
Suppliers

A business’s **suppliers** provide the resources that are needed for use in the production process. Examples of such resources are raw materials, equipment, machinery, finance and information. Suppliers may be individuals or other businesses. Good relations with suppliers are important to guarantee the efficient running of the business. Usually, businesses prefer to have a number of suppliers. This arrangement means they are less vulnerable to supply difficulties and the impact of price rises. Consequently, it is important for any business to develop a reliable network of suppliers. For a business to rely on just one supplier puts it at a distinct disadvantage.

The supply chain

A **supply chain** is the network of suppliers from which the business purchases resources. It typically starts with the sourcing of natural resources, followed by manufacturing activities such as component construction and assembly. The supply chain moves on to storage facilities before reaching the consumer. It is from this range of suppliers that the business purchases the necessary resources. The supply chain needs to be well managed because production of the business’s good or service depends on resources. Supply chain management is critical for the following reasons:

- If resources required are not on hand, then nothing can be produced.
- If resources are of inferior quality, it is difficult or costly to produce quality products.
- If the right quantities of resources are not available, the business cannot meet demand for its products.

Sustainability and the supply chain

When in the planning stage, a business must consider where the resources it obtains for production are sourced and how they reach the business. In doing so, the business

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**Gloria Jean’s Coffees** ensures that it purchases resources from suppliers that look after their employees and the environment. Its coffees contain a percentage of beans from farms that have been certified by the Rainforest Alliance. The company’s coffee beans are sourced from all over the world and from farms of a variety of types and sizes — large plantations, cooperative groups and tiny family farms.
owner must not only assess the location of the business in terms of distance to suppliers, but also consider the efficiency of delivery, the rate that stock is used, consistency in quality, and pricing and comparisons with other suppliers of similar products, to identify whether they can better meet the business’s needs. In recent years, many businesses have had to come to terms with developing more sustainable supply chains or ‘greener’ supply chains. Businesses today expect their suppliers to behave in a socially responsible manner, and believe that their relationships with suppliers also need to meet corporate social responsibility considerations.

**Special interest groups**

The operating environment is affected and influenced by a number of associations, organisations and interest groups. These special interest groups are groups of people who attempt to convince a business to change or adopt particular policies or procedures. Some common groups that attempt to influence business decision-making and planning are:

- **specific issue groups.** These are formed to focus on one specific area, such as youth unemployment, civil liberties, anti-globalisation or environmental protection. Miners such as Rio Tinto and BHP Billiton, for example, often receive criticism from environmental lobby groups over their mining activities. The companies respond by undertaking environmental impact studies and rehabilitation works, which affects their business planning.

- **business associations.** These are organisations that support businesses through the provision of training and education programs, advice and information. For example, the nation’s largest and most representative business association, the Australian Chamber of Commerce and Industry (ACCI), speaks on behalf of Australian businesses at both national and international levels. The ACCI publishes and distributes research and reports on a range of issues that may be relevant to planning a business. Family Business Australia represents family businesses and the Small Business Association of Australia speaks for small businesses; both provide resources and professional development for member businesses.
• unions. Employees may choose to join a union in an attempt to improve their pay and working conditions. Unions represent employees in many workplaces in Australia. They will often be called to represent their members in the development of new or changed employee agreements, with the aim of getting the best possible deal for their employees. Unions work to prevent anything that diminishes employee rights, safety or conditions. Business planning may be affected by these considerations.

• consumer groups. These are lobby groups that monitor a business’s performance in terms of its product safety, packaging, pricing and advertising. Australia’s leading consumer advocacy group is CHOICE.

TEST your understanding
1 Explain why businesses need suppliers.
2 Define the term ‘supply chain’.
3 Why is it vital that the supply chain be well coordinated?
4 Explain what a special interest group is.
5 Summarise the types of special interest groups and their influence on business planning by completing the table below.

<table>
<thead>
<tr>
<th>Special interest group</th>
<th>Interest</th>
<th>Effect on business planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific issue groups, such as environmental lobby groups</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business associations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer groups</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

APPLY your understanding
6 Josie is planning a new business that will sell a range of clothing online as well as to several large retailers in Australia. She intends for the clothing to be manufactured in China. Make some suggestions regarding what she will need to consider in relation to her suppliers and the supply chain.

7 To find out how a large business deals with supply chain management use the Woolworths supply chain weblink in your eBookPLUS to answer the following questions.

(a) From how many countries does Woolworths buy resources?
(b) How does the company ensure that its suppliers uphold human rights, labour standards, conservation of the environment and anti-corruption compliance?

8 Form a group and use the internet to research a special interest group of your choice. Find out who or what the group represents and how it influences business planning. Report your findings back to the class.

Weblink
Woolworths supply chain
**APPLY YOUR SKILLS**  Effect of external environments

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

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**DID YOU KNOW?**

Dr Cyril P Callister invented Vegemite in the 1920s, after he was employed by the Fred Walker Company and given the task of developing a yeast extract. The spreadable paste was called Vegemite after a national competition asked the Australian public to officially name the product. Poor sales and competition from Marmite, a thick, dark English spread, resulted in a change to Parwill. The name did not take off and the original Vegemite name eventually returned. The Fred Walker Company later became the Kraft Food Company. American confectionery, food and beverage company, Mondelez International, now owns Vegemite.

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**Consumer power**

Introducing a new product and then asking customers to choose its name must have sounded like a great idea at the time. It became a classic case of consumer power, however, and a marketing disaster for Kraft Foods in 2009. Kraft was preparing to launch its first new Vegemite product in 85 years, a ‘smooth velvety version of the original’. Kraft decided to hold an Australia-wide competition to name the new product.

According to Kraft Foods Australia/New Zealand’s Simon Talbot, ‘The new Vegemite experience is based on learnings we gathered from more than 300 000 Australians’. These people were involved in a How Do You Like Your Vegemite census that was run by Kraft. ‘They told us that they wanted a Vegemite that doesn’t require combining it with butter, and one that’s easier to spread,’ he said.

Kraft claimed that the cheese-blend experiment was forced on them after sales of the original Vegemite dropped among new Australians. This was picked up by Kraft in 2006. Vegemite’s makers knew that they could not modify their original product, as Coca-Cola did unsuccessfully in the 1980s with New Coke. With almost a quarter of the population comprising people born overseas, they knew that they would need to do something to halt these losses. After their online market research campaign, Kraft decided that customers wanted something that was easy to eat on the go and could also be used as a dip or spread straight from the jar and eaten on its own.

The new Vegemite arrived in stores across Australia in July 2009, and consumers were invited to name the product through a website. While they waited for the new name, the new jars of Vegemite were branded ‘Name Me’.

By holding the national competition, Kraft had virtually tried to recreate the way in which Vegemite was originally named. A competition in the 1920s uncovered the name, which was later changed to Parwill. Poor sales led to the return of the original name, Vegemite.

The modern public relations campaign resulted in almost 50 000 suggestions being made by Vegemite fans. The announcement was made in September, at quarter time during the 2009 AFL Grand Final at the MCG. The new name was iSnack 2.0, chosen by a 27-year-old father of two from Western Australia.

As soon as Kraft announced the new name, it was met with widespread disapproval by customers. Video clips denouncing iSnack 2.0 on YouTube were viewed tens of thousands of times and Facebook groups, such as Australia Says No to iSnack 2.0, were formed specifically for the purpose of getting Kraft to abandon the name. Thousands of comments were posted on Twitter and a website, Names That Are Better Than iSnack 2.0, was also created.

While he acknowledged that the name was dividing Vegemite consumers, Simon Talbot said that it was generally older consumers who were feeling negative. ‘Kraft has shipped its 3 millionth jar since the competition’s launch in July’, he said, ‘so the product is proving more popular than the name’.

But he and Kraft were open to the possibility of changing the new name. ‘I can’t say that we are not changing it. All I can say is that we are listening to consumers and, yes, there are some strong feelings towards it. It has taken us by surprise.’

Nick Foley, managing director of brand consultancy Landor Associates, said the plan for asking customers to come up with a name was excellent, but at the end of the day the new name had failed. ‘They are taking the “i” that is associated with the iPod and 2.0, which is a term for the web. So what does any of that have to do with a food product?’

Some claimed that the naming exercise was purely for publicity. Paul Harrison, a marketing lecturer at Deakin Business School, said the new Vegemite product was acquiring valuable...
awareness and a ‘daggy name’ hardly mattered if people liked the product. ‘I remember people questioned what Tim Tam meant when that was launched … it takes time for a brand name to be accepted.’

It became abundantly clear to Kraft that Australian consumers did not like the new name. In October 2009, only days after it was launched, Kraft gave in to the public backlash. It announced that ‘Vegemite Cheesybite’ would take the place of iSnack2.0 as the name for the new Vegemite product. This was in response to the votes of more than 30 000 Australians and New Zealanders who were polled online and by telephone. Customers had been asked to choose from the six most popular names from the original competition. Kraft also made it known that the original Vegemite would remain unchanged.

‘We have been overwhelmed by the response of the Australian public; it has been an insightful debate,’ said Simon Talbot. ‘Australians have now selected a popular name for a successful product.’

‘All I can say is that we are listening to consumers …’

**TEST your understanding**

1. Briefly, outline the pressures that Kraft was responding to when they decided to develop a new Vegemite product.
2. How did Kraft find out what customers wanted in a new Vegemite product?
3. What was the connection between the naming of the new product and the original Vegemite?
4. Identify the market(s) that Vegemite was trying to tap into with the name iSnack 2.0.
5. How did Kraft find out about customer perceptions of the name iSnack 2.0?
6. Why do you think the name iSnack 2.0 failed?
7. After reading this article, what conclusions can you make about the importance of considering customer needs during the planning stage?

**APPLY your understanding**

8. Use the Coca-Cola weblink in your eBookPLUS to find out about New Coke, which Coca-Cola introduced in 1985. Answer the following questions.

(a) What was New Coke?
(b) In response to what pressure did Coca-Cola introduce New Coke?
(c) Outline why Coca-Cola thought New Coke would be successful.
(d) What did customers think about the new product, when they heard about New Coke?
(e) Explain how Coca-Cola reacted to consumer pressure.

9. Customers are the most important external influence on a business. What do you think? Discuss this statement, keeping in mind that there are other external factors, including competitors, suppliers, technology, legal, political and economic.
SUMMARY

Factors within the external (macro and operating) environment and internal environment that affect business planning

- The external environment is made up of the macro environment and the operating environment.
- The macro environment consists of factors outside the business, over which the business has no control, such as legal, political, social, economic, technological, global and corporate social responsibility factors.
- The operating environment consists of factors outside the business, over which the business has little control, including customers, competitors, suppliers and special interest groups.
- The internal environment consists of factors inside the business such as employees and managers, location and legal business structures.
- The internal environment to some extent is influenced by the external environment. Both will have an effect on the decisions made when planning a business.

Macro factors affecting business planning

KEY LEGAL AND GOVERNMENT REGULATIONS
- There are many laws and regulations that business owners need to ensure during the planning stage their business will comply with. Some important ones include business name registration, company registration, local government regulations (including zoning and health regulations), employment regulations (including anti-discrimination regulations and work health and safety regulations), trade practices and consumer protection laws, and environmental protection regulations.

SOCIETAL ATTITUDES AND BEHAVIOUR
- When planning a business, changing social values, beliefs and trends will need to be considered.
- Social values and beliefs are the shared principles and morals of a group of people or society, including the need to protect the environment and the expectation that businesses will contribute positively to society.
- A trend is the general direction in which people’s attitudes or behaviour in society is developing or changing, including demographics and family-friendly workplaces.

ECONOMIC CONDITIONS
- The state of the economy needs to be considered when planning a business.
- Economic factors such as interest rates, tax rates, business and consumer confidence levels all have an effect on decisions made by business owners during the planning stage.

TECHNOLOGICAL ISSUES
- Technological issues refer to the issues relating to the growing use of tools, techniques or systems by businesses to solve problems or serve a purpose.
- Technological issues, including changing markets and technological development, need to be considered when planning a business.

GLOBAL ISSUES
- Globalisation is the effect of hi-tech communications, lower transport costs and unrestricted trade and financial flows, which have transformed the world into a single market, producing a more integrated global economic system. Globalisation means businesses now operate in a worldwide market.
- During the planning stage of a business global issues including overseas competitors and markets, offshoring labour, exchange rates, protection of intellectual property (patenting, copyrights and trademarks) at a global level and online sales must be considered.

CORPORATE SOCIAL RESPONSIBILITY
- Corporate social responsibility refers to managing a business in such a way that the broader social welfare of the community, including its employees, customers, suppliers and the environment, is taken into consideration when making business decisions.
- When planning a business, corporate social responsibility issues will need to be considered. These issues include environmental considerations and planning the production of goods and services that are in society’s best interests.
- Corporate social responsibility management practices have benefits and costs.
Operating factors that affect business planning

CUSTOMER NEEDS AND EXPECTATIONS
• Customers are the people who purchase goods and services from the business, expecting high quality at competitive prices.
• The needs and expectations of customers, including that businesses be socially responsible, need to be considered when planning a business.

COMPETITORS’ BEHAVIOUR
• Competitors are other businesses or individuals that offer rival, or competing, goods or services to the ones offered by the business.
• When in the planning stage business owners need to be aware of existing competitors, and also monitor the environment for potential newcomers.

SUPPLIERS AND THE SUPPLY CHAIN
• Suppliers are the businesses or individuals that supply the materials and other resources that the business needs to conduct its operations.
• A supply chain is the range of suppliers from which the business purchases materials and resources.
• When in the planning stage, the resources required for a business and where these resources are sourced and how they reach the business needs to be considered.

SPECIAL INTEREST GROUPS
• Special interest groups attempt to directly influence or persuade a business to adopt particular policies or procedures.
• Special interest groups include specific issue groups (such as youth unemployment, civil liberties, anti-globalisation or environmental lobby groups), business associations, unions and consumer groups.

REVIEW QUESTIONS

TEST your understanding
1. What is meant by the term ‘planning’?
2. Distinguish between the internal environment and the external environment.
3. Identify one similarity and one difference between the operating environment and the macro environment.
4. In what way does the external environment influence the internal environment?
5. Identify and explain three areas of legislation or government regulation that the business owner must consider when planning a business.
6. Why do businesses need to comply with legislation and government regulations?
7. Explain why businesses need to consider societal attitudes and behaviours during the planning stage.
8. Describe two societal attitudes or behaviours that have changed in recent times and affect business planning.
10. Explain the difference between interest rates and tax rates.
11. Define the term ‘technology’.
12. Identify two ways in which technology will change the market in the future.
13. Explain the influence of overseas competitors and overseas markets on business planning.
14. What is offshoring labour, and how does it affect business planning?
15. Why do business owners need to consider exchange rates when planning a business?
16. Describe the methods for protecting intellectual property at a global level.
17. Discuss the use of online sales by a business.
18. Explain why corporate social responsibility is an important consideration during the planning stage.
19. Outline the benefits and costs of managing a business in a socially responsible manner.
20. In regards to customers, what do businesses need to consider when planning?
22. Why is it important that the business owner be aware of where supplies are sourced and how they reach the business?
23. Identify and explain two special interest groups that must be considered by the business owner when planning a business.
**APPLY your understanding**

24 A student has prepared the following notes on the internal and external environments. After reading the notes carefully, identify three errors. Rewrite the notes correctly.

The internal and operating environments are found inside the business and the macro environment is found outside the business. Operating factors include management, employees, customers and competitors, and the business has little control over these factors. Macro factors include suppliers, specific interest groups, societal attitudes, economic conditions, legal and government regulations, and technological issues. The business has no control over these factors.

25 Compare the effects that each factor from the external environment has on decisions made when planning a business by completing the table below. The first answer has been completed for you.

<table>
<thead>
<tr>
<th>External factor</th>
<th>Effect on planning</th>
<th>Business example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal and government regulations</td>
<td>Businesses must plan to comply with legislation and government regulations, otherwise they may lose customers and their reputation, they may be fined, or lose the right to continue trading.</td>
<td>A business must plan to meet local government zoning and building regulations.</td>
</tr>
<tr>
<td>Societal attitudes and behaviour</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate social responsibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special interest groups</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

26 Analyse the key aspects of corporate social responsibility by completing the following table.

<table>
<thead>
<tr>
<th>Arguments for</th>
<th>Arguments against</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>Costs</td>
</tr>
</tbody>
</table>

27 (a) Ritva and Lisa are interested in establishing a new horticulture business. Advise them on the macro factors that may affect their business planning.

(b) Ramanan is planning a business that will supply toy trains to retailers. Advise him on the operating factors that may affect the planning stages of his business.

**SCHOOL-ASSESSED COURSEWORK**

**OUTCOME 2**

Describe the external environment of a business and explain how the macro and operating factors within it may affect business planning.
ASSESSMENT task — case study analysis

Read the following case study and then complete the questions below.

Shoes of prey

Jodie Fox loves shoes. However, she could never find the exact shoes that she wanted. Along with her ex-husband Michael and old workmate Michael Knapp, she created Shoes of Prey, an online store that allows customers to design their own shoes. Following its launch in 2009, Shoes of Prey has gone on to become a multimillion-dollar global business.

Shoes of Prey’s online store uses a unique 3D design template that allows customers to create their own shoe. Starting with a style, the customer can then design the shoe, choosing heels, fabrics and textures, colours and height. The site shows the customer a 360-degree rotating sketch so that they can get a complete view during the design process. Once the shoes are designed, they are manufactured in China and then shipped to the customer. Any shoes that are returned are sent directly to Good 360, a not-for-profit that connects businesses who have brand new, unsold goods, with charities that support Australians in need.

The company has staff permanently located in an office in China to ensure that its quality standards are maintained. Shoes of Prey truly has a global focus as it offers worldwide shipping to its customers. It operates French, German, Spanish and Japanese language sites to serve all overseas customers. The website also has a facility for changing the currency at which prices are quoted.

When planning the business, the founders sought to establish a product that was different and something that people would want to talk about. In planning Shoes of Prey, they considered who they believed their customer was, the size of the market, who their competition was, their strengths, weaknesses, opportunities and threats. The founders met with potential suppliers, researched and developed concepts for the design of the website, and determined how they would market the website.

Before the business launched, a business blog, 22michaels.com, was maintained, directing potential customers to the forthcoming website. The blog is still going and now the company also has a Twitter account and a Facebook page. ‘My favourite way of communicating with customers is on our Facebook page. We have a strong community there and it’s such a nice way to get into a conversation about shoes while getting to know our customers,’ Jodie Fox says.

Soon after the business launched, Shoes of Prey hired YouTube beauty guru Blair Flower to sample and review a pair of custom-made shoes. ‘The first day the video went live we had 200 000 people visit our website,’ says Michael Fox. The Shoes of Prey website received 500 000 hits and this translated into a 300 per cent increase in sales.

As the business has grown, Shoes of Prey has begun to focus on becoming a significant international retailer. The business has recently opened bricks and mortar stores due to customer demand. Customers wanted to see and feel the shoes real life. The company now has one store in Sydney in David Jones in the CBD, and five shop-in-shops in Nordstrom department stores across the United States. The process has been challenging because Shoes of Prey does not have the same relationships with suppliers as it does in Australia. However, Shoes of Prey’s business model has not changed. ‘We’re still doing everything on demand and we’re still customised,’ Jodie Fox says.

1. Compare the operating environment to the macro environment.
2. Describe two legal and government regulations that might affect Shoes of Prey’s planning.
3. Outline what is mean by business and consumer confidence levels and how these affect planning.
4. Explain two technological developments that Shoes of Prey considered in its planning.
5. In what ways have overseas markets impacted on Shoes of Prey’s planning?
6. Describe the strategies that Shoes of Prey has used to ensure that its product is superior to those of its competitors.
7. Identify two ways in which corporate social responsibility issues have impacted on the planning of Shoes of Prey.
8. Explain how Shoes of Prey has met the needs and expectations of its customers.
9. Outline the importance of Shoes of Prey considering suppliers and the supply chain in the planning stage.