Business Management & Enterprise Revision Notes

Unit 3 + 4

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Topic 1 – Business Environment + Strategic Alliances

Business Environment:

Business Environment – *The combination of internal & external forces acting upon a business to influence a company's operating activity*, including stakeholders to whom a business owes responsibility to. **DEFINE**

D.I.C.E:

Economic Activity: ***Link to Economic Objectives***

- Economic growth fluctuates depending on changes in a countries GDP. GDP is the final value of all goods and services produced in an economy over a year. Levels of economic activity fluctuate through various stages of the business cycle of an economy
- The level of economic activity is influenced by economic growth, inflation and unemployment.

↑ **Economic Activity:** Increase in consumption, increase in business and consumer confidence, increase in investment and hence increase in business sales and profitability.

↓ **Economic Activity:** Decrease in consumption, decrease in business and consumer confidence, decrease in investment and hence decrease in business sales and profitability.

Discretionary Spending:

- Consumption expenditure on non-necessity goods and services (Durable goods). This spending can be delayed and brought forward depending on the level of disposable income consumers have.

Impacts: Businesses that sell durable goods and luxury goods will be affected by changes in discretionary spending as if consumers save their money rather than spend this effects a business's bottom line (Profit, Revenue, Sales).

↑ Economic Activity = ↑ Discretionary Spending

↓ Economic Activity = ↓ Discretionary Spending

Effects: Disposable Income, Opp cost of savings and spending, Inflation, Confidence, Debt

Interest Rates:

- (Cost of borrowing money) The rate charged by a lender to a borrower for the provision of funds. Determined by the RBA through monetary policy.
- Interest rate reflects the opportunity cost of borrowed money, risk and cost of capital.

Impacts: The opportunity cost of money and level of interest repayments are affected. This effect's the level of business investment and consumer spending in the economy.

↑ **Interest Rates:** Increase the opportunity cost of money and interest repayments. Fall in business investment as it is more expensive to fund, and consumption expenditure falls as if will lead to a fall in disposable income as interest repayments rise.

↓ **Interest Rates:** Decrease in opportunity cost of money and interest repayments. Rise in business investment and it is cheaper to borrow money and consumption expenditure rises and value of interest repayments take up less percentage of disposable income.

Link to KPI's

Currency Fluctuations:

- Appreciation and Depreciation in the $AUD creates opportunities and threats for businesses that export their goods and businesses that import capital goods.
- Impacts business decision making if business has international operations or is a multinational corporation. Impact on cost of capital goods.

↑ **Appreciation:** Rise in the value of the $AUD. Exports become more expensive to foreigners hence leading to a decrease in sales of exports. Export prices convert to fewer $AUD which leads to lower profits. Imports are cheaper and leads to increased imports.

↓ **Depreciation:** Decrease in the value of the $AUD. Exports become cheaper for foreigners hence increased exports. Export prices convert to more $A which means higher profits. Imports are more expensive, hence decreasing imports.

Effects business costs, sales, sales quantity and profits.

Need to talk about both an increase and decrease for D.I.C.E Questions & Heavily link to case study

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Financial Institutions:

Financial Institutions:

- The term financial institutions refer to establishments that conduct financial transactions such as investments, loans and or deposits.
- The Australian financial system refers to the set of arrangements covering the borrowing and lending of funds and the transfer of ownership in Australia.
- Can either be an ***authorized or non-authorized deposit taking institution (ADI)*** as financial institutions are regulated through Australians Securities and Investment Commission (ASIC)

Banks: One type of financial institution that are authorized or licensed to provide loans and take deposits. They provide a wide range of financial services including bank overdrafts and ~~trade credit~~. **ADI**

- Eg ANZ bank
- *(use banks to finance a Bank Overdraft)*

Merchant banks: Operate in wholesale markets, borrowing and lending with large corporations and government agencies

- Eg Macquarie, Barclays
- *(use merchant banks to acquire a commercial bill to finance inventory)*

Credit Unions: Mutually owned institutions, credit unions provide deposit, personal/housing loan and payment services to members. They are non-for-profit organizations.

- Eg – CUA
- *(Use credit unions to acquire a Loan, with rates being lower)*

Finance companies: Type of financial institution that is not authorized to take deposits and instead provide capital loans to HH and small to medium sized businesses through funds raised on wholesale markets, debentures or unsecured loans provided by retail investors.

- Eg - GE Capital
- *(Raise funds from wholesale markets and using debentures, from retail investors (e.g. GE Capital Finance)*

Sources of Finance:

Purpose of Finance:

- **Capital Expenditure:** Financing for fixed assets (NCA) such as machinery. Medium-long term.
- **Revenue Expenditure:** Financing for short term liquidity problems or day to day funding such as bills.

Importance of Appropriate Balance in Finance:

- **Impacts:** Gearing, liquidity, nature of asset being funded – payback period
- **Why:** Capacity to repay, ability to raise future funds, credit rating, level of risk

Give both an internal and external + Debt/Equity

*Consider **TIME FRAME***

External Sources of Finance:

Debentures:

- Refers to the medium-term external debt-financing instrument, whereby a business raises capital from the public or other companies, at a fixed rate of interest, which must be repaid within fixed term at the end of which the issuer must repay the holder of the debenture.
- Medium term, debt finance
- Fixed interest rates, safe for borrowers
- ***Finances NCA and long-term debt (Mortgage)***
- ***Adv: Large pool of funds, flexibility, no dilution of control***
- ***D/Adv: Interest charges, increases gearing – more exposed to risk if I. R's rise***

Share Capital:

Refers to the external, equity financing instrument, whereby a company raises capital by issuing shares to the public. ***(Long Term)***

- ***Finances NCA and long term debt***
- ***ADS – Significant level of capital, no obligation to repay dividends***
- ***DISADS – Dilution of Ownership, costly to "list" Co., voting rights – diminishes control of owners***

Trade Credit:

Refers to the provision of credit by a supplier to a merchant.

- ***Short term, used for revenue expenditure, finances short term debt or CA***
- ***AD – cheap, flexible, easy, pre-approved, no dilution of control, easy to monitor (CF)***
- ***DISAD – limited pool of funds, repayment with interest, demanded repayments***

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Venture Capital: Refers to the medium term, external and equity financing instrument where a equity capital is loaned to businesses as a form of funding by private investors or specialized financial institutions. ***(Medium - Long term)*** • ***Finances NCA*** • ***AD – no interest, large source of funds, advice about stat. direction of business through expertise*** • ***DISAD – repaid with royalty, dilution of control, pressure to provide return for V.C***	**Secured Loans:** Refers to the long-term debt financing instrument provided by financial institutions, whereby businesses must secure loans with collateral. ***(Medium/Long Term, Debt finance)*** • ***Funds NCA, secured by collateral*** • ***ADS – large pool of funds, flexibility, no dilution of control, interest payments tax deductible*** • ***DISAD – interest charges (risk), collateral, credit rating*, debt restricts business op's.***
Bank Overdraft: Refers to the form of debt financing provided by banks that allows a business to overdraw its bank account to a pre-determined point. ***(Short Term, Debt finance)*** • ***Flexible, finances CA, high interest*** • ***ADS – not secured by collateral, effective for ST growth*** • ***DISADS – High Interest, hard to obtain (credit rating), repayments on demand***	**Government:** Government grants, to payments by government to assist industry. ***E.g. Subsidies (Short, Medium, Long)*** • Targeted at certain industries • ***ADS – not repayable, reduces COP, opportunity for growth*** • ***DISAD – hard to obtain, lengthy + drawn out application process, subsidies only approved for essentials (education, health)***

Internal Sources of Finance:

Retained Profits: Retained profits refer to the internal, equity source of finance that can be used in the short, medium or long term to fund business operations, which involves profits of the firm being reinvested into the business. Used for purchasing/upgrading fixed assets or used in emergencies.

- ***Advantages: No debt repayments, easily accessible + can be used in ST (e.g. emergency), no dilution of control, Low costs/gearing allows the business to grow and gain profits, Control over what the sources fund, which isn't the case with certain bank loans***
- ***Disadvantages: Limiting dividends (less attractive), slow to accumulate necessary funds to expand, Limited in availability, hence the need for additional funds acquired from borrowings, Relying heavily on owners capital may prevent the business from growing through gearing or leverage (when investments made from borrowed funds grow to be more profitable than the interest paid)***
- Other form of internal SOF include Sale of an asset or liquidating current assets.

Political / Legal Factors:

Political Stability: Refers to the ability or inability of governments to operate effectively, efficiently and free of corruption. **Indicators of Political instability: ***** • Constantly changing governments • The chronic inability to pass legislation because of hung parliaments • Questionable electoral outcomes because of a lack of transparency • Rampant corruption of political process • "politicised" in-fighting leading to the lack of a coherent policy agenda and or changes of political leadership	**Impact of Instability:** • ↑ **Costs:** Political instability can lead to increased costs as interest rates charged by lenders reflect the level of risk & insurance costs are higher to reflect risk • **Retaliations may create barriers to trade:** Tariffs • **Uncertainty:** Creates uncertainty as businesses are unsure about policy landscape and makes business planning hard • **Lower business and consumer confidence** (Due to uncertainties and risk)

Relationship of foreign governments with the Australian Government:

Benefits of Good Relationships:

- Access to markets through FTA
- Lower levels of protectionist policies such as quotas which decreases business costs
- Decreased interest rates and insurance premium due to the fact lower risk
- Increased investment options

Impacts of Poor Relationships:

- Potential of protectionism
- Increased insurance costs due to higher risk
- Increased funding costs due to higher risk
- Less FTA in place

Differences regarding competition regulation

Competition law is law that is concerned with promoting or seeking to maintain market competition by regulating anti-competitive conduct by companies and reducing monopoly power within markets.

Indicators of Poor Political Relations: ***

- Breakdown in communication between nations
- Retaliation and protectionist policies
- Removal of official ties

For example, poor political relations between Australia and China currently → Impact on Australia's trade + barriers to trade (80% Barley Tariff)

Product liability:

Product liability is an area of business law that enables consumers who have been 'injured' by a product to sue its 'manufacturer, distributor or retailer for liability. A business can be held responsible on the grounds of; failure to warn, inadequate user instructions and defective products.

Supplier Obligations:

- If product is faulty then you need to notify the commonwealth minister within 2 days
- A supplier who fails to notify the Commonwealth minister within 48 hours of becoming aware of the incident may be found guilty of a criminal offence.

Businesses need to be aware as:

- **Avoid Costs:** Product liability insurance required as litigation costs are extremely high, and cases can be drawn out.
- **Avoid:** loss of sales + market share, penalties, public image, product recalls, litigation costs
- To avoid litigation costs associated with legal proceedings.
- To enhance Customer Satisfaction
- To maintain Brand Image and public relations

ACL: The ACL aims to protect consumers and ensure fair trading in Australia.

Australian Competition & Consumer Commission (ACCC)- An governing body whose role is to enforce the Competition and Consumer Act 2010 and a range of legislation, promoting competition and fair trading.

Legal Defenses for Suppliers:

- Legal defenses available for suppliers and manufactures include that the safety defect did not exist at time of sale, good was part of another good, defect only existed because a mandatory standard was complied with.

Consumers who suffer loss or damage because of safety defects in a manufacturer's goods can:

- Make a complaint to a regulator; and
- Take the manufacturer to court. A court can award compensation to cover these losses ACL

Businesses Must:

- Recognize the automatic guarantees that consumers are entitled to
- Products must be of acceptable quality, that is, safe, lasting, with no faults, of acceptable appearance and can do all the things someone would normally expect them to do.
- Consumers are entitled to seek repair, replacement or refund.

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Patent registrations:

Intellectual Property: refers to the application of the mind to develop something new or original.

Patents: Form of Intellectual Property (IP) that give the owner the right to commercially exploit a product, method, substance or process that is innovative

- Standard Patent – 20-year protection
- Innovative Patent – 8-year protection (for new and innovative ideas that don't classify for standard patent.

- **Purpose**:
  - Gain a competitive advantage as you have sole rights to exploit the idea
  -Marketing opportunities
  -New innovation satisfies customers
  -Provide a form of protection
  -Help to recuperate R&D costs of innovation
  -Allow businesses to greater surplus profits around IP which in turn drives future investment in R&D

- Business can apply for international patent through PCT or apply to each country individually

Challenges:

- Not all countries are members of the WIPO
- 140 countries are part of the WIPO, but some may not, and have particularly loose IP laws like China.
- Costly to register in many countries
- Time consuming

WIPO - refers to the Specialized subordinate body of the United Nations responsible for the promotion of the protection of intellectual property throughout the world through cooperation among States.

Madrid Protocol - refers to the treaty concerning the international registration of a trademark. Administered by WIPO

Patent Cooperation Treaty (PCT) - refers to the international patent law treaty, ratified in 1970. Provides a procedure for filling patent application.

Steps: *1.) Decide if you have a standard patent, 2.) search for patent, 3.) apply for standard patent, 4.) publication of standard patent, 5.) Pay fee 6.) examination of standard patent 7.) acceptance and grant.*

Financial Risk in Export Markets:

Currency Fluctuations:

Appreciation and Depreciation in the $AUD creates opportunities and threats for businesses that export their goods and businesses that import capital goods

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↓ **Depreciation:** Decrease in the value of the $AUD. Exports become cheaper for foreigners hence increased exports. Export prices convert to more $A which means higher profits. Imports are more expensive, hence decreasing imports. Profit margins are affected by businesses that import goods such as machinery as the price of imports increases.

Solutions: Hedging through a forward contract, currency swap or insurance.

Non-Payment of Monies:

Refers to the situation in which an importer defaults on payments / fails to pay which are harder to recoup due to PEST factors. ACCC is out of jurisdiction hence need to have documentation and understanding of supply chains to prevent risks in an international market.

Solutions: Prepayments, credit insurance or documentary credit

Threats for businesses:

- Continual and large fluctuations effects business planning and forecasting.
- International trade deals may be postponed
- RBA may intervene to keep currency stable
- *Effects business costs, sales, sales quantity and profits.*

Strategies of Minimising Financial Risk:

Hedge: *Refers to a position taken by a business to mitigate risks.*

- **Forward Contract** – refers to an agreement that gives a company the ability to sell a quantity of some good at a set exchange rate at some future date.
- **Option** – gives the buyer the right but not the obligation to buy or sell a currency at a certain date. Option hedging is when there is an agreed exchange rate. If on day of transaction the exchange rate is more favorable they can choose to use the current rate instead.
- **Currency Swap** – refers to an agreement between two globals to exchange currencies at some date and exchange them back at a future date. Used to Mitigate exchange rate variance.

Insurance: *Refers to an agreement whereby an individual or entity receives financial protection or reimbursement against losses from an insurance company.*

Currency Insurance: Refers to Insurance taken out to protect businesses from adverse currency fluctuations.

Creditor insurance: Suitable for any business that extends credit to their overseas buyer, covers the risk of the buyer becoming insolvent or unable to pay the money owed to you

Product Liability insurance: Refers to insurance taken out to protect a business risks arising from litigation, or the cost of recall, should a product you sell be proved faulty or fail to comply with appropriate regulations

Political risk: Insurance for the risk of overseas government intervening in your investments.

Documentation: *Evidence of a transaction outlined in a contract between buyer and seller, needed to cover the transport of the goods and insurance during the journey.*

- Documentation should be used to outline the exact delivery terms being agreed upon.
- This would include where the goods will be delivered, who arranges the transport, who is responsible for the insurance of the goods and who will handle customs procedures along with duties and taxes.
- The contract should also cover payment; where the currency, amount, method and date should be outlined.

Letter of Documentary Credit: Importer's bank sends letter guaranteeing exporter payment on receipt of trade documents and goods.

- Commonly used as all risk taken by importer's bank.
- Banks charge high fee for risk undertaken. Reduced risk for exporters.

Bills of Exchange: Importer's bank transfers funds once trade documentation (bill of exchange, invoice, packing list) has been sighted. Documents prove good has been sent. Bill of exchange with up to 180 days until maturity. Risk for exporters as it takes time to receive payment, higher risk for importer.

Prepayment

Benefits:

- Minimize the risk of problems, delays and misunderstandings between the two parties.
- Reduces the risk of delays in payment from importers, and the failure of exporters to deliver

Strategic Alliances:

Strategic alliance: Market entry strategy. A legal agreement between two or more businesses to work together for mutual benefit.

- **ADV:** *Share customer base, Build greater global awareness, Lower costs, Access to channels of distribution*
- **DisADV:** *Weaknesses of partner, potential conflict, loss of control, less efficient communication*

Reasons For Strategic Alliances:	Issues with expanding overseas:
- Ensure long-term growth - Acquire resources and technology - Exploit unique technology and expertise - Find new opportunities for growth with a wider sales base - Respond to perceived demand in overseas markets, such as niche markets - Extend the life of a product	-Lack of local knowledge and experience may create problems for firms operating in new markets -Storage, transportation and distribution costs will increase which can affect profitability. -Infrastructure may be less developed, thereby effecting efficiency -Political factors from overseas markets can impact

Joint Venture: When two or more business slit the costs, risk, control and rewards of a business project. Legally binding agreement for a **period of time**. *Eg. BMW and Toyota on research*

- **ADV:** *Share expertise and skills, specialisation, cost minimisation through efficiency*
- **DisADV:** *Cultural incompatibility, differing objectives, legal obligations (Unethical practices by one will effect other business)*

Merger: Refers to **long-term** strategic alliance that involves the permanent integration and amalgamation of two (or more) businesses to form a new entity. *Eg. Disney and Pixar*

- **ADV:** *Reduced competition, economies of scale, ↑market share, ↑customer base, ↑Asset and infrastructure*
- **DisADV:** *Cultural incompatibility, rebranding, decision making control, duplication of resources*

Acquisition: Refers to the **long-term** strategic alliance form that involves one entity requiring a "majority stake" in another, through the purchasing of shares. *Eg. Disney Marvel acquisition*

- **ADV:** *Reduced competition, economies of scale, ↑market share, entry to new market, ↑Asset and infrastructure*
- **DisADV:** *Cultural incompatibility, credit issues if acquisition was financed by debt, costly, increased risk*
- **Issues:** *Resistance to change, different management practices, cultural differences, Government regulation*

Franchising: Refers to the **medium-long term** strategic alliance whereby a Franchisor, sells the sights to legally sell and or produce products and services under their business model to a Franchisee in exchange for a free or royalty payment. *Eg. McDonalds*

- **ADV:**
  Franchisor – Royalty payments, control, aggressive growth
  Franchisee – Brand recognition and value, R&D, Marketing
- **DisADV:**
  Franchisor – Potential of being tarnished by franchisees, hard to control franchisee activities
  Franchisee – Lack of control, royalty payments

Outsourcing: An agreement in which one company hires another company to be responsible for a planned or existing activity that is or could be done internally. *Eg. Alibaba outsourcing some of its operations*

- **ADV:** *Lower costs, increased productivity, increased specialisation, access to resources in which business doesn't have expertise*
- **DisADV:** *Loss of control over business processes, ethical conflictions, reliance on outsourcer*

Justification of a Strategic Alliance:
Financial Position / Cost of Project
Time Frame
Legal Structure
Purpose

Key Differentiating Points between Strategic Alliances:
Cost – Merger more expensive than JV
Time – Mergers are permanent JV's have finite life defined in the JVA
Control – Mergers share control JV controls limited to the terms of the JVA
Legal structures – JV's both companies maintain their separate legal status unlike in a merger

Table from Oscar Grants Notes:

Justification & context

	Merger	**Acquisition**	**Outsource**	**Franchise**	**Joint Venture**
Time and Expense	Long Term	Long Term	Short – Long Term	Long Term	Temporary (limited life depending on life of project)
Ability to reverse + permanent	Permanent	Permanent	Ability to reverse	Permanent	Ability to reverse
Risk	High risk	High risk	Shared Risk	Limited	Shared risk
Legal Entity	Single legal entity	Single legal entity	Separate legal entity	Separate legal entity	Separate legal entity
Control	Total control	Limited control	Shared control	Limited control; franchise is run by a new owner	Shared control
Profit Share	Share of profits	100% of Profit Share	No share of profit	Payment to establish franchise as well as royalty payments	Share in profits
Resource Share	Total share of resources	No Sharing	No sharing	Large share of resources	Total share of resources

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Rationale	Benefits	Disadvantages
Outsourcing – the act of contracting non-core activities away from internal operations allowing an external specialist party to provide the function. E.g. Unilever's IT system was sourced from Accenture	• Lower labour costs (sub-contractors, not employees) while also improving quality • Frees up management time - focus on core competencies • Specialization increases access to technology, quality of product, efficiency in + rate of production, innovation etc • Shared risk in business project	• Loss of control • Creates risk (exposing confidential data to competitors) • Language barriers
Acquisition – the process where one business permanently buys out another by purchasing a majority stake in the target company • Long-term Vodafone acquired India's Essar 2006	• Established customer base & market knowledge • Increased market share • Skip start-up process (R+D) & start up costs • Enhanced economies of scale	• Administrative burden could lead to job loss (accounting, IT, HRM) • Credit issues (difficulty to obtain borrowings from lenders, especially if acquisition was financed by debt)
Mergers – the permanent amalgamation of two or more entities • Long-term • Easy access to foreign markets India's Mittal Steel and Luxembourg's Arcelor merged in 2006 to form Arcelor-Mittal, the worlds largest steel company	• Increased Market Share, decreased competition • Wider Customer base • Access of funds/assets to facilitate business growth – economies of scale	• Duplication of labour resources Job losses (HRM etc.) • Internal politics • Different understandings of organizational cultures • Shared profits • Conflict bw parties
Joint Ventures – temporary legally binding agreement two or more businesses to work together and pool resources in the provision or service, production of a good or unique project opportunity for its life Comcast, 21st Century Fox and The Walt Disney Company created popular video streaming site "Hulu"	• High specialization in job, share skills • Same objectives which compliment each other (viability) • Access to greater resources, including specialized staff/technology (decreases costs) • Shared risk	• Different cultures, management styles and personalities might produce conflict • Differing or unclear visions regarding the objectives of venture • Each company equally responsible for claims, despite level of involvement in the activities that prompted the claim
Franchising – legally binding agreement under which a franchisee sells marketing rights or a business image/model in return for a fee or royalty payment • 25% failure rate McDonalds	Receives goodwill/association consisting of: • Well-established brand, reputation & product • Health/strong business model • Market research • IP Also, will have assistance with: • Leasing, site development, shop fitting, design/equipment purchasing, financial assistance • Education + Training for franchisee and staff (Nandos)	• Payments of royalties as well as an initial fee and ongoing fees restrict profitability • Obligation to obey strict rules/guidelines • Restricted Control - cannot introduce new products restricting /innovation/creativity

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Advantages	Disadvantages
• Wider access to customer base • Wider access to markets/labor • Local knowledge • Lower staff, infrastructure, raw materials costs • Acquisition of resources/technology	• Weaknesses of partner • Potential conflict/competitiveness • Loss of control • Less efficient communication • Culture/opinion clashes

Justification & context

	Merger	**Acquisition**	**Outsource**	**Franchise**	**Joint Venture**
Time and Expense	Long Term	Long Term	Short – Long Term	Long Term	Temporary (limited life depending on life of project)
Ability to reverse + permanent	Permanent	Permanent	Ability to reverse	Permanent	Ability to reverse
Risk	High risk	High risk	Shared Risk	Limited	Shared risk
Legal Entity	Single legal entity	Single legal entity	Separate legal entity	Separate legal entity	Separate legal entity
Control	Total control	Limited control	Shared control	Limited control; franchise is run by a new owner	Shared control
Profit Share	Share of profits	100% of Profit Share	No share of profit	Payment to establish franchise as well as royalty payments	Share in profits
Resource Share	Total share of resources	No Sharing	No sharing	Large share of resources	Total share of resources

Q's for best suiting SA

- Size & Age
- Time
- Financial Assets / Situation
- Goals
- Cost = E.O.S
- Control
- Regulations
- Nature of good & competition – Market share

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Topic 2 – Technology and Innovation

Impact of Technology:

Technology Drive Development – *advancements have driven global business development and accelerated the volume and value of trade.*

- Low costs - compared to other forms of marketing
- Higher customer/sales base – potential to reach global market
- Easy to set up
- New ways of communicating with stakeholders (e.g. Apps, teleworking, forums)

E-commerce, security and privacy issues:

E-Commerce: *Refers to the transactions of goods & services via the internet, electronic systems and computer networks.*

Security and Privacy Issues: Defined as dishonest schemes that seek to take advantage of unsuspecting people to gain a benefit

Impact on Business:

- Defamation (Reputation and loss of brand image)
- Loss of capital due to loss of potential sales
- Increased cost to fix security issues

Sources:

- **Scam** - dishonest scheme that seeks to take advantage of unsuspecting people to gain a benefit
- **Fraudulent Trade** – there is no way that a buyer can authenticate items being sold online
- **Spam** – unethical, inappropriate and unsolicited online marketing messages

How to avoid:

- Virus software and firewalls
- Regular password checks
- Cyber security expert audits
- Digital encryption of money transfers
- Protection of customer private information

Use of Technology in Global Markets:

Distribution of new products:

Product distribution is the way businesses distribute their products to their consumers in the marketplace.

- ***Costs and/or efficiencies*** (less intermediaries - breaks geographical barriers)
- **Distribution Chanel:** Internet, E-commerce have shorted **distribution channels** - they can sell straight to the consumer through online shops
- **Inventory Management** – digital inventory management systems reduce costs/delays as accuracy in procurement & inventory becomes far more efficient.
- **Tracking:** Tracking of global distribution in real time. ↑ Customer satisfaction
- Improved the time, reliability and reduced the costs of transporting resources, intermediate and final goods to the final consumer

E-commerce: Refers to trading of goods and services via the internet. This supports the selling of goods globally at low costs. **Eg.** PayPal

- **Placement** - Breaks down geographical barriers allowing businesses to sell products to consumers across the world
- **Prices:** Allows businesses to be more competitive with prices.
- **Competition:** Firms need to have a greater *marketing strategy* to stay competitive. Firms need to have a greater digital presence to remain competitive.

Social media campaigns: Social media is websites and applications that enables users to create and share content. Social media can be used for:

- Enhance brand awareness
- Creation of viral marketing
- Positive public relations
- Cheaper than ATL promotion
- Ability to market cheaply In different regions

Allows for; EOS and to create an international brand

Role of e-commerce in Global Environment:

The role of e-commerce in a global environment: • Refers to the type of business model whereby a firm or individual to conduct business over an electronic network, typically the Internet. • E-commerce operates within all business sectors; business-to-business, business to consumer, consumer to consumer and consumer to business. Transactions include purchasing, selling and exchanging of goods and services (not just purchasing).	**Role:** • *Distribution of Products* • *Customer Base* • *The internet supports business activities to operate 24/7 in a global environment* • *Access allows business to operate in a global environment on both a B2B and B2C basis.* • Improved inventory control Allows businesses to increase their profit
Advantages: • **Operational costs** are reduced by operating online • **Distribution** — the internet gives businesses another channel of distribution • **Revenue** — Serves as an additional revenue stream for businesses • **Brand Awareness** — e-commerce helps brands gain more awareness in the online landscape	**Disadvantages:** • **Internet Services:** Some countries have low speed internet connections, which limits their ability to purchase online • **Product returns:** Can be expensive (litigation costs etc.) • **International laws and regulations:** Barriers to entry and compliance costs increase expenses

Innovation:

Innovation: *Innovation is about creating something new, and improving existing systems, products and processes.* It stems from successful R&D in order to meet the changing preferences and needs of customers.	**Product Innovation**: Creation of new product or improvement of an existing one. • Aim is to *provide unique selling points, comparative advantages and reduce cost structures to increase sales or decrease expenses ultimately increasing profitability*. • Aims to differentiate product from competitors and reinvigorate a brand that has stagnated. • Eg. Macbook Air, IPhone 7 waterproof
Service Innovation: The offering of a new and improved service. • Aim is to *provide unique selling points, comparative advantages and reduce cost structures to increase sales or decrease expenses ultimately increasing profitability*. • Aim is to maximise customer satisfaction through efficiency and allow for the ability to personalize the customer experience. • (Eg. Coles shop at home)	**Process Innovation**: Improvement made to the operating and production procedures of a business. • The role of innovation in improving processes such as the production and distribution of products is to *reduce cost structures which in turn increases profitability but also in the case of distribution to enable firms to access larger customer bases hence enabling increases in sales.* • Aim is to increase efficiency in production process and reduce costs. • (Eg. Henry Ford Assembly Line)
Role / Benefits: • Creating unique selling point, Reducing costs, Comparative advantage, Efficiency, Extended product life cycle, Increased Profits	

Factors that Impact the Success of Innovation:

Timing:

- **Income:** Innovation is more likely to be successful when consumers have more discretionary income and when consumer confidence is high
- **Product life cycle** impacts success as in a growth/maturity stage there is high levels of brand awareness and company will have substantial funds.
- Depends on **Seasonal Fluctuations**
- **Competitors timeline** for the timing of event/launch of product/service (first in marketplace)
- Innovation is key to differentiation, and has to be 'rapid' as it becomes obsolete quickly (consumers are difficult to maintain due to constantly changing appetite)

Cost:

- **Appropriately Financed:** Investment in innovation (intellectual property), research and development can be significant, therefore requires appropriate financial resources; and requires appropriate human resources in terms of skill and volume
- **Expensive:** Need for investment and research and development is highly expensive and requires sufficient labour and financial resources
- **Success of Innovation:** Innovation may take time to be profitable and may not be profitable
- **Bear Costs:** Company must bear costs until innovation makes income therefore there is an opportunity cost of the money spent.
- Government policy towards grants and tax offsets reducing cost of R+D will influence decisions regarding innovation

Marketing strategy:

- Pricing impacts the successfulness of an innovation
- Consumer Demand (Living Standard)
- Cultural consideration
- Social media tools are fast and efficient to reach target market
- Promotion: ATL or BTL marketing

Technology:

- **Digital Distribution:** Technology such as the digital distribution of products may make it easier and more cost effective for consumers to buy an innovation.
- **Investment in Technology:** Impact in terms of the level of investment required for innovative technology/equipment to support the innovation
- Keeping up to date to ensure that efficiency and innovation is at its highest

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Benefits of Innovation:

Financial gain

- ↑ **Market Share:** Innovation may lead to increased income or a new source through the creation of a new market or capture of more market share
- Innovation may also prolong the **product life cycle**
- **Efficiency Gains:** Process innovation e.g. productivity gains which leads to decreased costs
- **USP:** Through the creation of unique selling point
- Create **competitive advantage**
- Innovation may allow for **EOS**

Expansion of global market presence

- Innovation can be a driver of business growth, can lead to expansion opportunities through franchising and licensing
- Innovation can give a business a **competitive edge** over its foreign rivals
- **Technology** such as e-commerce makes global expansion possible
- The development of E-commerce has enabled business to shorten their channel of distribution and consequently enter markets where there have previously been barriers to entry.
- If intellectual property is protected this can provide a competitive advantage

Increased market share

Innovation may result in a new product or service that captures market share or creates a new market.

- Product innovation may create a better way to interact with customers such as social media.
- **Competitive advantage** by creating a unique selling point, or innovative production process that drives efficiency/productivity. No competition if they are able to use IP to insulate themselves.
- **Brings with it economic benefits** - bulk buying power, economics of scale & sales, profitability, price determination
- **USP:** By producing an innovative product, businesses can create USP's, yielding a competitive advantage and most likely encouraging brand switching, increasing market share over competitors
- **Efficiency:** Innovative processes enable business to free up working capital as production has become more efficient (potentially could then divert resources into expanding operations into new markets, grasping more market share

Limitation of Innovation:

- High Costs
- High Failure Rate
- Budgetary Constraints

Role of Government:

- Helps to create conditions for innovating by managing economy responsibly
- Maintains pro-business operating environment
- Supporting business innovation

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Topic 3 – Globalisation

Factors driving global business development:

Global Business Development: Advancements in Information and communication technology, economic integration, e-commerce and trade liberalization have together contributed to a global shift in consumption patterns, tastes, preferences and migration

Trade Liberation: The removal or reduction of barriers on the free exchange of goods between nations.

- Globalisation has led to the deregulation of trade to the introduction of FTA
- Trade laterization has led to Australia being a global economy depending on international trades

Deregulation of the Financial Market – Revision, reduction, or elimination of laws and regulations that hinder the cross-border movement of finance caused by borrowing and the sale of assets.

- Eg) Floating of AUD, independence of MP, independence of RBA from federal government.
- Deregulation can make it easier for companies to secure loans for expansion and reduce barriers to enter markets as financial institutions compete with interest rates, services and fees.

Consumer purchasing and spending patterns:

Refers to the ways in which consumers spend their disposable income on goods and services.

As consumers income rising they have the ability to spend more in global markets providing opportunities to businesses to grow by expanding to international markets. This is due to;

- **Multicultural**: more interested in foreign products. Increased understanding, acceptance and diversification of cultures, means consumers globally have increasingly similar tastes
- **Greater choice** – not limited by location
- Consumer confidence in purchasing overseas

- **Ease and availability of technology to assist in product purchase**, eg) connected through laptop
- **Removal of government controls and regulations and increase in international cooperation**
  - Decline in protectionism such as tariffs and licensing and exchange controls (decrease compliance costs & increase profitability - incentive)
- **Consumers are far more confident in purchasing overseas** – Security measures & growing Asian middle class looking to become 'westernised'

Financial growth opportunities and/or loss minimisation:

- **Increased Customer Base**: Allows businesses to increase their sales turnover by expanding internationally as a result of increased market size.
- **Cheaper Production Costs**: By expanding oversees businesses can take advantage of outsourcing.
- **Economies of Scale:** As production levels increase, businesses may locate overseas to capitalize upon a host country's infrastructure, (such as its road, telecommunications and port networks.)

- **Mitigating Risk / Diversification:** Unfavorable market conditions in one country doesn't mean that it will damage the overall business if it can effectively spread risk internationally. Globalisation allows businesses to hedge against seasonal differences. Over specialization in one region can dent profits in the event of an exogenous shock.
- **Avoiding Protectionist Policies:** MNC's can also avoid any protectionist policies by moving overseas, that otherwise would impact upon the margins and demand for the product. e.g Tariffs, Quotas, Restrictions. Green tape (environmental restrictions) may be avoided and companies can exploit differences in taxation structures

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World Trade Organisation (WTO) regulations and sanctions

- The **World Trade Organization** refers to the intergovernmental organization charged with regulating global trade between nations.
- It has 164 member countries
- Member countries have access to the WTO's experts whether that be economists, lawyers, statisticians or communications experts, which can help effectively facilitate trade agreements.

- **WTO aims to maintain safe global trade where countries can trade with clear rules, standards and ways to resolve disputes.**

- **Role of WTO:**
  1.) Deals with rules of trading between countries
  2.) Aims to build trade capacity of developing countries

- The WTO negotiates, implements and monitors relationships to assist trade relationships and assists with disputes giving companies security and faith in contract negotiations.

Under WTO Rules FTA must:

- Eliminate tariffs and other restrictions on trading
- Eliminate discrimination against service suppliers
- Simplify customs procedures, trade regulations and other measures

Impact of the WTO

- **Incentivized trade** - provided body for dispute resolution
- **Set up legislative framework between nations**
- **Effective in enforcing trade rules and mediating between countries through periodic scrutiny**
- **Educating world leaders** through providing technical assistance and training for developing countries in particular – facilitating increased levels of outsourcing and economic integration.
- **Removal of trade barriers enabling consumers to purchase goods internationally** and increasing exporter and importer activity in domestic markets

Impact of Globalisation:

Globalisation: The growing interdependence among nations and encompasses a range of areas such as trade, investment and technology.

Negatives of Globalisation:

- Free trade creates vulnerable countries that do not have protection for local businesses and workers
- **Widens gap between the rich and the poor**
- International countries may **exploit** the lack of environmental protection in some countries
- **Transfer pricing leads to loss of tax revenue**
- **Increased structural UE**
- Economics growth must be achieved sustainably

Benefits of Globalisation:

- **Creates employment and investment** in developing countries and increased revenue for governments
- Creates a platform and **international relationships**
- **Promotes competition between companies**
- **Improves living standards** and the quality and growth of education and training
- **Innovative new goods and services have flow on benefits for business and consumers**
- Increase in government expenditure + exports have positive multiplier effect through economy
- **Innovation requires employment**
- Innovation and R+D improves Australia's productive capacity

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Employment levels in developing countries and in developed countries:

1.) Developed economies

- **Job creation** in industries which have expanded due to greater export opportunities (due to FTA's and global integration) e.g mining, tourism, education. This is concentrated in areas of comparative advantage.
- **Structural unemployment** due to skills miss-match in the short run
- **Increased specialization** in higher value added industries; financial services, bio-medical technologies etc. have driven up wages for highly skilled workers.
- **Increased labour force mobility** - increasing opportunities to'fly-in-out', migrate and e-work technologies (sell their skills in global markets)
- **Loss of jobs** to low wage developing economies. (process of outsourcing to nations with lower wage restrictions, increased labour force competition) to countries with comparative advantage.

Developed Country: An industrialized country or a more economically developed country that has advanced technological infrastructure relative to other nations.

Developing Country: A nation with a developing economy which may have a lower per capita income levels, lack infrastructure and have unstable political / financial environments.

2.) Developing economies

- **Job creation** - in developing economies due to low labour costs (outsourcing).
- **Increasing export opportunities** has driven upward profitability in key industries which in turn has led to higher wage growth and job creation
- **Worker Exploitation** in under-regulated labour markets eg. NAFTA — Mexico workers in clothing & textiles industry.
- **Share of skills** – Local workers will learn skills from jobs created by MNC's and have access to technology

Global spread of skills and technology:

Globalisation and regulations such as international patents spreads technology, innovation and business models.

- FDI becomes invested in new export opportunities by MNC's
- FDI leads to the spread of new technology being imported to improve production
- Managers from overseas share their skills and expertise with local workers
- Leads to improved productivity, decreased costs, increased profits

Skills

- **Increased demand for skills in areas of specialization** e.g tertiary + primary sector activity
- **Increase demand for higher levels of education**/skills by MNCs who also provide funds for increased training and development.
- **Larger pools of labour**, decreased transportation costs and freer movement of people has increased the migration of skilled workers.
- **Foreign direct investment leads to greater transfer of knowledge**, skills and management practices, which in turn enhances productivity. FDI has increased dramatically with globalisation. (this is the main thing)

Technology

- **Higher levels of capital intensity** in production and technological uptake needed to remain competitive in a global environment.
- Access to FDI, and foreign debt has allowed for increased investment in technology, particularly in the mining sector hence proliferating these advancements and ↓ costs.
- ICT advancements have changed consumption patterns as consumers now **use e-commerce to buy online**.
- **An increased rates of identity theft and digital fraud**
- **Companies take innovation to low cost countries**

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Tax minimization – tax havens and transfer pricing:	**Process of Tax Minimisation:**
○ **Tax haven:** a nation that has a very low or nil tax rate with the intention to attract FDI. These nations do not permit other governments to access their financial and banking information. EG) Ireland. ○ **Transfer pricing:** A practice where profits are relocated within a company from a high taxing economy to a low taxing economy to avoid paying tax. ○ ****Example –** Starbucks used transfer pricing through transferring money and paying high interest rates to borrow from other parts of the business. They had made $400M in UK but paid no company tax.	**1.** Economies with low standard of living set low tax rates in order to attract foreign investment, as a means to stimulate the bearish economies (Ireland) **2.** Big companies establish false facade businesses (shell company) in these countries in order to capitalize on these low tax rates **3.** They divert revenues offshore through licensing payments and/or royalties. **4.** Their balance sheets therefore make it appear as if they're making less **5.** Their tax obligations are significantly reduced as a result
How globalisation has impacted Transfer Pricing: ○ Technological advancements and decreases in protectionism have facilitate redirection of profits / ability to establish production facilities in low taxing economies (tax havens) ○ **Deregulation of financial markets** – more easily transfers monies to subsidiaries across the globe ○ **Payment advancements** such as EFT, E-commerce have also enabled this whilst communication technology advancements (eg. Skype) have enabled freer communication to coordinate this transfer pricing. ○ Technologies such as the internet, skype and email have facilitated transfer pricing and tax haven	**Impacts of Tax Havens:** ● **Tax Revenue** — The opportunity cost of avoiding tax payments is that there is a smaller tax-revenue base for governments to fund public services and provide social security. ● **Market Failure** — By denying some countries tax revenue, governments may need to raise other taxes, or borrow (which may increase debt burdens), or simply reduce their spending. Thus it can cause **market failure**, as consumer surplus isn't being maximized. ● **Domestic Business** — Provided unfair advantage to MNC's who compete with domestic companies as their tax obligations are less, and therefore their cost of production is reduced, allowing them to charge lower prices. ● **Employment** - increases employment opportunities and generates individual income tax revenue.
Impact on Australian Economy: ● Loss of domestic tax revenue ● Provides unfair advantage to MNC's who compete with domestic companies ● Tax avoidance undermines the existence of the tax system ● Tax avoidance puts stain on the government public system	
International cooperation: ● Governments cooperate internationally through FTA, WTO ● Cooperation is key in resolving conflict, humanitarian crises, and recovery ● Dynamic gain of increased globalisation is the **peace dividend**, economies are economically interdependent upon one another and thus the chance of them **engaging in conflict is reduced**, due to the major ramifications such conflict would have economically. This is evidenced with the 2015 Chafta agreement.	**Impacts:** ● **FTAs (ASEAN, APEC):** Foreign investment builds Australia's productive capacity, facilitates business development - creates employment, Increased Tax Receipts - redistribute wealth to other industries, Increased demand in factor markets ● **Encourages freer trade between participating members**: Creates foreign investment, Technological advancements make communications with stakeholders easier ● **World Trade Organization and G20** ● **Reduced Economic Barriers**: Increased competition

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Domestic market:

Impact on the Australian Economy

- **Economic Growth**
  - Ever since the deregulation of FDI in Australia, the country has seen an unprecedented level of economic growth.
- **Productivity Growth**
  - Globalization has fostered a more competitive business climate, which has meant that stagnant and inefficient firms are finding it more hard to survive.
  - Firms are needing to minimize their unit of cost of production, which has lead to a greater demand for skilled labour and new technology, in order to maximize capital per hour worked.
- **Trade Liberalisation**
  - Increased global cooperation has lead to the reduction in barriers to trade, which has seen a dramatic rise in export growth over the past two decades.
- **Innovation + R&D**
  - Firms with the assistance of the government are investing more and more into the advancement of products/processes in order to have a presence on the world stage.

Positive Impacts on Domestic Markets:

- **Increase export opportunities**
- **Increased Productivity** – access to FDI, foreign debt, cheaper imported products and increased specialization according to comparative advantage.
- **Increase in innovation** builds national supply capacity (long-term growth)
- **Economic Growth** – investment in particular, economics of scale, foreign debt fuel increased

Negative Impacts on Domestic Markets:

- **Structural Unemployment**: Loss of jobs in low skills, inefficient and low value-added industries. Outsourcing business operations leads to job loss
- **Deregulated financial markets**: Increase the flow of speculative capital in and out of the Australian economy (housing, shares and $A), this can lead to an increase 'shocks' or volatility in equity markets.
- **Increased domestic economic instability**: More susceptible to international trade cycles due to increased levels of trade intensity and trade openness.
- **Environmental damage**: Increased demand in factor markets leads to increased environmental degredation and resource depletion that may not be sustainable.

Benefits of Home Grown / Developed Products:

- **Employment Levels** – rather than outsourcing this provides domestic incomes, multiplier effects in the economy.
- **Export Incomes** – builds export income, injections into the circular flow model and hence increased levels of economic growth.
- **Productive Capacity** – leads to capital investment and the development of production facilities that increased output and export volumes (eg. Mining)
- **Taxation Revenue** – increased levels of income and company taxation which can be reinvested to enhance economic growth etc.

New products require significant research and development:

- R+D spending creates incomes + jobs directly and indirectly
- Innovative new goods and services have flow on benefits for the business + consumers which use them
- Innovative firms generate greater profits
- Resilience comes from developing unique goods and services which give businesses new revenue streams and help maintain competitive advantage in markets.

Production & Sale:

- Increased **sales and profits** for domestic businesses
- Higher **tax revenue** for state and federal government
- Increase in **government expenditure has positive multiplier effects** throughout the economy
- **Government re-invest taxation** revenue in public infrastructure

Innovation:

- Innovative **new goods and services** created in Australia create lucrative new export opportunities for businesses
- **Employment opportunities** leads to higher incomes leads to higher standards of living and more tax paid
- Improves **productive capacity** Leads to increased efficiency, lower costs, promotes and contributes to economic growth.
- Spending by domestic firms have **positive multiplier effects** throughout the supply chain in Australia

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Incentives for International Trade:

State and Federal Governments encourage international trade by providing support and incentives to Australian businesses in addition to negotiating trade agreements.

Incentives for Government:

- **More efficient allocation of resources** – according to comparative advantage, leads to increased levels of specialization, economics of scale.
- **The Peace Dividend** – mutual reliance upon other countries with comparative advantage in different g/s leads to increased interdependence that reduces the possibility of conflict due to dramatic impact the disruption of these supply and distribution channels would have on the economy.
- **Productivity** – access to cheaper imported products, skills transfer and knowledge transfer leads to improved human capital and efficiency
- **Increased Tax Collection** – company tax, incomes (due to injections of NE, investment).

Incentives for Businesses:

- **Cheaper Imported Products** – increased standard of living and reduced intermediate good import costs, which increases efficiency, reducing costs and enhancing profitability.
- **Enables Specialization and Trade** – Australia has been an exporter of primary commodities such as minerals and agricultural products and an importer of manufactured goods and financial capital for economic growth. Greater specialization, EOS which reduce costs and hence increase profitability whilst also
- **Customer Bases** – access to larger customer bases (increased sales) whilst also leading to increased EOS.
- **Diversification** – balance domestic cyclical and seasonal fluctuations with facilitates across the globe.

Disadvantages – competition, instability to global trade cycles, may lead to a reduction in market share and hence price determination.

Negatives of International Trade:

- **Bad Behavior by MNC's** – exploitation of workers, transfer pricing and tax havens
- **Environmental Damage** – demand in factor markets, resource depletion, waste disposal, pollution and other negative externalities.
- **Domestic Instability** – trade cycles, build up of foreign liabilities, reduced economic sovereignty.

Reasons for International Trade:

- Access to larger markets through larger sales base + Increased sales and profitability
- Uneven distribution of Economic Resources
- Competitive Advantage

Impacts of Taxation:

The term taxation refers to the compulsory contribution of income to state revenue.

- **Tax liabilities create a legal obligation** to be paid yearly and therefore **influence cash flow and liquidity**
- Tax impacts on the **business' competitiveness** (cost push inflation)
- Tax rates impact on the financial viability of projects creating impediments or incentives for business investment

Tax Break Incentives:

- Tax reductions increase profitability by reducing expenses
- Tax breaks an subsidize costs for R&D innovation spending providing longer term advantages
- By increasing profitability, savings can be passed onto consumers through lower prices
- Taxable losses can be claimed against future revenue reducing risk
- Tax reductions increase international competitiveness

Examples: R+D tax incentive scheme.

- Aims to promote a greater level of innovation in Australia by offsetting some of the expenses of undertaking R&D.
- Assuming that all firms are conducting eligible R&D the program is open to firms in all sectors, in which companies may receive a 40-45% refundable tax offset depending on their aggregated turnover.

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Impacts of Government Grants:

Refers to payments by government to assist companies giving them financial advantage over competitors. As it is not debt or equity finance there are reduced financial risks.

- Grants can be used to subsidize costs, and this can be passed onto consumers in the form of **lower prices**
- **Increases profits**
- **Increases competitiveness** by giving producers an advantage over competition
- Competitive advantage
- Cash Flows increased (liquidity benefits)
- Grants can be used for R&D innovation spending providing **longer term advantages**
- **Create incentives** for research and development

EG) Austrade administers the Export Market Development Grant (**EMDG**) scheme for new and existing international businesses. Grants **reimburse up to 50% of marketing expenses. Businesses that have an income of < $50 M per year and incur at least $15,000 of export expenses are eligible.**

Other governmental support:

- **Austrade** Export Advisers that provide advice about how to best market your product or service internationally.
- The Export Market Development Grants **(EMDG)** scheme can reimbursing up to 50 percent of expenses on eligible export promotion or marketing activities.
- Under the **Tradex scheme** you can gain up-front exemption from Customs Duty and GST on eligible imported goods that are intended for export.
- Export Finance and Insurance Corporation **(EFIC)** helps with working capital and banking finance.

How Austrade Drives International Trade:

- **Assists Australian enterprises** to capture increased export and outward investment opportunities
- Facilitates productive FDI in Australia
- **Work to reduce barriers to trade**
- Administers the export market development grants (**EDMG**)
- **Provides advice to the Australian** Government on its trade and investment policy agenda

Austrade: Austrade is the statutory government agency concerned with promotion and education of entities with regard to international trade and investment.

- It **provides general information** about exporting and doing business in international markets, **free** of charge to Australian companies.
- **Austrade provides a series of reasons why businesses should operate in Australia**
- **Austrade assist exporters in a number of ways** such as they provide **general information** about exporting and doing business in international markets, free of charge to Australian companies.
- Additionally, they offer grants such as the **Export Market Development Grants (EMDG)**

Free Trade Agreements (FTA's):

Free Trade Agreement - agreements between two or more countries that involve cooperation countries to reduce trade barriers in order to increase trade of goods and services with each other. Aims to standardize import and export laws and regulations.

Regional FTA: Consists of a number of countries within a trade alliance

Bilateral FTA: A trade agreement between two countries

Role of Free Trade Agreements:

- Allow the signing members to **trade freely** with each other
- **Generate business growth** – through access to larger customer bases, reduced costs and hence generating expansion, thus increasing GDP; employment creation and increased taxes, fees and duties.
- **Improve Productivity** – FDI,
- **Enables Greater Specialization** – according to comparative advantage
- **Reduced tariff and non-tariff barriers**
- **Enhance economic growth**
- **Provide cost-effective trade**
- **Be mutually beneficial**
- **Facilitate trade**
- **Enhance interconnectivity between countries.**

ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA): The government has entered into a comprehensive ASEAN-Australia-New Zealand (AANZFTA) free trade agreement; **with negotiations covering sectors including goods, services, investment and intellectual property.** (Commenced 1 January 2010)	**Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA):** Australia has a Closer Economic Relations (CER) agreement with New Zealand (ANZCERTA) which is similar to an FTA but also **includes non-trade related issues**. It is one of the most comprehensive bilateral free trade agreements. (Took effect in January 1983)**.** **Aim of increasing the volume and value of trade.**
Objectives of AANZFTA: • Liberalize and facilitate trade in goods among Parties • Facilitate, promote and enhance investment opportunities among Parties through further development of favorable investment environments • Provide special and differential treatment to ASEAN Member States, to facilitate their more effective economic integration	**Objectives of ANZCERTA:** • Strengthen the boarder relationship between Australia and New Zealand • Develop Closer Economic Relations between the Member States through a mutually beneficial expansion of free trade between New Zealand and Australia • Eliminate barriers to trade between Australia and New Zealand in a gradual and progressive manner under an agreed timetable and with a minimum of disruption • Develop trade between New Zealand and Australia under conditions of fair competition

Key features:
• **Extensive tariff reduction and elimination commitments**
  ○ **Benefits**: for exporters as increases the available market at a cheaper cost also benefit for import businesses as cost of imported products is reduced.
  ○ **Disadvantage:** for Australian domestic producers as level of competition increases
  ○ Eliminates tariffs on 96% of Australian exports
• **Provides a platform for ongoing economic engagement** – this is with ASEAN through a range of built-in agendas, economic cooperation projects and business outreach activities
  ○ **Benefits:** From Specialization
  ○ **Disadvantage:** Short-term structural unemployment, increased domestic economic instability rom international trade cycles, creation of unequal 'playing fields' between develop and developing countries
• **Regional rules of origin**
  ○ **Benefits:** provide new opportunities for Australian exporters to tap into international supply chains in the region
  ○ **Disadvantage:** Short-term structural unemployment, increased domestic economic instability rom international trade cycles, creation of unequal 'playing fields' between develop and developing countries
• **Legal Protections** – Promotes greater certainty for Australian service suppliers and investors
  ○ **Benefits:** Reduced insurance premiums, risk of intervention
  ○ **Disadvantage:** Still costly process
	Key features:
	• **Harmonization of Trans-Tasman food standards**
	  ○ **Benefits**: Reduced compliance costs for Australian exporters as no mandatory adaptation of product required to meet different standards in NZ
	  ○ **Disadvantage:** Increased competition from NZ production. EG) DAIRY INDUSTRY
	• **Mutual recognition** of goods and occupations – meaning that qualifications and occupations are recognized in each country.
	  ○ **Benefits:** Increases mobility of workforce, thus, Australian businesses have a larger pool of labour to choose from and may be able to source cheaper labour from NZ
	  ○ **Disadvantage:** Increase competition from NZ citizens who are able to migrate and setup business in Australia using NZ qualifications
	• **No Tariffs:**
	  ○ **Benefits:** Exporters (cheaper availability to markets) and importers (imports are cheaper)
	  ○ **Disadvantage:** Australian domestic producers as level of competition increases (forces efficiency gains to compete with cheaper imported goods)
	• **Elimination of travel visas -** increased tourism for Australian
	  ○ **Benefits:** Increased tourism for Australian operators as travel to Australia increases
	  ○ **Disadvantage:** Increased competition as NZ becomes easier to get to (e.g. Ski industry – NZ has more consistent snow conditions and is relatively cheaper to access by air then Australian ski fields)

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Benefits of AANZFTA:	**Benefits of ANZCERTA:**
○ Extensive tariff reduction and elimination ○ Promotes greater certainty for Australian service supplier and investors including certain legal protections for investment in ASEAN territories.	○ Large economic benefit ○ Mutual recognition of goods and occupations removes technical barriers to trade ○ All tariffs and quantitative import or export restrictions on trade on good's are prohibited in ANZCERTA
Points against FTAs could include: ○ Short-term structural unemployment ○ Increased domestic economic instability from international trade cycles ○ Environmental damage ○ Creation of unequal 'playing fields' between developed and developing countries. ○ Increased competition for domestic producers	
Benefits of Free Trade Agreements: • **Increased Customer Base:** Allows businesses to increase their sales turnover by expanding internationally as a result of increased market size. EG CHINA. • **Cheaper Production Costs:** By expanding overseas, companies can benefit from cheaper inputs costs, particularly inexpensive labor. EG Adidas and BMW from Germany. • **Economies of Scale:** As production levels increase, businesses may locate overseas to capitalize upon a host country's infrastructure, (such as its road, telecommunications and port networks. Similarly, it may mean that the MNC can expand whilst the cost of production is reduced. • **Mitigating Risk / Diversification:** Unfavorable market conditions in one country doesn't mean that it will damage the overall business if it can effectively spread risk internationally. • **Enhances competitiveness of Australian exports, also allows exporters to enter foreign markets more competitively** • **Mutual product standards lead to reduced compliance costs** • **Encouraging new investment into Australia boosts economic growth**	**Challenges of Free Trade Agreements:** • **Structural Change** – trade liberalization may mean that some firms are no longer able to compete (eg. Car manufacturing). (general – may be twisted, last resort) • **Foreign Competition** – drives down local sales, profits and puts downward pressure on prices and hence profit margins. (business) • **Economic instability** from international trade cycles – issues of contagion and coupling of economies. Loss of economic sovereignty is also associated with this. (business + general) • **Environmental damage / degradation** – Increased demand in factor markets leads to increased environmental degredation and resource depletion that may not be sustainable. (general) • **Market Share** – may be a reduction in market share / price determination due to these increased levels of competition. (businesses) • **Domestic jobs can be taken by cheaper overseas labour**

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Topic 4 – Strategic Management:

Strategic Management:

Strategic Management:
Strategic management involves setting objectives, analyzing the competitive environment, analyzing the internal organization, evaluating strategies and ensuring that management rolls out the strategies across the organization.

Strategic Planning:
An organisations process of defining its strategy, or direction and making decisions on allocating its resources to achieve its objectives. *Key features include; Defining mission and objectives, environmental scanning, strategic formulation, implementation, and evaluation and control.*

Business Environment:
Refers to the internal and external forces acting upon a business to influence its behavior. This includes internal stakeholders such as employees and external stakeholders such as lenders, customers.

Strategic Plan:
Outlines a company's direction and priorities. The plan guides management when they are making decisions about the allocation of resources and assets.

Purpose of Strategic Planning:

Purpose:

- It outlines and communicates its mission, values, goals and objectives to all stakeholders
- Communicates goals and objectives
- Enables accountability + is a motive for change
- To establish overall goals for a business and to develop a plain to achieve the goals
- Basis for detailed business or operational planning
- Reduce and manage risks through proper planning

Key Features of Strategic Planning:

Why Create Strategic Plans

- Achieve, sustain and enhance competitive advantage
- Ensure the organization's long-term success
- Identify how much finance is required
- Focus Resources to their most effective and efficient use
- Maintain focus on how the business drives value

Vision:
What the organisation wants to be, long term, future orientated

Values: Beliefs held by the organisation.

Mission:

- *Refers to the underlying purpose of an organization's existence and its core values.*
- Its mission outlines and sets out the purpose and scope of operations, provides a sense of direction, guides decision making and unifies all people and corporate cultures within the organization in an attempt.
- (Promote performance, Motivate, clarify expectations, provide direction Give benchmarks)

Objectives

- *Refer to the short-to-medium-term and specific targets an organization sets in order to achieve its aims.*
- They are more specific and quantifiable (measurable) and are seen as expressions of strategic intent.

Environmental Scan

- An environmental scan examines the *internal environment* of the organisation to look for strengths and weaknesses and the *external environment* to seek out opportunities and threats within the industry sector.
- An environmental scan researches and analyses the business environment to identify and anticipate factors that will affect business growth and success. Can be done through; SWOT (internal), PEST (macro), Porter's 5 Forces Model (industry)

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PEST and SWOT Analysis:

PEST Analysis:

The term PEST analysis refers to the business tool used to analyze the external macro business environment of a particular organization, with particular reference to the political and legal, economic, socio cultural and technological elements of this environment.

Uses of PEST analysis:

- Identifies and helps insulate against constraints, threats, and limitations on growth.
- Assesses the feasibility or viability of new or existing project.
- Identify any areas where firms can capitalize upon opportunities or gain a competitive advantage
- Promotes proactive and forward thinking, where business can foresee the opportunities and threats of pursuing a new initiative.

P – Tax laws, environmental rules, consumer protection
E – Interest rates, inflation, UE, EG
S – Population growth, aging population, beliefs
T – Automation, R&D

SWOT Analysis:

The term SWOT analysis refers to the business tool used to analyze the internal and external business environment of a particular organization.

- **Strengths** - internal, capitalize upon, provides a competitive advantage (KPI link).
  Eg) Brand awareness/loyalty, market share, price point, geographical location, public relations
- **Weaknesses** - internal, mitigate, these are competitive disadvantages.
  Eg) Limited revenue streams, poor cash flow, restricted product range.
- **Opportunities** - external, build upon, these are prospects for the future.
  Eg) Economic growth, trade liberalization, weakening exchange rate, new markets
- **Threats** - external, insulate / hedge, these cause problems.
  Eg) Inflation, low EA, negative publicity, increased competitors, legal constraints

Outline two or more factors for each S,W,O,T

USES OF A SWOT ANALYSIS (as part of How an Environmental Scan is done, PURPOSE)

- Identifies and helps insulate against constraints, threats, and limitations on growth.
- Assesses the feasibility or viability of new or existing project.
- Identify any areas where firms can capitalize upon opportunities or gain a competitive advantage
- Promotes proactive and forward thinking, where business can foresee the opportunities and threats of pursuing a new initiative.

Porters Five Forces:

Porter's Five Forces:

- *Porter's five forces analysis is a framework to analyze nature and the level of competition within an industry and business strategy development.*
- Assists management to evaluate the viability of entering a new market or expansion into an existing one.
- Determines the competitive intensity and therefore attractiveness of an industry.
- Weak forces mean an opportunity to raise price and enhance profitability, strong forces mean limited opportunity for profitability
- Strength of forces determines how easy of difficult it is to compete in a market.

Provide an example of one of the five forces

USES OF PORTERS MODEL

- To see whether a firm yields a competitive advantage by pursuing a new initiative
- ***Assess the viability of a new project through determining industry profitability***
- Understanding the competitive forces of an industry, and their underlying causes, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time
- Gives strategists an idea of the ease in which an market can be entered, and the security of the firm's market share.

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1.) Threat of New Entrants (Threat of entry)

Definition: Extent to which firms are able to enter a particular market, and thus is largely dependent on barriers to entry within a particular industry. This impacts on potential profits.

- **Factors include**;
  1.) Economies of scale
  2.) Capital requirements of entry
  3.) Access to supply or distribution channels customer or supplier loyalty
  4.) Protection of IP

- **Business can influence It by**; Product differentiation, Supply chains, Economics of scales

2.) Threat of substitutes (Substitute products)

Definition: The extent to which products can be substituted for similar products provided by rival firms within a particular industry. This is impacted by the differentiation of the market and market concentration.

- **Factors include**;
  1.) New Products and technology
  2.) Better quality and volume of alternative products
  3.) Buyers willingness to change brands

- **Business can influence It by**; Use the marketing mix (particularly promotion) to communicate unique product features (**USP**) or Product differentiation

3.) Bargaining Power of Consumers (Buyer Power)

Definition: Extent to which consumers are able to influence the pricing of a particular product or service, this is influenced by the *concentration of buyers*, *availability of substitutes* and *switching costs*, *Price elasticity.*

- **Likely to be high where there is/are**: a concentration of buyers, many small operators in the supplying industry, alternative sources of supply, low switching costs, components/materials that are a high percentage of cost to the buyer leading to 'shopping around'

- **How easy it is for buyers to drive prices down is driven by**: the number of buyers, the importance of each individual buyer to your business, the cost to them of switching from your products and services to those of someone else. If you deal with few, powerful buyers, then they are often able to dictate terms to you.

- **Business can influence It by:**
  - ***Create differentiated products*** and services that have unique features developed for each market segment (reduces substitutes)
  - ***Advertising*** – build brand loyalty & communication different features

4.) Bargaining Power of Suppliers (Supplier Power)

Definition: Refers the ability for supplies to increase their margins by increasing prices, which is largely determined by the competitive intensity of suppliers providing inputs in a particular market, switching costs of substitute intermediate components and differentiation of products or services.

- **Likely to be high where there is/are:** low concentration of suppliers (monopoly power), customers that are fragmented and bargaining power low, high switching costs, powerful supplier brand, possible integration forward by the supplier

- **The power of suppliers is dependent on** the *number of suppliers*, *level of quality and service provided by suppliers*, *supplier location*, *Brand Reputation* which influences the bargaining power of consumers and the level of cross elasticity in markets for intermediate goods.

- **Business can influence It by:**
  - Achieve 'scale' of operations and exploit the bargaining power that is attached to bulk buying power to capitalize on ***economies of scale***
  - Develop products using intermediate components that are provided by multiple suppliers - ***decreases monopoly that suppliers have on intermediate products***

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5.) Competitive Rivalry	How these Forces Create Competitive Advantages
Definitions: Refers to the relative concentration, and competitive intensity within a particular market or industry that determines firms' power and influence in the market. **Factors:** ○ If markets are undifferentiated, cross elasticity is high as a result of readily available substitutes, or there are high barriers to entry. ○ Size and Number of competitors ○ Aggressiveness of competitive strategy ○ Advertising Expense ● **Likely to be high when**: Markets are undifferentiated (degree of product differentiation), lots of businesses in industry, tactics of advertising are used, high barriers to enter market ● **Business can influence It by**: Product differentiation - builds consumer loyalty, Price competition, Customer service & warranties, Advertisement.	**Threat of New Entrants** **1.) Economics of scale** - creates competitive advantage + barrier to entry **2.) Loyalty** - inelastic demand, differentiation **3.) Capital Investment** - creates competitive advantage (reduced costs of production + barriers) **Threat of Substitutes** 1.) Reduced by differentiating the product from competitors - less substitutes 2.) Entering less concentrated industries. **Bargaining Power of Consumers** 1.) Can be reduced by differentiating the product from competitors 2.) Flexible approach to meet the changing and future demands of customers **Supplier Power** 1.) Efficient network of suppliers and if need be component manufacturers to consistently meet the business's commitments 2.) **Reduces cost relative to competition** - allows margins to increase 3.) **Cost Leadership** - ability to undercut competitors etc. **Competitive Rivalry** 1.) Strong 'brand' management 2.) Patents & Trademarks - allow firms to insulate themselves from competition 3.) intelligent, integrated and dynamic workforce
High Profit Industries: *Gives a business more control over costs and prices and enables them to capture and keep market share.* **Factors include;** ○ Suppliers with little bargaining power ○ Customers with low bargaining power ○ Barriers preventing competitors ○ Few substitutes ○ Low Competition	**Low Profit Industries:** *Competitive pressure keeps businesses prices and profits low.* **Factors include;** ○ Suppliers with high bargaining power ○ Customers with high bargaining power ○ Easy entry for competitors ○ Many substitutes ○ High level of Competition

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Porter's Generic Strategies

Cost Leadership Focus:

- Increasing profits by reducing costs, while charging a price lower than all competitors
- Advantage can be achieved by reducing waste and inefficiencies to produce at the lowest cost possible

Differential Focus:

- Differentiation involves making your products or services different from and more attractive than those of your competitors
- This can be achieved through thorough research & development, markets research and marketing techniques and creating a **USP**
- The Value added by the uniqueness of the product allows the firm to charge a premium price.

Niche Focus:

- Focuses on a narrow segment and within that segment tries to achieve a cost or differential advantage.
- Tailoring (essentials) in the value chain to meet niche consumer needs.
- Niche focus yields customer loyalty, which discourages other from competing directly. Brand loyalty - inelastic demand (margins), sales.

Ways Porter's Model is used by Management

1. To see whether a firm yields a **competitive advantage** by pursuing a new initiative
2. **Assess the viability of a new project** - determine whether it's worth pursuing
3. **Understanding the competitive forces** of an industry, and their underlying causes, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time
4. Gives strategists an idea of the **ease in which a market can be entered**, and the security of the firm's market share.

Strategic Implementation / Formulation / Control and Evaluation

Strategic formulation

Definition: Refers to the process by which an organization chooses the most appropriate courses of action and create action plans to achieve its defined goals.

- Using information from the environmental scan, the firm should match its strengths to the opportunities it has identified in order to capitalize upon them and mitigate or hedge against its weaknesses and external threats.
- **Strategy Formulation**: Marketing Plan, Operations Plan, Financial Plan

Strategic implementation

Definition: Strategic implementation is the action stage of strategic management. Process of carrying out strategic plans. ***Involves familiarizing stakeholders with their respective roles, communicating new procedures to employees and allocating resources accordingly so that the strategic vision can be achieved.***

Process of carrying out strategic plans involves;

1.) Allocation of responsibilities
2.) Detailed action plans
3.) Timelines
4.) Allocation of resources
5.) Accountability

Steps to Formulating a Plan:	Importance of Strategic Formulation:
1.) Analyse business environment 2.) Set a clear strategic direction 3.) Develop projects or initiatives (Strategies) 4.) Establish an action plan	-Guide direction of action plans -Improve Business performance -How to gain a competitive advantage -Outline short term actions that need to be completed

Control and Evaluation

Definition: Control and evaluating refer to ensuring a business stays on course towards its desired state.

Control: Refers to putting parameters in place such as benchmarking and taking corrective action where necessary to ensure the vision remains in sight.

- **Establishing Standards / Parameters (Benchmarks)**
- **Measuring Performance by target values for those standards** -Taking **corrective actions** when necessary
- **Comparing performance against standards** -This holds employees and management accountable to their performance, but also indicates as to whether the plan is working within that organization.
- **Steps:**
  - Determine areas to control
  -Establish Standards
  -Measure performance
  -Compare performance to standards
  -Take corrective action
  -Recognize and reward

Evaluation: Involves scrutinizing whether the policies and targets are delivering desired outcomes. This can be measured by KPIs or external consultation and appraisals by companies such as Mckinseys.

- **Benchmarking** -process of making comparisons between the performance of a company relative to the best identified practices in the industry or within the organization itself
- **KPI -**Quantifiable measurements that reflect the critical success factors of an organisation. EG) staff retention, sales, profits, market share etc.
- **External Performance Consultant-** Using consultants such as McKinsey to offer external input as to whether the plan is being upheld. They will offer recommendations to drive operational improvement.
- **Control Mechanisms:**
  -Establish standards
  -Measure performance
  -Compare performance against targets

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Topic 5 – Change Management:

Change Management:

Definition: *Change Management is a process that coordinates business systems to control and manage change within an organisation.*

Driving Factors: Those that apply pressure for change to occur. Important as they may impact the operations of the business and profitability of a business. ***Knowledge of factors*** allows for management of them in the future, allows for preparation, helps in change management allowing it to be for successful.

Internal and external factors that drive change in a global environment:

Internal Factors:

1.) Drive for INTERNAL Efficiency

- Change can be driven by the desire for greater efficiency in production processes, so to minimise costs of production and remain competitive within a particular industry
- Technological uptake, quality control, inventory management systems etc.

2.) Staff attitudes

- The employees are important to the business and will often demand change; for instance, initiatives that promote a greater work life balance and incentives for admirable performance

3.) Management

- Evaluation and control stages of the strategic planning process
- Management needs to keep up with market trends and changes to ensure that the business remains competitive. Innovative practices, FDI. They must review their plans and operations, for example, scope of their e-commerce activities and change the way in which they operate their business.

4.) Policies

- Policies that are outdated, irrelevant, not applicable or redundant to the current business environment are a force for change, for example, it is expected that firms have an environmental and ethics policy. ***CSR + CSD***

Explain why businesses need to be aware of factor

External Factors:

1.) Global spread of skills and Technology

- Technological progress has forced global businesses to change the way they operate their business. This could be in the way they communicate or the way that they conduct their marketing or distribution
- New technology such as ecommerce

2.) International Pressures

- Globalization of the world's economy has created a greater level of competition and reduced the level of protection for firms. Reductions in trade barriers and technological advancements have broken barriers to entry, firms need to change in order to stay competitive.
- ***For example***, the Holden Car Industry

3.) Legislative Pressures

- Changes in laws and government policy can be a pressure for change; for example, The Fair Work Act 2009, which resulted in the adoption of changes by businesses to meet minimum legislated employee entitlements.

4.) Changes in External Business Environment

- **Economic activity** - during boom increased demand may mean firms increase production levels
- **Interest rates** - can change firms demand for loanable funds and willingness to invest
- **Currency fluctuations** - impact exporters + importers costs
- **Discretionary spending** – level of disposable income effects consumption and demand for firms' products

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Reasons for resistance to change:	
Resistance to change: *Is when employees or managers oppose or struggle to accept changes in the workplace. Can reduce resistance to change through implementing Kotter's 8 Steps or to plan for change.* **Link to Technology:** Technological progress has forced global businesses to change the way they operate their business. This could be in the way they communicate, or the way that they conduct their marketing and/or distribution **Link to strategy:** 8 steps model and integrating changes into strategy	**Link to Economic Factors / PEST:** Drivers for change + resistance, Financial costs of change, Efficiency + competitive environment **Link to Innovation:** Global spread of skills and technology is a major driver of change within an organization. May link to how something like e-commerce drives change. **Link to Strategic Alliances:** Rationale and benefits for then link into issues associated with change. Cultural incompatibility in mergers / takeovers
Financial costs: Another reason for businesses being resistant to change is the financial costs associated with organizational change. **Financial Costs include:** -Induction of a new CEO, purchase of capital equipment -Moving processes offshore -Retraining staff or pursuing a strategic alliance (litigation fees) -Opportunity costs / increased expenses **What Businesses can do:** Businesses need to keep up with market trends and best practice in the industry in order to maintain competitiveness	**Managerial inertia:** Managerial inertia is when management does not change, and management has a tendency to become complacent, inflexible. ○ Organization has matured and saturated to the peak so that all its processes, procedures and even the culture is not changing, and the organization feels there is nothing to achieve beyond any further. **What Businesses can do:** **1.)** Management needs to keep up with market trends and changes to ensure that the business remains competitive. **2.)** They must review their plans and operations **KPI'S:** Labor productivity, Multifactor productivity (bad tech uptake), Expenses and Profitability
Cultural incompatibility in mergers/takeovers: The case of mergers and takeovers, change can be restricted by barriers that result from different languages, customs, practices, opinions or communication methods. Could include a loss of jobs which brings uncertainty and fear. **What Businesses can do:** **1.)** Assess the cultural compatibility of organizations before forming a strategic alliance **2.)** Refine communication techniques within a particular organization ○ **KPIs** - Productivity of labor force, profitability	**Staff attitude:** May be due to the pressures from staff against change being introduced and a reluctance to factors such as unfamiliarity, lack of ***understanding***, dislike of disruptions or ***uncertainty***, lack of ***security*** **May be due to;** Job security, Conservatism, Fear of change, Lack of skills or Performance. **What Businesses can do:** **1.)** Provide Education & Training **2.)** Integration of changes into corporate culture & strategy **3.)** Use management to implement change with subordinates **4.)** Communicate vision and purpose of change **KPI'S:** Motivation, Productivity, Efficiency and Profitability.

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Preparing for Change - Lewin's Force-field Analysis Model:

Definition: *Business model or tool used to assess and weight the interaction of two opposing sets of forces - those seeking to promote change (driving forces) and those attempting to maintain the status quo (restraining forces) in an organization.*

- Whenever driving forces are stronger than restraining forces, the status quo or equilibrium will change.
- Find factor - eg Computer systems then look at drivers and restrainers associated with that.
- The force field model allows managers to weight the strength of the driving and resisting forces, and from there they can develop a strategy to either further strengthen the driving forces or weaken the restraining forces.
  - Weighting forces (prioritizing certain aspects, implement strategies to negate restraining forces)
  - Rating each force from 1 (weak) to 5 (strong).

Resisting Forces: *Obstacles for change.*

- **Financial costs**
  - Costs of integrating new technology into businesses
  - Training and development
- **Managerial inertia**
- **Cultural incompatibility in mergers/takeovers**
- **Staff attitudes**
- **Fear of the unknown** — change means uncertainty, which worries some people. Job security may be impacted.
- **Fear of failure** — change may require new skills and abilities that, despite training, may be beyond a worker's capabilities.

Driving Forces: *Positive forces for change.*

- **Economic Climate**
  - Financial growth opportunities and / or loss minimisation
  - Changes in discretionary spending patterns
- **International Climate**
  - Global Spread of Skills & Tech (GLOBALISATION)
  - Deregulation of financial markets
- **Efficiency + competitiveness**
  - Productivity increases
  - Cost reduction through efficiency
- **Legislative Climate**
  - Deregulation of financial markets

Step 1: *Define the change the business wants*
Step 2: *Outline Driving Forces*
Step 3: *Outline Restraining Forces*
Step 4: *Evaluate the driving and restraining forces, weighing and rating the forces*
Step 5: *Review the forces, create strategy to strengthen driving forces or weaken restraining forces*
Step 6: *Develop an action plan*

Helps to Implement Change Through:

- A tool used to understand problems and the effects of change on an organisation
- Helps employees see the need for change
- For Change to be successful employees must be convinced driving forces are greater than restraining forces
- Tool used In Lewin's "Unfreezing" stage to help employees understand the need for change.

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Preparing for Change - Kotter's 8 Steps change management Model:

Definition: ***Kotter's 8 step model is a guide for businesses to help facilitate successful organizational change.***

- According to Kotter, successful change requires;
  - *Kotter argues that involvement of staff breeds commitment to change*
  - A multi-step process that creates power and motivation for change
  - High-quality leadership
  - Changing the behaviours of people as simply altering the visible/obvious factors will not lead to successful change.

- **Rationale**:
  - Managing change successfully can aid a business *maintain profits*, *capitalize on opportunities* and *increase productivity*. Kotter's 8 steps *allow for managers to have a clear idea/vision* about how to manage, in 8 steps, any change process. Allows for thoughtful planning and insightful implementation.
  - Model can be used to mitigate resistance to change.

Oscar Grants ACRONYM – Can't Be F*cked Eating Eggs Grandma Said Intently

1. Create a Sense of Urgency:

- Inspire and communicate the need to introduce changes. Help others to see the need for change and they will be convinced of the importance of acting immediately
- Top management must describe/craft a sense of desire for change within the organization in order to prevent inefficiencies in the process of change

2. Build a Guiding Coalition:

- Assemble a group with enough power to lead the change effort and encourage the group to work together to coordinate and communicate the activities needed to integrate change.
- A powerful and enthusiastic group of volunteers from across an organization is crucial tool for leaders looking to implement new strategies and transform their organizations. And deciding who should take part in the guiding coalition is essential.

3. Form a Strategic Vision / Initiative:

- Create a vision to help direct the change effort and develop strategies for achieving that vision.
- Clarify how the future will be different from the past and how you can make that future a reality through initiatives linked directly to the vision
- Conveys the feasibility and desired outcome of such change to the stakeholders
- Develop strategic goals and objects before the team takes further action. The desired end-result should be clearly stated and the reasons for change communicated e.g. to increase sales of new digital cameras by 10%

4. Enable a Volunteer Army:

- Large-scale organizational change can only occur when very significant numbers of ready, urgent and willing employees amass under a common opportunity and drive in the same direction.
- Staff attitudes can be a major resistance for change and thus it is important to communicate vision and gain support from employees in order to drive change
- They must be bought-in and urgent to drive change – moving in the same direction

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5. Enable Action by Removing Barriers:	6. Generating Short Term Wins:
• Remove obstacles to change, change systems or structures that seriously undermine the vision, and encourage risk-taking and nontraditional ideas, activities, and action. • Removing barriers such as inefficient processes and hierarchies, leaders provide the freedom necessary for employees to work across boundaries and create real impact	• The generation of short-term wins is essential in creating momentum and enthusiasm for change, as demonstrates to organizational stakeholders • Celebrate volumes of success to energize your volunteers to drive change • Use of short-term organizational objectives to analyze the effectiveness of change mechanisms within an organization (quantifiable)
7. Sustain Acceleration:	**8. Institute Change:**
• Change leaders must adapt quickly in order to maintain their speed. Whether it a new way of finding talent or removing misaligned processes, they must determine what can be done every day to stay on the course towards the visions • Press harder after the first successes. Your increasing credibility can improve systems, structures and policies. Be relentless with initiating change after change until the vision is a reality.	• Change/amend policy and procedures to embed change, and anchor it into corporate culture. • It's important that you define and communicate the connections between these behaviors and the organization's success. • Replace old habits

Factors of Unsuccessful Change:

- Poor Planning
- Lack of skills and experience of the change team
- Poor leadership by the change agents
- Lack of communication throughout process
- Lack of coordination among managers

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Topic 6 – Leadership

Leadership:

Leadership: Leadership is about influencing other people to achieve a vision or goal it refers to the ability of an individual to inspire, guide and motivate other individuals, teams, or entire organizations in order to achieve organizational objectives. *A leadership style refers to the way in which an individual carries out the decision-making process within an organization*

Leadership involves:

1.) Establishing a clear vision,
2.) Sharing that vision with others so that they will follow willingly
3.) Providing the information, knowledge and methods to realize that vision
4.) Coordinating and balancing the conflicting interests of all members and stakeholders

Cross Cultural Setting:
Culture is the ideas, customs, and social behaviours of particular people or society. Managers/Leaders need to effectively get their message across but at the same time, be understanding of differences in culture.

- **Levels of education**
- **Customs** (e.g. organisational culture, dress code, traditions)
- **Holidays and celebrations** (e.g. number of public holidays varies between countries)
- **Religious** beliefs (e.g. relates to work practices such as uniform and facilities layout and design - prayer rooms)
- **Business etiquette** (e.g. greetings, gift giving, gender)
- **Communication protocols** (e.g. status, hierarchy, modes of communication)
- **High vs Low Context** (Vague vs explicit directions)

Ignorance of these factor will harm relationships and may be deemed offensive

When deciding which leadership style what contextual factors should be considered?

- **Nature of Task** – Mechanical (Autocratic), cognitive (Democratic). Need direction or structure?
- **Degree of Freedom / Creativity** – Low variation (Autocratic), High variation (Democratic)
- **Type of Staff** – Creative / Professional (Democratic), Low skilled (Autocratic)
- **Speed/Risk/Time** – Quick/High risk (Autocratic), longer/lower risk (Democratic). Decision making changes based on the level of pressure and risk.
- **Size of Workforce** – Bigger, control (Autocratic), Smaller, less control (Democratic)
- **Experience of Staff** – Lower control (Autocratic), Higher, less control (Democratic)

These benefits need to be balanced against the negatives ie control vs motivation

Leadership Traits

- Trait – define
- Explanation of why trait is affective in assisting leaders in a cross-cultural setting
- Justification – benefits / rationale for the particular leadership trait.

Worker and Business goals aligned when:
1. Leadership involvement and support
2. Clarify and justify
3. Alignment of plans
4. Understanding of the company's priorities 5. Commitment to corporate initiatives

Justifying Leadership Style

- Define leadership
- Appropriate leadership style (define)
- Advantages (+ disadvantages of other styles)
- Disadvantages
- Link to KPIs

Leadership Styles

- Define
- Characteristics / Features (reference to the case)
- Benefits
- Drawback

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Autocratic Leadership:

Autocratic: An autocratic leadership style refers to one whereby an individual is concerned with making all the decisions and prefers not to delegate any responsibility to their subordinates. The autocratic leadership style involves minimal consultation with staff, clearly defined strongly enforced chain of command, where the leader rules from the top and exercises complete power and decision-making responsibility.

Example: *Steve Jobs while at apple, preferred not to delegate*

Characteristics:

- **Centralist** - Minimal Consultation with staff, Leader takes all decisions
- **Top down decision making -** doesn't involve others in decision making
- Emphasis on workplace policies and procedures (sanctions, objective linked remuneration)
- **No delegation** of decision-making responsibility
- Gives little information to staff, workers only given little information about the business
- Supervises workers closely, dictates workplace
- **One-way communication**
- They direct staff and give instructions to control what staff must do
- **"Micromanaging"** because the autocratic leader puts their team under constant supervision and controls every aspect of their work
- Focuses on making sure staff follow rules and keep up the pace of production
- **Can lead to de-motivation and alienation of staff**

Advantages:

- **Swift decision-making** – allows managers/leaders to act quickly in situations of crisis where swift action is needed to prevent further losses.
- **Reduced training costs** – workers do not need to be up-skilled in order to increase organizational input or develop management / decision making skills.
- **Political behaviors** ↓ - less internal conflict that may arise from political behaviors / power plays. Also less conflict, which may arise from adversarial debate.
- **Large Scale Organizations** – control the large workforce by setting standards that must be met by every employee. Otherwise hard to control, very inefficient decision making etc.
- **Unskilled workforce** - Workers are unskilled and thus depend on the directions and instructions of leaders.
- Secure and safe, know what's expected

Cross Cultural Setting →

- Appropriate for an unskilled workforce,
- norms of culture they are in, some cultures value democratic.
- May adapt autocratic style to ensure clear communication with all stakeholders to avoid confusion. (↑Productivity, Efficiency)
- May need to consider degree of decision-making autonomy relative to cross cultural norms in new global setting
- Adapt to gain two way communication

Example: *Jeff Bezos → Harsh work conditions, demotivation*

When Appropriate:

- Appropriate for unskilled workforce
- Appropriate when there is a crisis (quick decision making required)
- Industries – military, manufacturing
- Large organization - control the large workforce by setting standards that must be met by every employee
- Effective where the manager is the source of experience and expertise
- Where there are standardizes workplaces and repetitive processes such as fast food chain

Disadvantages:

- **Staff Motivation** - difficult and confronting (Demoralizing staff, feeling powerless, reduced confidence in employees).
- **Lack of Consultation** - They dictate workplace policies and procedures, without consulting employees, which leads to; Resentment amongst employees, Demotivation and alienation of staff, Decisions do not benefit from staff input and Absenteeism and labor turnover.
- **Lack of trust** between management and employees
- **Fosters intimidation** – workers often have matters dictated to them and are thus are intimidated (do not give input etc.)
- **Inefficiencies** - Autocratic leaders have the tendency to ***micromanage*** rather than delegating responsibilities and tasks. Can discourage open communication between leaders and subordinates
- High degree of **dependency on the leader**
- **Communication** is top down, so any opinions or suggestions of the workers are ignored.

Democratic (Participative) Leadership:

Participative: Participative leadership is a managerial style that invites input from employees on all company decisions. Style of leadership in which the leader involves subordinates in goal setting, problem solving, team building

Example: *Bill Gates at Microsoft, encouraged employees to contribute.*

Characteristics:

- **Consultative -** Widespread consultation and shared decision-making, participation encouraged
- **Employees are involved** in the decision making and planning process. Input needed from all staff. ***Ultimate responsibility lies with leader.***
- **Team orientated approach -** sharing of ideas, feeling part of decision-making process
- **Two-way communication -** used which allows feedback from staff, encourages decision making from different perspectives
- Leadership emphasized throughout the business.
- Workers given information about the business to involve full staff involvement
- Employees may perform better and have higher job satisfaction because they have more control over how they work

Advantages:

- **Communication** is two way and thus richer as information from the top and the bottom of the organization is shared.
- **Trust** is put into workforce regarding input into decision-making – consultation. (Links to motivation + productivity etc.)
- **Decision-making** is devolved and thus decisions are made closer to the source of a problem – this can improve customer service as employees are able to make decisions and resolve problems
- **Problem solving** is improved, as employees are closer to activities within an organization and better understand the tasks and problems.
- **Staff Motivation -** Involving employees encourages their buy-in to change initiatives and creates a more participative culture.
- **Team Orientated Approach –** Workers feel ownership within the firm and its ideas

Cross Cultural Setting:

- Adopting a participative style increases motivation (trust, confidence, reduced absenteeism) and creates a greater level of buy in from a diverse number of internal stakeholders toward the shared vision.
- Used to gain access to two-way communication from employees from a diverse background, helps to bread innovation
- To create feelings of belonging and inclusion among staff
- Consider degree of employee participation relative to cross cultural norms

When Appropriate:

- Skilled workforce – able to make decisions (useful input for business procedures)
- Workers are demotivated (autocratic leadership may result in resentment of employees who are critical of particular procedures and are unable to voice opinions)
- Smaller organizations – easier communication less inefficiencies.
- An experienced and flexible and experienced workforce will be likely to benefit from this style
- In situations that demand a new way of thinking or a new solution, then staff input can be vary valuable

Disadvantages:

- **Delayed Decision Making** - decision-making may be slower as consultation can be time-consuming.
- **Political behaviors** and power plays may increase as individuals try to bargain for more power/resources
- **Training costs** – organizational costs may increase, to ensure employees have the knowledge, skills and ability to effectively participate in decisions.
- It is not suitable for an organization with a **large workforce** (communication would be severely affected)
- Consultation with staff can be time consuming
- Level of involvement might be too sensitive eg job losses or too secret

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Situational (Contingency) Leadership:

Situational: Situational leaders are able to vary their response or behavior depending on the events or circumstances they find themselves in, and or the people with whom they are dealing with. Situational leaders can be autocratic if a decision needs to be made urgently or an employee is motivated and inexperienced and thus, they need to be told what to do, or participative.

Example: *Dwight Eisenhower US President 1950s*

Characteristics

- **Changing levels of consultation** in the organizational decision-making process / procedures
- **Managers recognize the strengths and weaknesses of each style** and apply this knowledge to a work situation of business challenge.
- Multilayered leadership styles exhibited in the organization.
- **Style of leadership used will depend on the nature of the task** and the work groups skills and willingness to accept responsibility.
- A leader may use an autocratic approach early on and then give employees more responsibility later as their experience and expertise increase.
- A participative manager may also make unilateral decisions now and then when a situation or problem needs urgent attention

Advantages:

- **Adaptable and flexible** – leadership is able to adjust to suit the circumstances and prevent inefficiencies (crisis situation, motivation)
- **Problem solving** – able to act briskly in times of crisis when swift action is needed. But also, able to consult employees closer to activities within an organization with better understanding of the problem
- **Appropriate for Large / culturally diverse organizations** – different levels of skills and education mean influence a leader's style, and a situational leadership style allows leaders to take this into account.

Cross Cultural Setting

- Can adapt to ***changing cultural circumstances***, in particular situational can make decisions in crisis situations or with unskilled workforces, or crisis situations, and large organizations where autocratic leadership styles are appropriate to uphold standards and procedures etc.
- Furthermore, it also allows leaders to adopt a more participative approach when workers are demotivated and experienced/skilled resulting in increased motivation (trust, confidence, reduced absenteeism) and ***creating a greater level of buy in from a diverse number of internal stakeholders toward the shared vision.***

When Appropriate:

- Change processes + expanding into cross cultural business environments (able to adjust in order to inspire, motivate and coordinate business leaders)
- Large businesses with diverse skillsets and levels of experience with influences the ability of business members to input into the decision-making process
- Multi-cultural (culturally diverse) workplaces
- For example, a manager may prefer a participative style. But the manager knows that some employees are inexperienced and will require more direction.

Disadvantages:

- **Inconsistent behavior -** Employees may not know what sort of response to expect from the manager from day to day, potentially creating an environment of fear and uncertainty
- **Short Term** - Can divert attention away from long-term strategies and aims of the organization. As a consequence, leadership seems to become reactionary rather than anticipatory.
- **Reliance on leaders' traits** – leaders are required to be able exercise a high level of self-discipline and emotional intelligence to manipulate their response, and chose the best leadership style for the organization
- **Uncertainty -** Varying the style of leadership may be difficult for some workers to accept and they may become uncertain of how they will be led in different situations

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Leadership Traits:

Leadership Traits – *Characteristics / assets of individual employees, and management which assist in their ability to inspire, guide and motivate other individuals, teams, or entire organizations in order to achieve organizational objectives*

Pneumonic: ***M.R.S - F.S.S.S.S***

Most effective leadership traits:

1. **Socially Aware**
2. **Skilled Communicator**

Motivational: The ability of leaders to empower and inspire others, in order to ensure they cultivate the best performance from employees and subordinates.

- Motivational leaders are commonly good communicators, encourage integrity and inclusion and feel sensitivity to the needs of employees
- **Cross Cultural –** *Leaders must be* able to inspire and empower individuals of different and often diverse cultural backgrounds and settings in order to unite them behind a shared vision of the business in order to successfully implement change within the business.
- Leaders must keep their staff positive and motivated to keep working towards long term goals despite the day to day setbacks.
- Motivation in turn creates a safe and trusting environment and ensures an organization is in position to achieve success.
- **Key Performance –** labour productivity, staff turnover, absenteeism

Responsible: They have accountability for their individual actions, and the actions of the group as a whole.

- **Cross Cultural –** *Must acknowledge* ethical responsibility, laws and regulations that are *relevant* in the cross-cultural environment (this impacts on the businesses image etc.). **Triple Bottom Line**
- **Cross Cultural –** Take control and be answerable in a new cross-cultural setting
- It is important for a leader to be polite and make sure they don't offend others to ensure there's no conflict or distaste between the parties.
- Instead of blaming others, leaders must manage difficult problems and find solutions.

Self-disciplined: Leaders are often dominated by a sense of duty. *Ability to divorce oneself from small problems and control emotions.*

- **Cross Cultural –** Being self-disciplined helps unify and direct a diverse workforce. A submissive character will let divisions exacerbate in a workforce. This ***creates certainty for staff in a cross-cultural setting.***
- Leader conducts themselves in a way that gives them an objective perspective on business performance
- Leaders must also resist getting involved in day to day operations, that is why they have managers.
- Leaders have a strong vision and the discipline to see plans through regardless of obstacles and failure.
- *Internally motivated, highly persistent and resilient individuals who under times of duress, are able to draw upon their expertise and experience to alleviate any concerns that may arise within a cross cultural setting.*

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Socially aware: *A*bility to understand and have an awareness of relationships. Allows leaders to understand the needs and concerns of key stakeholders. • **Cross Cultural -** Has the ability to understand needs of customers or concerns of team members. This in *turn* leads to the ability to establish ***trust and long-lasting business relationships*** and the ability to understand customer needs, also leads to increased satisfaction and sales in a *cross-cultural* setting • **Cross Cultural** – Important in cross cultural setting, for example being aware of the following; handshakes, addressing clients, dress codes, providing and receiving business cards, etiquette • Awareness of different needs and demands of their employees in relation to social, ethnic, backgrounds helps improve relationships and avoids offensive and insulting behavior • If a leader is aware of ethical implications it leads to bettering relations among diversity within markets, this therefore increases connections and relations resulting in more business links and ability to expand into greater markets. • Leaders must be able to have the ability to adapt language to the cultural demands of the region, thus avoiding any confrontation or the brewing of a bad reputation. • **Key Performance Indicators** - Employee satisfaction, staff turnover, and customer retention.	**Skilled Decision Maker**: They know when to make decisions quickly if required, but also able to balance the risk in decision making to avoid damage to the company. • *They understand that in certain situations, difficult and timely decisions must be made in the best interests of the entire organization across all cultures.* • Skilled decision makers understand how bias, emotions and competition impact on decisions and know how to manage these factors. • **Cross Cultural –** Making fast, informed and resolute decisions taking into account the cultural factors of the market will lead to balanced outcomes that don't inflict harm on the community or tarnish the business's reputation. • **Cross Cultural –** For example, the decision-making process ***looks different depending on a culture*** • **Key Performance –** financial metrics (balance sheet, income statement, cash flow), bottom line (final profit)

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Skilled communicator: *A skilled communicator is one who is aware of the various beliefs, customs, and traditions of stakeholders.* • Knowledge and understanding of these groups allow a skilled communicator to clearly articulate certain problems, strategies, and solutions without offending social groups. • Leaders need to have a clear understanding of cultural sensitivity and communication skills in order to avoid confusion or offensive incidents. • They also have the ability to change the context of their language depending on the issue they are trying to solve, and the individual they are communicating with, and thus are successfully able to build a consensus, ***despite cultural barriers***. • Understanding different cultures and their social norms ***helps build stronger business relationships because you won't misunderstand or offend people*** • Strong communication helps to build business networks, solve problems, resolve conflict and negotiate deals. Also allows leaders to obtain more information to make better decisions. • Important aspect is being ***"Emotionally Intelligent"*** • **Cross Cultural** - Can effectively communicate with people from different languages — reduces confusion and uncertainty which result more in cross cultural settings due to language barriers. Fosters relationships with suppliers and customers for better understanding of needs and wants, leads to satisfaction. • **Cross Cultural** - Use of eye contact need to be a different approach in cross cultural setting to suit cross cultural setting. • **Key Performance Indicators** – increases in productivity, customer satisfaction and retention	**Future thinker**: *Leader has a long-term vision of here the company is headed, so incremental planning can take place and the company is pro-active.* Opposite of managerial inertia. • **Cross Cultural –** Understanding the context of the market and the background of the workforce can help a business formulate strong strategic plans that can protect them from cultural factors (language barriers, laws, regulations, practices & customs) • **Cross Cultural –** Operations on a regional/international level often involve long term commitments and decisions so it is important to consider cultural factors. • Leaders must be able to foster strong and profitable relations with key internal and external stakeholders • They make strategic decisions and set goals that are ambitious and achievable on a global scale • Leaders must scan the macro business environment to identify threats and opportunities and how best to respond to them. • **'Future orientated'** leaders seek to innovatively create new product and ideas, and then to validate these through performing market research. • Leaders understand they must modify product offerings to suit the cross cultural need of customers • **Key Performance -** Market share, Long term profitability, Net Promoter Score (NPS)

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Topic 7 – Ethics

Managing Diversity:

Diversity: Refers to the range of traits a group of people have. For example, gender, age and language.

- Reducing conflict and misunderstanding between a variety of customers, suppliers and employees when operating in the global business environment.
- *Strong relationship* with suppliers and workforce, more productive (input costs + labour/multifactor productivity) as business grows
- *Openness/communication* leads to better ideas and methods / processes

Practices to improve understanding:

Employees:

- *Culturally awareness training* – sensitivity towards different religious beliefs, customs and convictions
- *Respectful culture* – condemn discrimination, show empathy

Consumers:

- *Provide diverse range of products* to meet demand of culturally diverse consumers

Suppliers:

- Respective culture improves public image, thus, gaining trust from suppliers
- Conduct negotiations (price, transport etc.) in a *non-discriminatory and respectful nature*, building trust

Importance of Managing Diversity for Growth

Ability to manage diversity leads to a greater understanding of the needs and wants of consumers, suppliers and employees

- **Suppliers** – With the understanding of needs and wants of suppliers = productive relationships. Multilingual employees and skilled communicators who are able to establish strong relationships with suppliers in a globalized market which leads to preferential treatment within supply chains – creating comparative advantage.

- **Customers** - With the understanding of needs and wants, customers are more satisfied = increased sales, brand loyalty, market share. Able to adjust the marketing mix (adapatation) to account for psychographic, demographic and geographic factors in diverse markets. Market segmentation, to target and adapt product / service offerings.

- **Employees** – With the understanding of needs and wants of the employee = motivated employees will promote creativity (innovation + increase productivity (↓ expenses, ↑ profitability). Marketing Mix, better understanding of consumers that comes from this, problem solving etc.

Role of Ethics in Global Business Decisions:

Ethics - Refers to the moral principles and considerations that guide business decision making and strategy. Ethical principles are considered in the creation business policies and practices regarding potentially controversial issues such as outsourcing. *Concerned with business' policies regarding social and economic practices being deemed morally correct.*

Impacts of Good Ethics:

- Enhances reputation, making it easier for business to recruit and source finance from lenders/investors
- Increased staff morale – increases productivity and motivation
- Builds and maintains customer loyalty – less risk involved with less controversial business
- Avoid legal problems – media and legal scrutiny can harm business reputation and increase litigation costs

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Environmental responsibility - Businesses have environmental compliances to meet. However, many businesses also realize that acting in a socially and environmentally responsible way is more than just a legal duty. It affects their bottom line and the long-term success of their business.	**Outsourcing -** The act of moving non-core activities away from internal operations allowing an external specialist party to provide the function. Done based on expertise and cost of labour advantages. *As part of strategic competitive planning, companies must strike a balance between quality processes and affordability.*
There are range of environmental rules that business may have to follow: • Comply with legislation regarding emissions into the atmosphere • Store waste safely and securely, making sure it is treated appropriately • Manage business waste for recycling • Ensure they do not become a statutory nuisance, affecting someone's health or welfare e.g. producing • noise, smoke, fumes, dust, gases or accumulating rubbish. • Ensure correct storage and use of hazardous substances	**Ethical Decision** • Developing relationships with businesses that have similar CSR policy • Being guided by a CSR policy for outsourcing decisions **Ethical Practice - guided by CSR** • Implementation + Monitoring of CSR codes • Communication & training of code • CSR involves ethical business practices locally + international • Training/communication to staff and other stakeholders of the ethical codes + policies + Conduct + standard • Memorandum of Understanding – both parties agree
Role in Ethical Decision Making: • Inform ways and practice that contribute to more sustainable patterns of living • Decisions are future oriented, focusing on protecting environments and creating a more ecologically and socially just world through informed action. • Decision - Ethical and ecologically sustainable sourcing of inputs in line with the company's values and mission	**The use of offshore labour:** Practice of basing some of a company's processes or services overseas, so as to take advantage of lower costs. **Ethical Practice** • Adherence to host countries labour regulations • Awareness of labour vulnerability / Exploitation • Design practices in line with ILO standards **Ethical Decision** • Implementing the minimum standards of labour by the ILO • No use of child labour • Design labour practices so that the ILO minimum standards are met
Ethical Practice - Environmental Sustainability • Practice of triple bottom line (social, economic and environmental benefits) for current global business operations and future generations. • This applies even when outsourcing non-core business functions • Businesses should be aware of the role of being environmentally responsible decisions in terms of sustainability in operations such as use of facilities, recycling of waste, renewable energy and communicating environmental practices to stakeholders.	The role of ethical decisions should include the: • Awareness of the host countries' labour regulations and workplace conditions • Awareness of labour vulnerability/exploitation • Need to deliver the global business' (hotel) own values and human rights in all their locations globally.

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Ethical Practice in Global Business:

International Labour Standards:

Definition: The ILO is a tripartite U.N agency, established in 1919 the ILO brings together governments, employers and workers and representatives of 186 member states, to set labour standards, develop policies and devise programs promoting reasonable industrial workplace conditions for all women and men.

Role of the ILO

- Promote and realize standards and fundamental principles and rights at work — international labor standards
- Create greater opportunities for women and men to secure decent employment and income
- Enhance the coverage and effectiveness for social protection for all
- Promote Rights at work
- Encourage decent employment opportunities
- Enhance social protection
- Strengthen dialogue in handling work related issues.

Business Practice:

- Awareness of the host countries labour regulations and workplace conditions
- Awareness of labour vulnerability and exploitation
- Designing labour practices and other human resource management practices so that ILO minimum standards are met in the use of all labour. This includes no use of child labour in organizations.

No. 182 ILO Eliminate Worst Forms of Child Labour – child is a person below 18 years of age. It requires ratifying states to eliminate the worst forms of child labour

No. 138 Minimum Age Convention – minimum age for children to work is 15, but some light work that does not infringe on the education and health may also be engaged in by children from as young as 13.

No. 111 Equal Employment Opportunities - Discrimination as any distinction, exclusion or preference made which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation.

No. 155 Health and Safety – The responsibility of the employer, the workers and their representatives in the enterprise on maintaining a safe and healthy working environment.

No. 158 Unlawful Dismissal - Employment of a worker should not be terminated unless there is a valid reason.

The role of corporate social responsibility

Definition: Refers to the reporting and consideration of societal and environmental impacts of business activities, linked to ethical values, legal requirements and community expectations. The ethical responsibility that a business owes to its stakeholders. Involves going beyond the minimum laws and regulations – proactive rather than reactive approach

Ethical Practice of CSR May involve:

- Development of Corporate responsibility code
- Implementation + Monitoring of CSR codes
- Communication & training of code
- CSR involves ethical business practices locally + internationally (outsourcing, offshore labor)

CSR Involves:

- **Social auditing** - independent and external assessment of how a firm's actions affect society.
- **Work/life balance for employees**
- **Triple bottom line** (environmental, social and economic) – considering the impact of all business decisions on these three indicators. This refers to the practice of measuring, disclosing and being accountable to internal and external stakeholders for organizational activities relating to economic, social and environmental performance.
- **Corporate self-regulations**

Benefits / Importance of CSR

- **Improved financial performance** — reduced costs through waste reduction and process efficiency.
- Improved **corporate image** in the eyes of the public – yields differentiation for products / services, elasticity advantages, increased sales, market share, profit margins etc.
- **Increased sales as a result of customer loyalty**
- **Better staff retention** – PR etc.
- Improved **relations with governments**

Costs / Issues of CSR

- **Short-run costs increase**
- **Reduced Competitiveness**
- **Increased Prices** – in order to maintain profit margins firms may be forced to increase prices
- **Ongoing Costs** – monitoring CSR, Communication & training of code

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Environmental sustainability **Definition:** Involves Decisions that are future orientated, focusing on protecting environments & creating ecologically & socially just decisions through informed actions. This includes developing an awareness of the environmentally responsible decisions in terms of sustainability within the industry.	**Ecological sustainability** – production of G+S at a level compatible with long-term preservation of the environment, and requires efficient and sensible use of the world's scarce resources so they do not become exhausted
Examples of Environmentally Sustainable Practices: • Use of **Green Technologies** (renewable energy sources such as solar panels, wind turbines and geothermal heating) • **Recycling** (turning waste products into reusable materials, it ensures that used products are disposed of in an appropriate and environmentally friendly way) • **Carbon Footprint** (Impact of resource consumption and waste consumption on the natural environment, measure of the environmental impact of an organization's operations, measured in unit of carbon dioxide).	**Benefits of Environmental Responsible** • Improved **corporate image** • Increased **customer loyalty** • **Cost cutting** — excess packaging, avoiding litigation costs from unethical practices, minimizing transportation • **Non-compliance** can end up being costly – litigation etc. • Improved **staff morale and motivation** — ethically and socially responsible behavior can help staff attract and retain highly motivated staff.
Cultural Considerations:	
Culture: A set of characteristics, beliefs and values that bind people together as a community **Impact of Understanding Culture:** • Helps to build long term business relationships and more effective marketing strategies. • Understanding of the management and communication styles used in different countries is important as a lack of knowledge could cause conflict and misunderstanding between managers form different countries.	**Misunderstandings in cross-cultural setting arise when:** • **Self-reference** – unconscious reference to one's own cultural values • **Ethnocentrism** – tendency to view or perceive one's own values as superior to others
Advantages of considering different cultures: • **Cost advantage** – cheaper + embracing culturally diverse workers increases productivity • **Facilitates globalisation** – culturally competent drives global business • **Quality staff** – a firm with a good reputation of handling culturally diversity are able to attract high-quality staff. Recruitment of high-quality, culturally diverse staff gives the firm access to international networks and to expertise and knowledge that ease entry into foreign markets • **Marketing advantage** – culturally diverse firm is able to adapt products and marketing strategies that are more sensitive to cultural differences of foreign markets • *Staff retention, capture talent, productivity, access to international networks, creative problem solving*	

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Levels of education	Customs
Explanation - *Education levels in different countries can greatly differ. Different educational courses or different proportion of educated to non-educated individuals, as well as length of schooling. As a result, businesses must deeply consider how it will integrate local employees into the manufacturing operations* • When employing workers, it is expected that per the task, employees must possess certain levels of knowledge and skills attributed to education, due to different levels of education between countries, businesses may assume that the average worker is capable of fulfilling tasks at an equal level to workers in other countries. **Impact** could be different pay expectations/working conditions / remuneration schemes for different groups/levels of workers in the business / industry sector. • By accounting for differing levels of education, businesses can employ and allocate workers to employment positions that best suit their level of ability. As well, they can restructure tasks and operational structures to account for educational deficiencies and differences in order to minimize harm to business operations *Availability of skilled/non-skilled labour, pay expectations for different levels of workers, other related demographic variables*	**Definition** – *Customs refer to the traditional and widespread ways of behaving and functioning in a specific culture. There are various considerations a firm must consider when operating in a cross-cultural setting.* **Explanation:** Within the foreign business environment, the firm must consider the various customs of the firms' stakeholders. • This could be in regard to organizational practices, working conditions and practices. E.g. of how customs can affect business could be how in Japan it is considered polite to bring a gift to a negotiation meeting while in the Western World this could be considered as trying to bribe the person. **Solution** - work conditions/expectations – provision of culturally appropriate meals/lunches for staff in terms of preparation and dietary requirements **Impact** - A firm must act to understand the requirements of different cultures and the expectations with regards to customs that may need to be met. • A respect to these customs and traditions, harnesses respect from stakeholders, and builds cross cultural relationships. These relationships may increase the firms international reputation, increasing customer base and therefore sales, potentially leading to an increase in net profit. *Food and beverage, work expectations, organisational culture and operations*

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Holidays and celebrations: *In relocating overseas businesses must consider the differing industrial relations regulatory environment in which it is now operating, as a failure to observe and implement these industrial rules in relation to human resource management may constitute an unlawful act.* **Explanation -** the number of public holidays varies between countries and thus relates to overall business costs and productivity. It is important to be aware of different religious basis so you don't offend stakeholders and so you know of obstacles. • Workers expect to be able to take part in these celebrations and for businesses to deny workers of the opportunity to do so may cause cultural offence and a loss of motivation through cultural alienation. **Impact** – influences on how businesses schedule their staff, as the business' operations may close down during particular holidays when employees are unavailable to work. As a result managers and leaders need to acknowledgement of staff diversity in hotel operations, human resources management. **Business** - a In entering the new market, businesses should seek advice regarding key holidays and celebrations and ensure that the human resource management division rosters people off on key dates and or ensures that public holidays are factored into production scheduling. *The number of public holidays varies between countries*	**Religious beliefs**: *Religion shapes the values and beliefs in society, and these beliefs can influence moral and ethical standards. When businesses are considering relocating, their manufacturing operations, they must also evaluate the effect that this will have on employees of varying cultural and ethnic backgrounds. Cultural sensitivity is one thing that managers should take note of, as some religions have stronger beliefs in aspects of life such as food, practices, religious faiths, social customs and dress codes.* **Explanation -** often relates to work practices, holiday entitlements, clothing/uniforms/work- wear, observance of customs, work teams, facilities layout and design of hotel buildings and surrounding grounds • Management must take into consideration the subordinates within the business, to ensure that disputes and drawbacks are avoided. Individuals of varying cultural backgrounds may become greatly affected by common practices in that new area, such as the food habits, majority religious group or dress codes. • Differing religions, their beliefs and faiths may contribute to how sensitive they become to factors affecting culture and religion. For example, employees with Muslim beliefs and attitudes, may be greatly affected in a location where pigs (pork when eaten as a food, which is not consumed by Muslims) are slaughtered heavily in that local area. • This leads to these employees feeling greater levels of discomfort. Muslims with strong spiritual beliefs also pray at certain periods of the day to worship their God, so this may affect the business operations if they are expected to take time off work to do so. • A failure for businesses to take note of, and recognize these religious variances in their employees, could lead to demotivation, unhappiness and alienation among them. This would result in higher absenteeism and lack of attendance at work, adding to overall inefficiency. *Often relates to work practices, holiday entitlements, clothing, observance of customs, facilities layouts*

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Business etiquette: *Business etiquette refers to the cultural customs and practices that are accepted and expected in business interactions between entrepreneurs and workers.* • A failure to recognize these could cause cultural offense and risk damaging business relations in supply chains. Businesses should seek consular support or advice from expatriate Australian entrepreneurs working in foreign countries before she enters foreign markets to ensure that she upskills herself as fast as possible in established etiquette norms. • Observing culturally appropriate etiquettes will help foster amicable bonds between business leaders and foster a feeling of trust and respect. • These are requisite conditions for fruitful business relations and negotiations and should ultimately help businesses build a more profitable sales base with foreign clients and build the company's international brand. **Explanation** – refers to considering and acting within different social and cultural expectations with regard to activities such as staff and guest behaviors, business partner relationships, gift giving, exchange of business cards, dress codes, business hierarchies (BHP v Kirkwood Deli) and gender expectations. Different cultures have different levels of formality and place different emphasis on time constraints. **Impact** – businesses need to consider what is culturally appropriate with regard to these activities, especially when dealing with culturally diverse internal and external stakeholders, within the industry sector and integrating this into business strategic planning and human resource management training and development. *Gift giving, gender issues, hierarchy in and between organisations, exchange of business cards, dress codes*	**Communication protocols**: *Communication protocols refer to the ways in which individuals and Businesses communicate with their internal and external stakeholders.* **Explanation** – Managers who know correct communication protocols show professionalism and can stand out from competitors. internal and external communication between stakeholders may be influenced by the *status, hierarchy (organizational), modes of communication (verbal + non-verbal), accepted greetings*. This would include both oral and written communication, internally within the business and externally with stakeholders. For example, how staff answer the phone in the office, how staff respond to emails. • Need to understand the cultural impacts of communication both verbal and non-verbal so as to support the business goals, her staff, the businesses PR and socio-cultural acceptability. **Impact** – businesses need to develop internal and external communication protocols and modes of communication and use training and development to improve and implement procedures for communication between various stakeholders of the organization. These protocols would take into account the status, positions within the organizational hierarchy and accepted greetings. • Certain cultures have different and specific ways of communicating to their stakeholders, in western culture, emails to employees notifying them of tasks, and marketing techniques are common ways that a Business can communicate to internal and external stakeholders. • When entering a foreign market, a Business must first conduct research to understand the social means and norms of communication, in order to have respect to the foreign Business and markets they may be trying to make transactions with. • When a, optimal level of communication is met, opportunities for future deals and arrangements can be made easier due to the mutual understanding between the cultures. • Businesses should invest time and resources into the creation of standardized rules and regulations around communication protocols and culturally sensitive training for all employees, as without regulations and training, a Business faces the potential negative ramifications regarding potential offence to their external stakeholders, and efficiency within the Business itself.

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Case Studies:	
British Petroleum (BP) • The Gulf of Mexico oil spill of 2010 • As a result of gross negligence BP hemorrhaged over $40b, with litigation, settlements and clean up obligations. • Left 12 000 in offshore drilling temporarily unemployed • 11 workers killed 17 injured • $500 million settlement to the SEC • 1400 whales and dolphins killed along with 800 000 birds • Operating on the margins of safety cost the business their image and financial health	***Body Shop*** • Pioneer of ethical practice in the 1990s • Fair trade ingredient sourcing, and campaigns against animal testing • Guaranteeing that no products are tested on animals • Requiring that no raw ingredients are tested for cosmetics purposes • Selling only vegetarian-friendly products • Communicating clearly on our policies to customers and suppliers • Supporting research into alternatives to bring a stop to animal testing
Cadbury Schweppes • Invested into research for biodegradable plastic	***Clean Energy Acts 2011*** • Mineral Resource Rent Tax, Carbon Tax • Designed to reduce carbon emissions into the atmosphere by imposing a levy for each tonne of GHG emitted into the atmosphere. • Repealed in 2014
CSV: *Creating shared value is a framework for creating economic value while simultaneously addressing societal needs and challenges.* Shared value is a business strategy designed to solve social issues profitably. *Shared value is all about doing business differently – in a way the rest of the market is not.*	

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Cultural Considerations:

Levels of Education:

Definition / Explanation:	Impact
Explanation - *Education levels in different countries can greatly differ as a result of different educational standards and courses in countries. As a result, businesses must deeply consider how it will integrate local employees into the manufacturing operations* When employing workers, it is expected that employees possess certain levels of knowledge and skills. Due to different levels of education expectations might change.	***Impact:*** *Could be different pay expectations/working conditions for different employees* By accounting for differing levels of education, businesses can employ and allocate workers to employment positions that best suit their level of ability.

Holidays and celebrations:

Definition / Explanation:	Impact
Explanation - *In relocating / operating overseas businesses must consider the differing holidays and celebrations.* Workers expect to be able to take part in these celebrations and for businesses to deny workers of the opportunity to do so may cause ***cultural offence*** and a ***loss of motivation*** through cultural alienation.	***Impacts*** *business costs and productivity.* ***Offence:*** *It is important to be aware of different religious basis so you don't offend stakeholders and so you know of obstacles.* ***Business*** *- should seek advice regarding key holidays and celebrations and ensure that the human resource management division rosters people off on key dates and or ensures that public holidays are factored into production scheduling.*

Religious Beliefs:

Definition / Explanation:	Impact
When businesses are operating in global markets, they must evaluate the effect that varying religious beliefs will have on employees needs. ***Explanation -*** *often relates to work practices, holiday entitlements, clothing/uniforms*	• A failure for businesses to take note of, and recognize these religious variances in their employees, could lead to ***demotivation***, ***unhappiness*** and ***alienation*** among them. • This would result in higher absenteeism and lack of attendance at work, adding to overall inefficiency.

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Business Etiquette:

Definition / Explanation:	Impact
Business etiquette refers to the cultural customs and practices that are accepted and expected in business interactions between entrepreneurs and workers. ***For example,*** *Gift giving, gender issues, hierarchy in and between organisations, exchange of business cards, dress codes*	• A failure to recognize these could cause ***cultural offense*** and risk ***damaging business relations*** in supply chains **Impact** – businesses need to consider what is culturally appropriate with regard to these activities, especially when dealing with culturally diverse internal and external stakeholders. **Strong Relationships:** Observing culturally appropriate etiquettes will help foster amicable bonds between business leaders and foster a feeling of trust and respect.

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Topic 8 – Ratio

Ratio Theory:

Ratio Analysis: Methods whereby users analyse past and present data to determine an entities present financial position and predicted future performance. A ratio can be defined as the relationship that exists between two different quantities. The comparison of items in financial statements of a business to determine an entity present financial position and predicted future performance

Always define the ratio and outline ratio such as $X of Current assets per dollar of current liabilities

Increase in Profit:

↑ **Revenue**

- Improve Sales through: Marketing / Pricing Strategy, Innovation, USP, insulate market share, Expansion (Increase customer based and exposure)
- Improve productivity (↑ Output ↓ Costs)
- Increase price with no increase in VC (If there is an inelastic demand)

↓ **Expenses**

- Efficiency through innovation (No wastage)
- Cheaper inputs (Outsourcing)
- Decrease Wage expense through proper management

Limitations of Financial Ratios:

- Number of years before a trend will appear
- Problems of comparison due to inconsistencies in accounting methods or policies.
- Disclosure of information which makes it hard to calculate and compare ratios.
- **Ratios do not identify causes of the problems**
- **Industry Average Needed**

Purpose of Ratio Analysis:

- To provide information for decision making
- To Indicate areas that require further investigation
- Reduce large amounts of financial data to smaller financial indicators that are easier to understand
- Evaluate financial affairs of business through re-organising data into ***economic indicators***
- To evaluate profitability, liquidity and leverage.
- To provide information for decision making and indicate areas requiring further investigation.

Links between Ratios

Profitability & Liquidity

There is a positive direct relation b/w sales, profit and cash flow

- Profit decrease & liquidity increase = Less efficient use of Cash
  = Expenses increase > increase income

Gearing & Liquidity

High gearing w high liquidity = Additional debt is generating increase sales & income + cash

- Higher gearing requires higher liquidity. Increase in liquidity will allow a business to borrow more.

Profitability & Gearing Profit increase – decreased gearing

1. Increase profit = high liquidity = finance higher gearing levels

2. High gearing = Increase income generating NCA's => increase revenues from assets (e.g. expand productive capacity => increased sales.)

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Profitability: The business ability to generate a return from its investment in assets or equity, involves comparing some measure of profit made with assets or owners' equity of the business. Performance of the business. Success of a business in making acceptable profits.

Purpose

- Analyse a business' financial position – short and long-term liquidity
- Access the business' financial performance – the ability to control expenses
- Compare actual figures with projected or budgeted financial figures (variance analysis)
- Aids decision-making, investing in the business.

Solutions to improve profitability:

1. **Raising Revenue**: Fluctuations in the selling price, Marketing strategies – Sales promotions

2. **Reducing direct costs**: Cutting direct costs – cheaper suppliers or materials, cutting direct labor costs – reducing staffing costs by reduction in staff, or increasing productivity from staff. (Can demotivate factor for staff)

3. **Reduce inventory waste:** Forecast and plan your inventory much more efficiently

4. **Readjust your sales mix**: Find your product or service that has the highest gross profit margin. Then you will find what product and what areas you need to focus on.

5. **Integrate new products or services**: Consider adding additional product lines or services.

6. **Alter your business focus**: A business must simply change its focus to become more profitable. For example, say a photographer starts a business to take portraits and landscapes. The demand for these types of products is low and competition is high. Then changing into a wedding photographer can increase sales and profit.

Gross Profit Ratio (%): Percentage of gross profit that is contained in each dollar of sales. Measure of the level of profit available after subtracting cost of sales expense **COGS**, to cover any remaining expenses of a business.

Reasons for Changes:

- Gross profit has changed in comparison to sales
- Cost of sales may be less
- Mark up on stock may have increased
- More high profit stock may have been sold.
- Increasing in selling price of inventory greater than any increase in purchasing price
- Purchasing of inventory at a lower price.
- New competitors entering markets, price wars.

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Net Profit Margin Ratio (%):

Shows percentage of profit that is contained in each dollar of sales. The profit (margin) ratio measures the amount of profit as a percentage of net sales. Profitability refers to how effectively the business is using its assets and invested funds to generate profit. A business can be highly profitable but still go out of business, because if cannot pay its short-term debts. The ratio measures the profitability of sales, arguably the most important measure of company performance. It takes into account both direct and indirect costs (rather than simply margin), indirect costs include marketing, distribution and administrative expenses.

- Can be used to measure performance against past periods
- Shows the capacity of a business to control all costs compared to its net sales.
- These ratios will vary according to industry sector, for example high volume goods such as food has a relatively low ratio whilst low volume goods such as designer goods have a higher ratio; however as a general rule, the higher the ratio for the firm the better it is for the firm.

Reasons for Changes:

- Profit has increased in comparison to sales
- Could be a decrease in expenses
- Increase in mark up
- Better control of expenses
- Cheaper supplier of inventory ↓ COS
- Adequate marketing
- Levels of competition
- Expenses being fully passed down to consumers in increased selling prices

(c) Distinguish between the gross profit ratio and the profit ratio and explain how one can increase while the other decreases. (4 marks)

Description	Marks
Distinguishes between the gross profit ratio and the profit ratio	2
Outlines a fact about the gross profit ratio **or** the profit ratio	1
Subtotal	**2**
Explains how one ratio can increase while the other decreases.	2
Provides a partial explanation of how one ratio can increase while the other decreases.	1
Subtotal	**2**
Total	**4**

Answer(s) could include:

Distinguishing between the ratios:
The gross profit ratio measures the amount of gross profit (sales – cost of sales) as a percentage of net sales before other costs are considered. The profit ratio takes these other costs into consideration in calculating operating expenses (gross profit – other expenses).

Reasons why one ratio can increase while the other decreases:

- The gross profit ratio can increase while the profit ratio decreases when the cost of sales decreases but other costs increase.

or

- The profit ratio can increase while the gross profit ratio decreases when the cost of sales increases but other costs decrease.

Accept any other correct, logical answer.

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Operating Expense Ratio (%): A measure of what it costs to operate compared to income generated. Shows the percentage of operating expenses as a ratio of net sales. Shows the percentage of sales that is consumed by expenses. Lower the ratio the more efficient a business is with operating expenses, the greater net profit available. Part of profitability.

- The Operating expense ratio allows investors to understand how efficiently a business is able to produce goods or supply services.
- Reveals if management is able to expand operations without dramatically increasing expenses.

Reduction in Operating Expense Ratio:

- Indicates that management is able to scale production efficiently; revenues expanded more quickly than expenses increased.
- This is a very positive outcome from a profitability standpoint.

Impacts of Low ratio:

- Expenses of operating are low meaning business is efficient and will be gathering a higher percentage of profit as its day to day expenses aren't as high
- Indicates that management is able to scale production efficiently; revenues expanded more quickly than expenses increased.
- This is a very positive outcome from a profitability standpoint.

Solutions:

- To lower Operations Expense Ratio (OER) typically businesses aim to improve the management efficiency of the property and increase its profitability for investors.
- This is done by reducing the proportion of the properties income that is covering operational and maintenance costs.

Ways to Improve Ratio:

- Material costs
- Rent
- Technology / Innovation (↑ efficiency, productivity)
- Wages (and human capital)

(b) Outline the purpose of the expense ratio and describe **one** possible reason for the change in this ratio from 2018 to 2019. (4 marks)

Description	Marks
Outlines the purpose of the expense ratio	2
States a fact about the expense ratio	1
Subtotal	**2**
Describes **one** reason for the change in the expense ratio	2
States a fact about the change in the expense ratio	1
Subtotal	**2**
Total	**4**

Answer(s) could include:

Purpose:

- The expense ratio measures the amount of expenses as a percentage of net sales.
- This ratio shows the capacity of a business to control all expenses compared to its net sales.
- The lower the percentage the better.

Reason for change:
The expenses of Throwngames Ltd have increased by 2% (from 3% to 5%). This demonstrates that the company is likely to have increased costs/expenses compared to the sales generated.

Accept any other correct, logical answer.

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Return on Equity Ratio (%): Return on equity (ROE) is a measure of profitability that calculates how many dollars of profit a company generates with each dollar of shareholders' equity. Shows the investors/owners return on investment. ROE is a measure of efficiency - A rising ROE suggests that a company is increasing its ability to generate profit without needing as much capital. Measures the success of a business in generating profit on capital invested. This is effectively an efficiency ratio that shows how wells a firm's resources have been used.

- Bigger is better
- Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity.
- Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.
- For high growth companies you should expect a higher ROE
- Averaging ROE over the past 5 to 10 years can give you a better idea of the historical growth.
- Generally a return greater than interest charged by banks is seen as a minimum return
- *Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.*

Factors impacting the ratio:

- Management of shareholders capital
- Level of debt (higher debt can artificially boost ROE)
- Business expenses

Impacts of High ratio:

- Generates a larger amount of profit with the money shareholders have invested.

Methods to Improve Return on Owners Equity

- Increase gross profit margin by reducing the cost of goods sold as a percentage of revenue which can be achieved by:
    - Improved asset utilization
    - Raw material cost reduction
    - More efficient manufacturing
    - Increasing sales price
    - But <u>not</u> by increasing sales volumes alone
- Reducing operating expenses
- Reducing Equity
- Increasing Long-Term Debt

Liquidity Definition:

1. How *easy it is for an asset to be converted to cash*, cash is completely liquid, debtors are highly liquid (Turn into cash within 30-60 days), Inventory is illiquid as it is hard to sell large quantities in short periods of time and at the retail price.
2. *Ability of a business to pay its short-term debts as they fall due.*

Solution to Improve Liquidity:

- Borrow more funds
- Improve stock turnover
- Pay off creditors before balance date to take advantage of discounts
- Arranging extra time to pay creditors
- Increase cash capital contributions
- Increase rate of payment from debtors through improving debtor collection policy
- Increase profitability through decreasing expenses.
- Sell NCA and lease them back

Purpose:

- Analyse a business' financial position – short and long-term liquidity
- Access the business' financial performance – the ability to control expenses
- Compare actual figures with projected or budgeted financial figures (variance analysis)
- Aids decision-making, investing in the business.

Working Capital / Current Ratio

Measure of the ability of a business to pay its short-term debts within the next 12 months using its current assets.

- Working capital is the amount of day by day operating liquidity available to a business and is considered a part of the operating capital.
- Improvements to a business's current ratio may indicate stronger liquidity or an inefficient use of assets.
- Declining results from this ratio may indicate poorer liquidity or a more efficient use of assets.

Reason for Change:	Analysis:
• Current assets are changing in comparison to CL. • Idle cash to be invested or ineffective use of funds • Quicker stock turnover. • May be faster stock sales or debtor receipts or boost in sales • Acquisition of Current Assets • Borrow long term finance to pay for CA's • Paid off debt (Low gearing) • Reliance on equity SOF, rather than debt SOF • Arrange extra time to pay off creditors.	• **100%:** Illiquid business, the business is finding it difficult to pay short-term debts or an industry which money is collected from sales quickly. Could lead to impacts on operating activities due to low levels of current assets and potentially impact profitability due to low levels of CA's • **100-200%:** Liquid business, should be able to pay short-term debts. Ideal ratio. • **>200%:** Highly liquid, business should be able to pay short term debts, has extra CA to pay unexpected debt or to pay for purchased of more inventory. There is an opportunity cost to having surplus current assets as there are better ways to invest cash surpluses to generate a better return.

Leverage / Gearing: Comparison of internally generated debt (OE) of the business with the externally owed debt (L). The extent to which a business has funded its operations from borrowed funds rather than equity.

Purpose:

- Analyse a business' financial position – short and long-term liquidity
- Access the business' financial performance – the ability to control expenses
- Compare actual figures with projected or budgeted financial figures (variance analysis)
- Aids decision-making, investing in the business.

Debt to Equity Ratio (D2E) (%): STABILITY

Measures gearing of a business and how they have funded their assets by comparing total liabilities to the amount of contributed equity.

Reason for Change:	Analysis:
• Changes in the level of externally owed debt (L) compared to internally generated debt (OE) • Increased borrowings for ***expansion to gain a competitive advantage in the market - growth*** • Relying more on borrowed funds • Reduction in owners' investment • Changes to profit increase retained earnings • If interest rates are high this could be concerning • Large dividends payouts • Paying off debt **Solutions:** • Increase equity finance • Payback borrowings and loans • Increase retained earnings through increasing sales • Encourage debtor repayments to access cash flow and extend payment period for creditors	• **>100%:** Means business is highly geared. Relies more on external borrowings than on funds provided by owner. Highly geared business has less chance of obtaining loans in future. Interest expense is usually quite high affecting the profit. *Less financially secure in long term.* • **<100%:** Means business is low geared. Relies less on external borrowing than on the funds provided by the owner. Has more chance of obtaining loans in future. *More financially secure in long term*. Interest expense is lower than a highly geared business. **Consequences of high gearing:** • Difficult to raise more finance • Greater interest repayments • Greater strain on cash flow • Higher risk of default.

Consequences of high gearing:

- Difficult to raise more finance
- Greater interest repayments
- Greater strain on cash flow
- Higher risk of default.

Analyzing Ratios:

1. Define liquidity/gearing/efficiency/market/profitability
2. Define ratio
3. State ratio – and what it indicates
4. Any trend? (consequences - try link other ratios)
5. Above or below industry standard?
6. Reasons for ratio (refer to real figures, e.g. increase in sales by x)
7. Possible improvements to be made

Account	Cause 1	Cause 2	Solutions
Debt / Liabilities	High gearing is likely to be associated with high liabilities (NCA's) • Term loans • Debentures • Mortgages	Future growth strategies – Investment in NCA's Decrease liquidity result in debt restructuring => increase LT debt	**Restructure debt** = Change credit terms, bundle debt, seek lower I. R. **Sale of Assets**
Equity	Changes in equity – Look to • Retained earnings • Share capital	Retained profits – Sales => economic conditions Share capital – share issue	**Boost profitability** – Marketing Raise share capital

Accounts	Cause 1	Cause 2	Solutions
Current Assets	Cash, debtors, Inventory	**SALES** **Debtors** – BD & change credit terms **Inventory** – More efficient stock management	**Increase sales** – Marketing (change product mix, advertising, sales promotion Debtor checks/repayments
Current Liabilities	Overdraft, creditors	**Overdraft** – increase debt facility = increase I.R. **Creditors** – Purchases = Expected sales?	**Negotiate with creditors** – Bulk buy, debt rebundling/re- financing (decrease I.R.) shop around.

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Topic 9 – Operations Management

Production Management System (PMS):

Operations Management: *Administration of business practices to create highest level of efficiency possible within an organization, concerned with transforming inputs into G+S as efficiently as possible to maximise profit.*

Production management systems (PMS)
Production management systems monitor and control the production process. It ensures;

1) Inputs are organised (↓ Waste ↑ Efficiency)
2) Production processes are operating effectively and efficiently
3) Outputs meet quality standards and client needs.

Purpose of Production Management

- **Cost reduction** (quality, inventory, process)
- **Quality control** (impacts on brand image, value and recognition)
- **Efficiency** (process, inventory management)
- **Customer satisfaction** (Through quality)

Primary Areas in the Production Process:

- **Research and Development** (Identify gaps in market and the functionality of the product)
- **Inputs** (L,L,C,E → Reduce wastage and enhance efficiency)
- **Production** (transforming, converting)
- **Distribution** (delivery, transportation)

Types of Manufacturing: (Not in Course)

Job Production process
Process that performs or creates single and customized projects for a specific client. Job Production is typically performed by skilled experts to a high standard and usually allows for considerable flexibility and customization in the finished product.

Characteristics:

- **Flexibility:** More process divergence and more flexible flows (advantage)
- More resource flexibility (advantage)
- **Customer Satisfaction:** More customer involvement in the process (advantage – customer satisfaction)
- **Less capital intensive** (disadvantage – increased costs)
- **More human resource intensive** (disadvantage)
- **Less automation**/robotics in processing (disadvantage)

When Appropriate:

- Unique products with a niche / differentiation focus – customer satisfaction (cater to wants)
- When there is a highly skilled workforce
- High quality Veblen goods where a premium pricing scheme can be charged to recuperate increased production costs (labour)

Mass / Flow Production process
Mass production is the manufacture of large quantities of standardized products. (High volume, consistent standard)

Characteristics:

- Low process divergence, more line flows, mass production (advantage – efficiency)
- **Less customer involvement** (disadvantage)
- **Less resource flexibility** (disadvantage)
- **More capital intensive** (advantage)
- **Less human resources** required (advantage)
- **More automation**/robotics in processing (advantage)
- **EOS:** Economics of Scale Exploited (advantage)

When Appropriate:

- Homogenous products that have standardized production processes.
- Highly competitive industries where there is particular emphasis on price competition and thus using EOS to reduce production costs
- Low skilled workforces (less labour intensive)
- Large Industries where finance for capital investment is available.

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Batch Production Process

A batch of identical products are made together they group does not move onto the next stage of production or inspection until the whole batch is done

Characteristics:

- Batch is similar to mass production however to a **lesser extent of automation and capital intensity** etc.
- Low process divergence (more than mass), more line flows, larger production (advantage – efficiency)
- **Less customer involvement** (disadvantage)
- **Minimal resource flexibility** (disadvantage however still more flexibility than mass production)
- **More capital intensive** (advantage)
- **Less human resources** required (advantage)
- **More automation**/robotics in processing (advantage)
- **Economics of Scale** (still likely to be higher unit production costs than mass p.)

When Appropriate

- When slight variations to mass produced goods are required
- Requires more flexible labour and capital resources to adjust to different batches of design
- Standardized production with different sizes or slightly different requirements (eg. Jeans, dresses)

JIT or JIC:

- Batch processing uses a fixed number of inputs and produces a fixed number of outputs
- JIT should be considered appropriate as the number of inputs required would be known
- Stock can be delivered when it is required in the production process
- Buffer stock or holding stock is not required
- This reserve stock is not required, therefore there is no need for JIC

Product Development

Features of product development

Product development involves investing time, money and skills and involves a high level of risk.

Product Development: Features a sequence of events that bring a product / service from an idea to the point where the product is ready for sale.

- **Incremental Innovation –** Product improvements, new features or better performance to existing products
- **Disruptive Innovation –** A totally new product that will be sold to a new or existing market

1.) Idea Generation: The continuous and systematic quest for new product opportunities, including updating or changing an existing product.

- *Market research -> identifies needs and gaps = Helps firms establish ideas that could be eventually exploited to generate a competitive advantage*

Reasons for Product Development:

- **Growing customer base**
- **Changing customer needs**
- **Changes in the business environment**
- **New technologies**
- **Competitor innovation**
- **Product revitalization**
- **New marketing strategy**
- **Declining sales and profitability**

Outline the features of product development. (2 marks)

Description	Marks
Outlines the features of product development	2
States a fact about the features of product development	1
Total	**2**

Answer(s) could include:

- Product development features a sequence of, or phases of, events that bring a product/service from an idea in the creator's mind to the point where the product is ready for sale.
- It can involve incremental innovation (product improvements) or disruptive innovation (a totally new product).
- It involves investing time, money, skills and a high level of risk.
- Examples/stages include:
  - product ideas
  - evaluation of ideas
  - concept evaluation
  - prototype testing
  - market testing
  - product launch.

Accept any other correct, logical answer.

2.) Research & Development (primary, secondary)
Systematic research aimed at discovering solutions to problems or creating new innovative products and knowledge. While the department usually is separate from sales, production and other divisions, the functions of these areas are related and often require collaboration.

Reasons for R&D:

- Gain first mover ***advantage***
- Determine ***feasibility*** of the commercialization of the product
- Determine the presence/***absence of a market***
- Determine what the ***market needs*** (market orientated approach)
- Gain or maintain ***competitive advantage***
- Increase the life of the product through incremental innovation
- R&D builds ***intellectual property ultimately with a view to commercialisation.***

Research and Development Methods

- **Focus Groups** – a small group discussion led by a group leader. It is used to learn more about opinions on a designated topic and then to guide businesses decision making.
- **Clinical Trials** - This is product testing but utilises testing on human participants to determine the effectiveness of the product in providing a beneficial outcome.
- **Product Testing**
- **Prototype Development**
- **Market Research**

Issues to Consider in R&D:

- Identifying research questions
- Choice of research technique
- Market segmentation
- Sourcing primary and or secondary data
- Prototype development

3.) Development & Testing Phase

- **Product Testing** – Using the product in different situations to determine the usability, quality and safety of the device. The product would have to be tested against industry standards.
- **Prototypes** – Models of the product built to test its properties and improve the product prior to producing the final saleable product. Firms would have built several prototypes throughout the development process as it improved on their product offerings.
- Prototyping would continue based on feedback from trials, focus groups and product testing until the final prototype was determined to be a marketable product. This final prototype would then be mass-produced for the market

Issues to Consider in Testing Phase:

- Protype trials
- Types of testing
- Feedback loop for R&D

4.) Feasibility Study (Business Analysis)

- Consideration of Legal Requirements
- Consideration of IP
- Financial feasibility
- Conduction research – costs of materials, availability of materials, scope of market

5.) Product Launch (Product Launch)

- When the concept has been developed and tested, ***final decisions need to be made*** to move the product to its launch into the market.
- ***Pricing and marketing plans*** need to be finalized and the sales teams and distribution briefed so that the product and company is ready for the final stage.
- Companies can aim to get a competitive advantage through distribution by shortening distribution channels to reduce costs.
- New products require a more ***comprehensive marketing plan*** with a heavy emphasis on the promotional aspect.

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Quality Management:

Quality Management: *Quality management is the act of overseeing all activities and tasks needed to maintain a desired level of excellence and consistently high-quality output.* This includes the determination of a quality policy, creating and implementing quality planning and assurance, and quality control and quality improvement.

- **High Quality:** Quality management ensure processes and systems result in a consistently high-quality output.
- Quality management is concerned with detecting and rectifying faults and substandard performance. It isolates and provides feedback on the causes of quality problems.

Quality Control

Refers to sampling products at the end of the production process to ensure quality standards are achieved before reaching the consumer. This prevents substandard products being sold to consumers.

- **Objective / Purpose –** to identify where criteria are not being met and to put corrective action in place.
- **Importance –** Loss of profitability can occur if there is no QC as brand image is associated with a particular quality level.

Characteristics

- Monitors input to outputs
- Ensures products are made to the required specifications
- This is a **post-production control** and therefore limits the ability for the company to be proactive and reduce waste

Methods: These techniques can be used at the completion of the production process to ensure the product meets the standards.

- **Policies and Procedures** – used to ensure standardization in the production process. Monitoring, procedures, tests, policies
- **Inspecting, testing and sampling the quality of the product produced (ongoing checks)**
- Monitors inputs & outputs in the production process

Benefits of Quality Management

1) **Level of customer loyalty** (Customer Retention)
2) **Social Capital –** Reduce risk of customer complaints which impacts the reputation of the business
3) **Level of customer satisfaction** (Customer Surveys)
4) **Percentage of market share**
5) **↓ Purchases returns**
6) **Reduction in waste –** By anticipating problems and avoiding time and money spent on fixing errors and defects
7) **Higher Profit –** As there are more sales due to customer satisfaction and cost reductions

Challenges of Quality Management:

1) **Time consuming** – delays in the production process and also training staff
2) **Expensive** – additional training costs, infrastructural improvement costs, QC consultant fees
3) **Production disruption** – requires extensive time & resources, implementing QC can reduce worker output

Dependent on:

- **Size of the company** – Larger the company the more sophisticated that QC has to be, more expensive
- **Kind of products** it is manufacturing or delivering – If the product is medical there may be very strict control with testing at all stages.

Quality Control is Carried out at 4 stages of Production:

- **Specifications** – Quality criteria and customer requirements.
- **Raw materials** – Quality of raw materials influences quality of product. Need to have quality criteria and a trusted supplier.
- **Manufacture** – Quality inspections throughout process, checks to ensure production machinery and equipment are working as it should.
- **Final Testing** – Inspecting and testing of finished products to ensure they meet quality and customer specifications. Feedback controls are done before delivery or collecting customer feedback.

Quality Assurance Concerned with preventing poor quality at the **start** of the production process. Process of guaranteeing the consumer of a product's quality by ensuring that everything is performed the right way the first time. This approach focuses on the prevention of defects/poor quality at the start of the production process. • Proactive process to prevent substandard performance and output. • Work on prevention of defects by improving processes and reducing the number of defective products that reach the consumer • Can be a part of workplace culture and a commitment of all staff to work to the highest standard to meet quality targets • Prevent defects by doing things *'right the first time'* • Products should be "Fit for purpose" • Involves checking and reviewing the production process	**Methods:** There are **external accreditation** options that give the consumer increased confidence in the final product as it has passed an external quality process. • **ISO9000 -** a set of international standards on quality management and quality assurance developed to help companies effectively document the quality system elements to be implemented to maintain an efficient quality system. Businesses that are ISO 9000 compliant have met the criteria for certification. This is awarded by external authorities and is an internationally recognised quality certification. • **Six Sigma** (statistical quality control process – 99.66% of products with no defects, explains and institutes policies in an attempt to achieve this)
Quality Improvement Quality improvement refers to the systematic quality management approach whereby a business improves the quality of its products or services by reworking or setting quality targets or ensuring the reduction or eliminating wastage or losses in production processes. *Continual commitment, proactive approach to reducing or eliminating waste* • Incremental vs Disruptive improvements • The outcome of continuous improvement is products and services of higher quality • Improvements streamline processes to reduce errors and waste is eliminated and improve product quality • Continual QI will result in products and services of higher quality, customer loyalty and attracting new customers through word of mouth and company reputation.	**Quality Improvement Methods** • **Total Quality Management (TQM)** - A continuous improvement system of management based on the principle that every member of staff must be committed to maintaining high standards of work in every aspect of a company's operations. The main aim is customer satisfaction. • **Kaizen** –A continuous improvement model that systematically seeks to achieve incremental changes in **processes** in order to improve efficiency, quality and the production process. • **Quality circles:** It is a work group of employees who meet regularly to discuss their quality problems, investigate causes, recommend solutions, and take corrective actions. **Problems with implementing Quality Improvement:** • Implementation problems • Measurement problems • Associated costs and KPI's

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Inventory Control:

Inventory management is the practice overseeing and controlling of the ordering, storage and use of components that a company uses in the production of the items it sells.

Aims of Inventory Control

1) **Reduce costs by eliminating excessive stock**
2) **Ensure availability of needed inventory**
3) **Minimise risks of losses on inventory**
4) **Maintain necessary records for protecting against thefts, wastes leakages of inventories and to decide timely replenishment of stock**

Factors to Consider (JIT vs JIC):

- Replenishment lead time
- Carrying costs of inventory
- Asset management
- Inventory forecasting
- Inventory valuation
- Future inventory price forecasting
- Quality Management
- Demand Forecasting
- Physical Space

KPI – Sales profitability, market share

Just-in-time (JIT)

JIT is a inventory control system based on stocks being delivered as and when they are needed in the production process. Consequently, stock is delivered only when it is required for the provision of products or services by firms.

- Minimises stock on hand & eliminates the need for inventory storage costs.
- **Pull Based –** Customer demand determines what a company pulls or orders
- Success of method relies upon a high level of coordination, reliable suppliers and a highly efficient production process.
- No room for error or delays in the supply chain as this impact's customer satisfaction.
- **Low Inventory Costs –** No warehouse, warehouse staff and bulk purchases

When Appropriate

- Appropriate for batch production where a firm utilizes a fixed number of inputs and produces a fixed number of outputs
- Job based approach
- Perishable inputs which may spoil if not used in time. For example, McDonalds.

Conditions for successful JIT inventory system

- Strong relationship with suppliers
- Multi-skilled production staff & flexible machinery & equipment
- Accurate demand/sales forecasting
- Up-to-date IT equipment to ensure efficiency & speed
- Strong inter-business relationships

Advantages / Characteristics

- ↓ **Costs:** Buffer stock or stock holding is not required, and thus reduces costs involved with double handling of inputs and inventory procurement and storage.
- ↓ **Capital Investment:** And the opportunity cost of stock holding is reduced. This means the space and financial resources can be used to increase output levels. No need for a warehouse.
- **Space utilisation**: allowing for more productive purposes
- **Reduces the risks of damage and waste**
- **Flexible** – leads to quicker responses to changes in demand patterns.
- **Avoid costs of obsolete inventory** if consumer demand and preferences change

Disadvantages / Characteristics

- **Increase in delivery costs** as inventory levels are bought in smaller quantities.
- **Reduction in bulk discounts** offered by supplier
- **Increased reliance on suppliers**, which also increases vulnerability to external factors
- **Expensive Production delays** may arise if there are issues with procuring the intermediate products from suppliers.
- **Company must be very efficient** and have a good JIT system to avoid supply problems as any delay results in unhappy customers
- **Opportunity cost** of lost sales due to not having buffer stock on hand

Just-in-case

JIC is a stock control system that maintains large amounts of stock (Buffer Stock) in case there are supply or demand fluctuations or unexpected run downs in the level of inventory. For example, Hospitals.

- A buffer stock (or reserve stock) of raw materials, semi-finished goods and finished goods is used JIC there are any issues, such as late delivery of stocks from a supplier or a sudden increase in demand for output. Ensures there is sufficient stock.
- Stock is purchased and stored in anticipation/advance
- JIC involves storing and maintaining inventory to avoid running out of stock
- **Push Based –** A company has stock that they must push or sell to customers

When Appropriate:

- Flow / Mass production processes
- Not appropriate for products with perishable components
- Can be used as a temporary measure to respond to supplier closure in the short term such as Christmas. JIC will ensure businesses have enough stock during these times of uncertainty of supply.
- Eg. Hospitals

Considerations:

- Depends on the business and stock it needs
- JIC impacts on working capital. Appropriate use of cash?

Advantages / Characteristics

- **Efficient Response to Demand:** Raw material holdup cannot hold production levels. Ensures there is always inventory on hand to meet the demands of customers
- **Economies of scale** (delivery, ordering BBP) (Negotiate bulk order stock) (Reduce Transport Costs)
- Can meet unexpected increases in demand
- **Reduced down-time** in production as there is no delay in inventory from suppliers
- **Eliminates delays and lost sales** due to a lack of stock
- **Competitive advantage** as you can quickly supply a product to customers

Disadvantages / Characteristics

- **Higher Costs Initially:** High Storage costs and double handling costs (buffer stock required)
- **Opportunity cost of storage space + Storage overheads**
- **Increased risk of damage**, waste and obsolete products
- **Storage space** could be used for other productive activities
- **Working Capital** held up in large volume of inventory
- **Changing consumer spending patterns**, trends and preferences

JIT or JIC:

- **Location:** If suppliers are local and delivery is quick then JIT will work well. Less chance of delay and damage in transit.
- **Suppliers:** If supplier maintains good inventory and is organised, they can deliver orders quickly so JIT will work. If a supplier needs a long lead time and is less reliable JIC is better.
- **Sales Forecasting:** Combination of JIT and JIC may be best if a business has predictable sales fluctuations.
- **Inventory Control System:** JIT inventory control requires a sophisticated system to track inventory levels in real time and to identify stock items that need ordering. May require automated orders. A business that has a basic system that cannot cope with JIT is more likely to use JIC.
- **Products:** Products like fresh food cannot be stored for long periods and clothing changes seasonally. A business will use JIT control to be adaptable and to ensure a fresh supply to customers. JIC is better for stable products and materials that don't perish or go out of fashion.

Supply Chains: (Not in Course)

Globalisation: The growing interdependence among nations and encompasses a range of areas such as trade, investment and technology. This process has been facilitated by factors including deregulation, trade liberalisation and transportation advancements.

Supply Chains: Refer to the sequence of activities from the production of a good or service to it being delivered to the end customer.

As supply chains become more globalised, they become more decentralised and hence harder to control. Due to the lack of centralised control, quality management becomes a significant issue for firms as the task to maintain the same level of quality under direct supervision becomes harder.

Supply Chain Operations:

- Manage interconnected businesses involved in providing good or service to a customer
- Managing stock movement and storage of 'work in process' and finished goods
- **Supply management**
- **Inventory control**
- **Materials management**
- **Inventory management**
- Management of distribution channels
- Upstream and downstream

Incorporating Quality Management in Supply Chains:

- **Common Quality Standards needed amongst parties**
- **Information needs to be shared** by all parties involved the process to ensure communication of standards are being met.
- All parties within the supply chain should have **contributions towards quality in all stages** of the production management process.
- Firms along the supply chain need to ensure **integration** and **co-ordination** across businesses so that product development can be efficient
- **Quality control:** All stages in the supply chain must add value in order to attract customers to buy quality products, thereby generating profit for all firms in the supply chain
- **Quality Control + Assurance:** To ensure quality is maintained, quality controls and assurance standards could be adopted. Control measures may include, tests, audits, screening, standardised procedures, mechanisation etc to ensure that defective inputs are picked up before they enter the production process.
- **Only deal with High Quality Suppliers:** Quality assured businesses are compliant with ISO standards which benchmark quality standards

Reasons for Supply Chain Management:

- ↓ **Risk:** Reduce risk of things going wrong that adversely impact the business. This is due to supply chins being long and hard to control.
- **Ensure Appropriate Stock levels:** Helps to ensure appropriate supply of stocks is used to meet the level of demand. Supply chain management helps to identify and prevent bottlenecks in supply.
- ↑ **Efficiency:** Through reduced waste and inefficiency

Problems with Supply Chain Management:

- **Complex Process:** Due to supply chains being global and there being multiple partners to deal with in the supply chain process. Time lags may occur and potential cultural conflicts.
- **Greater Interdependence:** Increased reliance on supply chain partners, issues can cause major disruptions.

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Topic 10 – International Marketing

International Marketing:

International Marketing: *International Marketing refers to the marketing of a firm's products in foreign countries. Marketing on a worldwide scale reconciling or taking commercial advantage of global operational differences, similarities and opportunities in order to meet global objectives.*

KPIs – sales value/volume, customer loyalty, margins, elasticity, margins

Brand: A brand is a name, term, design, symbol or any other feature that identifies one seller's good or service as distinct from those of other sellers

Global Brand: *The exercise of creating and communicating a brand to the intended market segment in an international setting. A brand is any identifiable set of characteristics associated with a good, service or company. Brands should communicate the brand personality. Elements of a brand may include fonts, colour schemes, logos, slogans etc*

Benefits of Branding:

- ***Customer Base*** *– Access to wider customer base, ↑brand awareness ↑Sales*
- ***Recognition*** *– Strong visual identity (logo), so that customers can identify products quickly amongst other. Distinguishable product features, corporate slogans, product names, clear positioning of products and brands. Consequently, customers can identify products quickly amongst others and link identity between product lines and associate new products with logo. Increases customer retention and sales.*
- ***Economics of Scale (Lower Costs)****– in marketing and production. As a result of increased output levels and sales. A business will be able to achieve Eos by using the same advertising and packaging throughout the world. A centralised team of people will be able to develop the 4 Ps of marketing strategy for all markets.*
- ***Diversification / Mitigate Risk*** *– spreading risk over a diverse and larger customer base. Domestic instability can be balanced out.*
- ***Extended Product Life Cycle*** *- Sell to broader spectrum of people (developing economies) to increase sales*
- ***Loyalty*** *– increased customer retention, customers are prepared to pay a premium price for a perceived benefit of the known brand over its competitors. This brand loyalty should lead to increased profitability and steady sales*

Pneumonic: *C.R.E.D.E.L*

Feasibility of Expansion:

Feasibility Analysis – *Assesses potential viability of a given market*, including the total market size, the level of existing and established competitors, and capital requirements to launch and sustain business. *It assesses whether the proposed venture will provide a level of sales that will result in sustainable profit over the medium to long term.*

- Through the use of market research, peak body research, estimating demand, environmental scanning (PEST, SWOT, Porters 5 Forces) this then links to the processes of change management as well as strategic formulation, evaluation and control, and strategic implementation.
- Link to PEST & SWOT

McDonalds Approach to International Marketing:

Mc Donalds has used elements of both standardisation and adaptation in an approach called **glocalisation**. *Glocalisation involves using a range of standardised branding techniques eg. icons, colour schemes, product names, slogans etc. This is also relevant to ATL marketing techniques where expensive promotions are often very similar in markets perhaps only changing for language differences.*

Mc Donalds **adapts its marketing mix** *in certain markets due to PEST differences The adaptation tends to be around BTL techniques and product features as these are less expensive to adapt in each market.*

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Level of Demand by Consumers

Businesses must consider whether foreign markets have enough potential customers to warrant investment of expansion.

- **Impact of Demand:** Demand for a product will enable quicker penetration of brand awareness, higher potential market share and the ability to replicate expansion cost
- **Depends on:** Price elasticity, cross price elasticity, inflation, disposable income, economic activity
- **Businesses Can;** Estimate the total market demand for the general product category or competitors' products

High Demand Leads to: ***Must also talk about low demand*

- Increased sales
- Higher potential market share
- Greater ability to command higher prices
- Possibility of more competitors
- Ability to quickly recuperate expansion cost's
- Quicker penetration of brand awareness

Consumption Patterns

Definition – *Composition or makeup of consumer demand, comprised by a variety of different tastes and preferences*.

Influences:

- **Trade Liberalisation**
- **Growing demand by Asian Middle Class**
- **Structural Change**
- **Level of disposable income**
- **Switching costs, brand loyalty, differentiation of market, availability of substitutes**
- **Economic Factors**

Changing Consumption Patterns:

- Potential creation of opportunities for new foreign competitors
- Potential reduction in foreign sales opportunities
- Need to invest in R&D to keep up with new product innovation
- Challenges in sales forecasting and inventory management

Competitor Activity

The level of competitor activity needs to be assessed when determining whether a market is viable. Especially difficult to penetrate a market if competitors are part of the country's culture and if they have established distribution channels with strong working relationships with suppliers and retailers.

- ***Business Planning;*** *Links to Porters 5 forces analysis and the process of environmental scanning that needs to be undertaken in order to determine the feasibility of global expansion. This relates to the competitive intensity and competitive rivalry.*
- ***Business can;*** *Differentiation (USP), IP, Competitive Advantage, Innovation, Achieve EOS*
- *If a market has a number of established players that have strong customer bases and loyalty, it makes it very difficult for a firm to break into that market and become competitive — this could include exports, local businesses or online sellers.*

Considerations

- Barriers to entry into markets
- Intellectual property (insulate against)
- Pressure on margins, pressure to maintain competitive edge through innovation
- Need to differentiate brand through marketing
- Competitive intensity (influences profit margins, prices, need for differentiation etc.)

High competitor competition	Low competitor competition
• High emphasis on Marketing • Achieving brand loyalty through marketing + quality • Implementing country customs • Work towards taking market share	• Less competition • Premium pricing achieved due to low supply • Marketing to increase brand awareness • Process to ensure minimal competitor entry

Standardization vs Adaptation

Marketing Mix – The term marketing mix refers to the combination of various elements needed to successfully market a product.

- *Adapting marketing strategies increases the costs involved in strategy implementation. It is less expensive to standardised strategies across foreign markets but using standardised strategies may result in marketing failure.*
- *Need to consider customer needs/wants, language and culture, domestic demographic and legal requirements*

Standardization: *Standardization refers to the process of ensuring **uniformity in the marketing** mix used in order to appreciate benefits from EOS, whilst also enhancing brand identity, loyalty and recognition.* ***McDonalds*** *differentiates its burger range in some countries, but it uses a generally standardized approach to branding. Appropriate in markets where customer demands, needs and wants are similar.*

Benefits

- **Consistency:** Provides a consistent message, creates common Identity
- **Economies of Scale:** Allows economics of scale for packaging and marketing costs
- **Consumer Perception:** Customers are visually aware of same branding in different markets (brand loyalty, identity). Enhances brand identity and reputation as it supports positive consumer perception of the product
- **Quality improvement** – standardised approach ensures uniformed marketing mix that focuses on one single product, leaving room for quality improvement.

Costs

- **Lacks uniqueness:** By selling one unified product lacks uniqueness, may not be as competitive against local products/businesses
- **Regional + Cultural Differences -** It might still be necessary to develop different products to suit cultural or religious variations. Otherwise cultural insensitivity can lead to controversial outcomes.
- **Legal Requirements** – may be incompatible with legal requirements concerning product liability and intellectual property. Litigation costs.
- **Price:** Setting the same price in all countries will fail to take into account different average income levels, exchange rates, consumption patterns

Adaptation: *Process of adapting the marketing mix, including differentiated products, to meet national and regional preferences, taking into account STEEPLE factors of a foreign market.* ***Global localization.***

Benefits

- **Respect:** Shows respect for local markets/culture/customers. Accounts for cultural differences.
- **Brand Image:** Leads to better company image and sales
- **Customer Satisfaction:** Leads to greater customer satisfaction
- **Local popularity –** Products are typically well received by the local market as they are tailored towards their niche tastes, preferences and customers

Costs

- **Higher Costs:** Generates higher costs to change marketing mix for each market
- **Time Consuming:** Is time consuming including market research and adaptation time.
- **Less consistency** in the marketing mix – impacts on brand identity, personality and recognition

Corporate Slogan:

Corporate slogan – refers to a short phrase that encapsulates a firms mission, and or appeal which contributes to the process of brand development, recognition, value and personality through its ability to attach characteristics to a firm or product. A short memorable phrase used to attract customer attention

Standardised	Adaptation

• Could assist firms to promote the company's innovations
• **Creates brand awareness + customer loyalty**
• Benefits could include:
  ○ Increased recognition from the use of single global slogan
  ○ Hence increased brand loyalty
  ○ Increased market share (expansion of market presence, financial gain, brand value)
  ○ Economics of Scale in marketing and promotional activities.
• Arguments Against / Challenges are the inverse of benefits of adaptation
	• Shows **respect** for local markets/culture/customers
	• Leads to better **company image** and sales
	• Leads to greater **customer satisfaction**
	• Prevents offensive or embarrassing translations
	• Ensure compliance with legal requirements - intellectual property
	• Accounts for language and meaning differences
	• **Competitive advantage** by accounting for cultural differences

Product Name:

Product name – refers to a term, title or label that encapsulates the purpose, function or benefit of a particular G+S which contributes to the process of brand development, recognition, value and personality through its ability to attach characteristics to a firm or product

Standardised	Adaptation
• Increased brand awareness (A standardized product name allows business to sell the brand as well as the product) • Mass Market product (A standardized name for a mass market product can be advantages as consumers are drawn to brand loyalty as well as quality of product) • Economies of Scale generated from uniform marketing messages/promotions. • Increased recognition • Ultimately benefit from increased sales as a result of recognition, loyalty and value (margins, retention of customers) • New products (A standardized product name allows business to sell a new product with a well-known product name for consumers. The product gets attributed the brand personality such as quality)	• Prevents offensive or embarrassing translations. Eg – Ford sold the 'Pinto' into Brazil which means tiny male genitals. • Shows **respect** for local markets/culture/customers • Leads to better **company image** and sales • Leads to greater **customer satisfaction** • Ensure compliance with legal requirements - intellectual property • **Brand loyalty** (A localized product name displays a personality of it being a local product (Product loyalty – Consumers like local products due to economic advantages such as jobs)) • **Individual independent** product (The product stands individual; it does not depend on a standard product name. Therefore bad publicity of the global brand name wont affect the quality or sales)

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Product Features:

Product features – distinguishable characteristics and qualities of a G+S in terms of its appearance, components and capabilities. They may provide a USP, product differentiation, and as an element of branding to establish brand recognition and personality

Standardised	Adaptation
• Economics of Scale in production phase (less process divergence, increased mechanization) • Quality control and assurance • Should lead to greater recognition and hence sales of firms products • Benefits in quality of their products through the application of R&D and the resultant innovation process and USPs relating to their products • Use of identical global packaging saves on production costs; assists in protection of IP • **Mass market products** (Majority of mass-market products have standardized features. Cultural differences/preferences don't apply, therefore standardized features are more appropriate.) • **Product awareness** (High quality products are expected to have standardized quality and features globally. Within high economic regions, a standardized approach can be adapted)	• Meet legal requirements with regard to product liability, intellectual property. • Adapt, modify and augment products to meet tastes and preferences of different markets • Shows **respect** for local markets/culture/customers • Leads to better **company image** and sales • Leads to greater **customer satisfaction** due to Cultural differences (Different cultural have different customs and feature demands) • **Customer Preferences** (An adaptive approach takes into account the consumers demand and preferences. The product is more likely to be of use and attract consumers)

Positioning:

Positioning – refers to markets and consumers perception of a product in relation to others in the market; that is often based on perceptions about price + quality. *The promotion and presentation of a brand in the targeted consumers mind in relation to 2 metrics often price and quality.*

Standardised	Adaptation
• Benefits in cost savings through economics of scale in promotion and production • Consistency in message • Brand identity • Improved brand loyalty, value and sales.	• Pricing strategy adapted to different demographic and income levels • Inputs may also be adapted to suit markets perceptions of quality such as the use of Australian beef in Australia.

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Ethics Research Task Notes:

Clothing and Textiles Industry:

CSR: The reporting and consideration of societal impacts and environmental impacts of business activity in addition to financial outcomes that effects stakeholders. CSR is linked to ethical values, legal requirements and associated with community expectations. *The ethical responsibility that a business owes to its stakeholders. Involves going beyond the minimum laws and regulations – proactive rather than reactive approach*

Ethical Practice of CSR May involve:

- Development of Corporate responsibility code
- Implementation + Monitoring of CSR codes
- Communication & training of code
- CSR involves ethical business practices locally + internationally (outsourcing, offshore labor)

CSR Involves:

- **Social auditing** - independent and external assessment of how a firm's actions affect society.
- **Work/life balance for employees**
- **Triple bottom line** (environmental, social and economic) – considering the impact of all business decisions on these three indicators. This refers to the practice of measuring, disclosing and being accountable to internal and external stakeholders for organizational activities relating to economic, social and environmental performance.
- **Corporate self-regulations**

Benefits / Importance of CSR

- **Improved financial performance** — reduced costs through waste reduction and process efficiency
- Reduction in the exposure of risks in the business environment -
- Improved **corporate image** in the eyes of the public – yields differentiation for products / services, elasticity advantages, increased sales, market share, profit margins etc.
- **Increased sales as a result of customer loyalty –** coupled with the better corporate image of the organization is the increase in customer loyalty, which yields benefits such as reduced product elasticity, increased sales and
- **Better staff retention** – PR etc.
- Improved **relations with governments** – who are often concerned with achieving the economic objective of environmental responsibility. Preventing environmental degradation and exhausting natural resources. Eg. Clean Energy Acts 2011.

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Costs / Issues of CSR

- **Short-run costs increase** – this is because investing in new capital intensive renewable energy production, paying workers above poverty wage levels, paying suppliers promptly, not exploiting vulnerable groups in advertising all increase organizational expenses.
- **Reduced Competitiveness** – A loss of cost and price competitiveness if rival business (e.g. BP) does not accept social responsibilities and have lower costs as a result.
- **Increased Prices** – in order to maintain profit margins firms may be forced to increase prices. Which as the law of demand states would result in a decrease in the demand for a firm's products. This may be mitigated if marketing and other mediums are used to convince customers to pay higher prices for products made in a socially responsible manner. However, but during economic recession, they may just prefer low prices and concern themselves less with how products are made.
- **Ongoing Costs** – monitoring CSR, Communication & training of code
- **Different Stakeholders**

Ethics: Is concerned with correct behaviour, deemed to be moral and displaying the distinction between right and wrong. Set of moral principles or rules that help people decide what is right or wrong. Ethical Principles provide a generalised framework within which particular ethical dilemmas may be analysed. They provide guidance, in the form of rules or a code, to resolve ethical issues that the business may encounter through its various operations.

Impacts of Good Ethics:

- Enhances reputation, making it easier for business to recruit and source finance from lenders/investors
- Increased staff morale – increases productivity and motivation
- Builds and maintains customer loyalty – less risk involved with less controversial business
- Avoid legal problems – media and legal scrutiny can harm business reputation and increase litigation costs

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Ethical Principles in article:

- **Lack of Accountability –** Accountability is when executives acknowledge and accept personal accountability for decisions that impact on themselves, their colleagues, their companies, and their communities. In the case study businesses such as Industrie, David Lawrence and Marc's have been named and shamed for failing to prevent the exploitation of the workers who make their clothing in sweatshop conditions. Hence they weren't accountable for their outsourcing partners actions.

- **Law Abiding** – This is when managers abide by laws, rules and regulations relating to their business activities. In the case study this is seen through the factories not providing adequate work conditions and not meeting standards. For example, the case study talks about the conditions of these factories and states how "Health and safety standards are far below Australian requirements".

- **Lack of Honesty –** Honesty Is when executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means. This is seen in the case study when Clair Weaver and Nick Cubbin went undercover in Dhaka factories to uncover what was happening. When they went to these factories, the factory managers were not honest with them and did not show them the true conditions.

Ethical issues in the C&T industry:

- **Child Labour:** The use of child labour and the exploitation of child labour
- **Exploitation**

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Stakeholder: Someone or business with a direct interest in your business or is affected by the actions of your business. They can either be internal or external.

Stakeholder in article:

Internal:

- **Owners:** Want to understand how the business performs and have assurance about their future return on investment. They are focused on profit maximisation and being socially responsible for the actions of the business. They are motivated by improving the return on their investment through the success of the business. The responsibility owed to them is that the employees and managers they employ perform the to the best of their ability. For example, the owners of Industrie, David Lawrence and Marcs have been impacted as the businesses have been named and shamed for failing to prevent the exploitation of the workers who make their clothing in sweatshop conditions. This impacts the value of the owners investment.

  - **Employees:** Depend on success of business for their livelihood and therefore need to know if business is financially viable. A business has social responsibility to meet terms of employment contract and recognise the employees award through correct wages. Their motivations are possible promotions from hard work or a pay rise due to the performance of the business from successful vehicles. The business owes the responsibility to meet their employment contract properly and to be meeting the award related to the job in terms of pay. For example, employees at Rana Plaza garment factory collapse, which killed more than 1,100 Bangladeshi workers making clothing for Western fashion brands weren't shown the proper treatment as their employers didn't give them the proper conditions. Employees in these factories live on less than $1.10 a day. OSH, EEO, Hours worked, Conditions, Pay

- **Shareholders:** Are a social stakeholder. A business needs to earn a profit to distribute to shareholders. They may pressure management to change social stance for example, excessive salary controls. Shareholders have invested in the business and are focused on their future return on investment. They are motivated to make a greater return on investment and want the business to perform well. The business has the responsibility to earn a profit to distribute to the shareholders. For example, the shareholders of Industrie, David Lawrence and Marcs have been impacted as the businesses have been named and shamed for failing to prevent the exploitation of the workers who make their clothing in sweatshop conditions. This impacts the value of the shareholders investment. Financial performance, stability, dividends, growth

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External:

- **Customers:** Like suppliers they are interested in entities ability to survive and continue to provide them with goods and services. They are also concerned with the practices performed by the business in the production of the product, for example child labour. A business has a social responsibility for health and safety and quality of product. Their motivations are to buy products that bring them utility and is safe to use. A business has a social responsibility for health and safety and quality of the product they provide to customers. They need to ensure that the customers are satisfied with their purchase and that the product is free of faults or safety hazards. 70 per cent of us would pay more for clothes if we knew overseas workers were paid a decent wage and had safe conditions. Hence customers are ignorant to the fact of what is going on and had they know about the conditions they may choose to boycott the products or demand better conditions. Quality of finished products, fit for purpose goods

- **Governments:** The Government are concerned with whether a business is paying the correct amount of tax and operating legally through complying with government regulation. Their motivations are to ensure that markets in which these businesses operate are fair and equal. They are also motivated to ensure that business is responsible with tax. The responsibility owed to them Is that all business operates according to government regulation, so that everything is fair. The government in these countries seem ignorant to the fact of the current work conditions. There is government bribery going on in most of these countries aswell.

- **Public (Community) / Individuals in society:** Interested in non-financial information such as environment performance, social performance, for example fair trade agreements and equal employment opportunity. Communities want business aid and business want community support including adequate transport, fair taxes, schools etc. They are motivated to support their community and support brands which enhance their community. The responsibility owed to them is that what they are advertised should be the truth, in particular the environmental impacts caused from the product. For example, Clair Weaver and Nick Cubbin went undercover in Dhaka factories in The Weekly's November 2013 issue to uncover the truth about working conditions. This is as they weren't happy with the current conditions.

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Outsourcing: Outsourcing is an agreement in which one company hires another company to be responsible for a non-core activity that is or could be done internally, and sometimes involves transferring employees and assets from one firm to another.

Ethical Decision

- Developing relationships with businesses that have similar CSR policy
- Being guided by a CSR policy for outsourcing decisions
- Implementation + Monitoring of CSR codes
- Communication & training of code
- CSR involves ethical business practices locally + international
- Training/communication to staff and other stakeholders of the ethical codes + policies + Conduct + standard
- Memorandum of Understanding – both parties agree

Outsourcing in C&T industry:

- Outsourcing occurs in the C&T industry as businesses such as Industrie, David Lawrence and Marcs outsource their production to places such as Bangladesh
- Many of these businesses such as Target or GAP in the C&T industry use outsourcing to reduce their cost of production allowing them to be more competitive. However, most of these businesses are ignorant to the actions of their outsourcing partners.

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Arguments for Outsourcing:

- ↑ **Employment in Developing Countries:** Outsourcing can distribute jobs from developed countries to developing countries. Hence increasing employment in these developing countries. This leads to increased income and a multiplied effect in the economy. This can create more growth.
- **Economic Efficiency**
- **Strengthen international relations due to increased dependence**

Businesses:

- **Decreased Costs:** Business costs are lowered as they outsource to specialists that are more efficient in that area
- **Access to Specialised Skills:**
- **Time Management**

Arguments against Outsourcing:

- **Structural Unemployment in Developed Economies:** Loss of jobs in domestic economy
- **Lack of Transparency:** Lack of transparency as businesses don't know about the practices of the outsourcing company.
- **Fall in labour and environmental standards**

Businesses:

- **Loss of control**
- **Security risk:** In terms of IP
- **Conflicts of interest:** Outsourcer may provide similar service to competitors

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Ethical Issues of Outsourcing:

- **Environmental** – the firm which is a subcontractor for the parent company may not comply to the same environmental standards as the parent, for instance they might dump liquid waste into water ways, something which can be traced to parent company worsen their public perception
- **Perceptions about Exploitation**. That is that the general public may find the idea of very poor foreigners in a different country making their products for wages below the domestic minimum wage quite disturbing.
- **Violation of laws** that would have existed in the domestic country in regard to pay, working hours and age of employees. Because laws generally reflect community ethical principles, commitment of act which violate a domestic countries laws in another tend to upset the people in that country.
- **Job loss**, individuals who hold nationalistic perspectives on production are particularly offended by the outsourcing of manufacturing by domestic firms to foreigners, as they believe this causes loss of jobs in the domestic country. Whilst this perception is debatably flawed, companies need to ensure that they're perceived as acting in the national interest.
- **Political interaction**, as when operating in foreign countries firms need to ensure that the comply with all laws in that country, whilst also not engaging in any ethically questionable political activities such as Bribery, corruption and crony capitalism.

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Offshoring: Practice of basing some of a company's processes or services overseas, so as to take advantage of lower costs.

Ethical Practice

- Adherence to host countries labour regulations
- Awareness of labour vulnerability / Exploitation
- Design practices in line with ILO standards
- Implementing the minimum standards of labour by the ILO
- No use of child labour
- Design labour practices so that the ILO minimum standards are met

The role of ethical decisions should include the:

- Awareness of the host countries' labour regulations and workplace conditions
- Awareness of labour vulnerability/exploitation
- Need to deliver the global business' (hotel) own values and human rights in all their locations globally.

How is it used in the C&T industry?

- Not used in C&T industry as much due to the cost of setting up a factory
- C&T industry use outsourcing not offshoring as they don't own factories.

Arguments for offshoring:

- Economic efficiency
- Increased domestic employment

Business (Why a business would consider offshoring):

- ↓ **Costs:** Lower wages to be paid to offshore workers
- **Diversity:** Access to different skills and technology
- Lower infrastructure cost would reduce operation costs
- Reduced tax rates that are offered as an inducement by overseas countries
- To gain access to raw materials
- Employment of cheap labour

Arguments against offshoring:

- Structural Unemployment in domestic economy
- Exploitation of nationals

Business:

- Short term costs
- Ethical issues

Employment of nationals vs expats and ethical issues surrounding this:

Explanation: When a business uses offshoring, they will be hiring nationals in that economy. The businesses will also bring expats from home country to manage nationals and to help set up the business.

- **Exploitation**: Businesses will take advantage of already low labour standards and push these further. Allows expat managers to control nationals. Exploiting cheaper labour of nationals
- **Injustice of wage discrimination:** Enormous pay disparity between expatriates and local professionals. It has been noted that, although expatriates work shoulder to shoulder with similarly qualified local professionals
- **Disregards contextual aspirations and historical memory**
- **Perpetuates external domination and control, furthers inequality**

*Different standards of labour in offshoring country will lead to **exploitation** of employees*

Differences between offshoring and outsourcing

- *Control*
- *Costs (Higher in offshoring)*
- *Location*
- *Resource requirements*
- *Risk*
- *Short vs long term*

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International Labour Organisation (ILO):

Definition: The ILO is a tripartite U.N agency, established in 1919 the ILO brings together governments, employers and workers and representatives of 186 member states, to set labour standards, develop policies and devise programs promoting reasonable industrial workplace conditions for all women and men.

Role of the ILO

- Promote and realize standards and fundamental principles and rights at work — international labor standards
- Create greater opportunities for women and men to secure decent employment and income
- Enhance the coverage and effectiveness for social protection for all
- Promote Rights at work
- Encourage decent employment opportunities
- Enhance social protection
- Strengthen dialogue in handling work related issues.

Business Practice:

- Awareness of the host countries labour regulations and workplace conditions
- Awareness of labour vulnerability and exploitation
- Designing labour practices and other human resource management practices so that ILO minimum standards are met in the use of all labour. This includes no use of child labour in organizations.

Decent Work: Decent work is employment that "respects the fundamental rights of the human person as well as the rights of workers in terms of conditions of work safety and remuneration.

- Productive employment and decent work are key elements to achieving a fair globalization and poverty reduction
- It recognizes the central role of work in people's lives and that the quality of work is crucial to a cohesive and more equal society.

Seven Objectives for Decent Work

- An inclusive workforce
- Satisfying jobs
- Friendly workplaces
- Reasonable working hours
- Fair treatment at work
- Freedom, equality and dignity at work
- Progressive use of technology

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ILO position on minimum standards of labour:

- No. 182 ILO Eliminate **Worst Forms of Child Labour** – child is a person below 18 years of age. It requires ratifying states to eliminate the worst forms of child labour,
  - Forced or compulsory labour, including forced or compulsory recruitment of children for armed conflict
  - Strictly forbids the procurement of children for illicit activities (drugs), armed conflict and for debt bondage (forced to work until family debts are paid.)
  - Similarly, ratifying members must ensure that children aren't subject to workplaces that threaten their safety, health and morality.
  - Similarly, states must ensure that free basic education is widely available along with vocational training where possible.
  - Ensure free basic education is widely available
- No. 138 **Minimum Age Convention** – minimum age for children to work is 15, but some light work that does not infringe on the education and health may also be engaged in by children from as young as 13.
  - Fashion companies (Zara, Cotton On, H&M, Forever 21) amongst the worst culprits
- No. 111 **Equal Employment Opportunities** - Discrimination as any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation. This is also enshrined in the Equal Employment Opportunity Act 1984.
- No. 155 **Health and Safety** – The responsibility of the employer, the workers and their representatives in the enterprise on maintaining a safe and healthy working environment.
- No. 158 **Unlawful Dismissal -** The instrument sets forth the principle that the employment of a worker should not be terminated unless there is a valid reason for such termination connected with the worker's capacity or conduct or based on the operational requirements of the undertaking

Industrial relations issues around the employment of labour

- **Child Labour:** Many factories in the case study use child labour for labour intensive work. This is a violation of No. 182 ILO Worst Forms of Child Labour – child is a person below 18 years of age. This is due to children that work in workplaces that threaten their safety, health and morality. Eg Mahinoor Akhter who worked at Rana Plaza when 14. As stated in case study girls as young as 10-12.
- **Below Living Wage:** This is in conflict with decent work, with most people in these factories working in poor conditions with below living condition wages. Eg. Bangladesh lives on less than $1.10 a day. With a minimum wage of about $39 a month
- **Poor Work Conditions:** Health and safety standards are far below Australian requirements. Eg Rana Plaza collapse that killed 1133 garment workers.

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Environmental Sustainability

Definition: *Environmental Sustainability involves Decisions that are future orientated, focusing on protecting environments & creating ecologically & socially just decisions through informed actions*. *The ability for a business to operate to environmental standards and principles that allow for it to operate indefinitely without causing significant harm to the environment in the present and in the future.*

Examples of Environmentally Sustainable Practices:

- **Use of Green Technologies** (renewable energy sources such as solar panels, wind turbines and geothermal heating)
- **Recycling** (turning waste products into reusable materials, it ensures that used products are disposed of in an appropriate and environmentally friendly way)
- **Carbon Footprint** (Impact of resource consumption and waste consumption on the natural environment, measure of the environmental impact of an organization's operations, measured in unit of carbon dioxide).

Ethical Practice - Environmental Sustainability

- Practice of *triple bottom line* (social, economic and environmental benefits) for current global business operations and future generations.
- This applies even when outsourcing non-core business functions
- Businesses should be aware of the role of being environmentally responsible decisions in terms of sustainability in operations such as use of facilities, recycling of waste, renewable energy and communicating environmental practices to stakeholders.

Integrational Equity: The idea of fairness or justice between generations in an economic, environmental context. Resources and assets (such as quality and diversity of environment) which do not 'belong' to any generation but are to be administered and preserved in trust for all future generations. Integrational equity poses the use of sustainable practices by businesses.

Ethical issues around supply chains in the C&T industry:

- **Lack of transparency**
- **Lack of accountability**
- **Lack of Honesty**

This is in terms of the outsourcing business not being transparent or honest to the company about their actions, hence using unethical practices without the company being aware. They also aren't honest in terms of their capacity to deliver on orders and hence their actions in subcontracting to other businesses rather than admitting they have over-promised.

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Environmental responsibility - Businesses have environmental compliances to meet. However, many businesses also realize that acting in a socially and environmentally responsible way is more than just a legal duty. It affects their bottom line and the long-term success of their business.

Environmental Rules for Businesses to Follow:

- Comply with legislation regarding emissions into the atmosphere
- Store waste safely and securely, making sure it is treated appropriately
- Manage business waste for recycling

Role in Ethical Decision Making:

- Inform ways and practice that contribute to more sustainable patterns of living
- Decisions are ***future oriented***, focusing on protecting environments and creating a more ecologically and socially just world through informed action.
- Decision - ***Ethical and ecologically sustainable sourcing of inputs*** in line with the company's values and mission

Ethical Practice - Environmental Sustainability

- Practice of triple bottom line (social, economic and environmental benefits) for current global business operations and future generations.
- This applies even when outsourcing non-core business functions
- Businesses should be aware of the role of being environmentally responsible decisions in terms of sustainability in operations such as use of facilities, recycling of waste, renewable energy and communicating environmental practices to stakeholders.

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Managing Diversity:

Diversity: Refers to the range of traits a group of people have. For example, gender, age and language.

Reasons Why:

- Reducing conflict and misunderstanding between a variety of customers, suppliers and employees when operating in the global business environment.
- *Strong relationship* with suppliers and workforce, more productive (input costs + labour/multifactor productivity) as business grows
- *Openness/communication* leads to better ideas and methods / processes

Ability to manage diversity leads to a greater understanding of the needs and wants of consumers, suppliers and employees

1) **Suppliers** – With the understanding of needs and wants of suppliers = productive relationships. Leads to preferential treatment within supply chains – creating comparative advantage.

2) **Customers** - With the understanding of needs and wants, customers are more satisfied = increased sales, brand loyalty, market share.

3) **Employees** – With the understanding of needs and wants of the employee = motivated employees will promote creativity

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Research Task Notes:

International Marketing: *International Marketing refers to the marketing of a firm's products in foreign countries. Marketing on a worldwide scale reconciling or taking commercial advantage of global operational differences, similarities and opportunities in order to meet global objectives.*

Brand: A brand is a name, term, design, symbol or any other feature that identifies one seller's good or service as distinct from those of other sellers

Global Brand: *The exercise of creating and communicating a brand to the intended market segment in an international setting. A brand is any identifiable set of characteristics associated with a good, service or company. Brands should communicate the brand personality. Elements of a brand may include fonts, colour schemes, logos, slogans etc*

KPIs – sales value/volume, customer loyalty, margins, elasticity, margins

Benefits of Branding:

- **Customer Base** – Access to wider customer base, ↑ brand awareness ↑ Sales
- **Recognition** – Strong visual identity (logo), so that customers can identify products quickly amongst other. Distinguishable product features, corporate slogans, product names, clear positioning of products and brands. Consequently, customers can identify products quickly amongst others and link identity between product lines and associate new products with logo. Increases customer retention and sales.
- **Economics of Scale (Lower Costs)**– in marketing and production. As a result of increased output levels and sales. A business will be able to achieve Eos by using the same advertising and packaging throughout the world. A centralised team of people will be able to develop the 4 Ps of marketing strategy for all markets.
- **Diversification / Mitigate Risk** – spreading risk over a diverse and larger customer base. Domestic instability can be balanced out.
- **Extended Product Life Cycle** - Sell to broader spectrum of people (developing economies) to increase sales
- **Loyalty** – increased customer retention, customers are prepared to pay a premium price for a perceived benefit of the known brand over its competitors. This brand loyalty should lead to increased profitability and steady sales

McDonalds Approach to International Marketing:

Mc Donalds has used elements of both standardisation and adaptation in an approach called **glocalisation**. *Glocalisation involves using a range of standardised branding techniques eg. icons, colour schemes, product names, slogans etc. This is also relevant to ATL marketing techniques where expensive promotions are often very similar in markets perhaps only changing for language differences.*

Mc Donalds **adapts its marketing mix** *in certain markets due to PEST differences The adaptation tends to be around BTL techniques and product features as these are less expensive to adapt in each market.*

McDonalds in Israel uses the colour blue to signify they are Kosher

Feasibility Study:

Feasibility Analysis – *Assesses potential viability of a given market*, including the total market size, the level of existing and established competitors, and capital requirements to launch and sustain business. *It assesses whether the proposed venture will provide a level of sales that will result in sustainable profit over the medium to long term.*

- Through the use of market research, peak body research, estimating demand, environmental scanning (PEST, SWOT, Porters 5 Forces) this then links to the processes of change management as well as strategic formulation, evaluation and control, and strategic implementation.

Level of Demand by Consumers

Businesses must consider whether foreign markets have enough potential customers to warrant investment of expansion.

- **Impact of Demand:** Demand for a product will enable quicker penetration of brand awareness, higher potential market share and the ability to replicate expansion cost
- **Depends on:** Price elasticity, cross price elasticity, inflation, disposable income, economic activity
- **Businesses Can;** Estimate the total market demand for the general product category or competitors' products

High Demand Leads to: ***Must also talk about low demand*

- Increased sales
- Higher potential market share
- Greater ability to command higher prices
- Possibility of more competitors
- Ability to quickly recuperate expansion cost's
- Quicker penetration of brand awareness

Consumption Patterns

Definition – *Composition or makeup of consumer demand, comprised by a variety of different tastes and preferences*.

Influences:

- **Trade Liberalisation**
- **Growing demand by Asian Middle Class**
- **Structural Change**
- **Level of disposable income**
- **Switching costs, brand loyalty, differentiation of market, availability of substitutes**
- **Economic Factors**

Changing Consumption Patterns:

- Potential creation of opportunities for new foreign competitors
- Potential reduction in foreign sales opportunities
- Need to invest in R&D to keep up with new product innovation
- Challenges in sales forecasting and inventory management

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Consumption Patterns in relation to McDonalds:

- There have been changes in food consumption patterns from fresh food to more processed food
- Other changes have been the increased consumption of healthier food and foods with dietary requirements

Healthier Diets: Over time diets have become healthier in developed countries as consumers have veered away from fast food. This impacts on McDonalds operations in developed countries as they would have to innovate and change the menu to adapt to consumer patterns. For example, the company introduced white-meat chicken nuggets late last year and is phasing out super-sizing by the end of 2004.

- Over the course of the 90's and 00's there was an increased focus on obesity and trans-fats. Governments and advocacy groups ran campaigns aimed at promoting healthy eating and living and regulators moved in to tighten up food standards, product labelling and fast food advertising. Consumers began changing their eating habits and there was a particular focus on kids eating less junk food. *In response to this McDonalds began to overhaul its whole brand image towards a healthier and greener one. This involved redesigning its menus, sourcing organic meats and local quality ingredients, clear product labelling and the displaying of kj across all products.*
- This evolution bought with it ***changes in the competitive landscape*** with new 'healthier burger' options entering the market. The gourmet burger and 'customised slider' options offered by competitors pressured ***McDonalds to launch its own 'gourmet' and customised burger range*** with premium ingredients and 'made to order' products. McDonalds has always been the ***'market leader'*** (largest market share) and as such has been a price setter. The targeting of a new market segment however (gourmet burgers) meant they could no longer simply compete on price and had to also offer premium quality in order to achieve market share growth in the new market.

Healthier Diets: Significant trend in Australia of changing diets. This is in respect to the following;

1) **Veganism**: McDonalds hasn't adapted to fit the Vegan market due to a perceived low level of customer demand. McDonald's doesn't offer any vegan-certified menu items
2) **Vegetarian**: McDonalds has adopted to fit the vegetarian market as seen through products such as the ***McVeggie***

↑ **Demand for Coffee:** Consumer demand for high-quality coffee and convenient food products will underpin industry revenue growth. There has been an increasing demand for high quality coffee. McDonalds adopted to suit this through their introduction of ***McCafé*** in Australia.

Marketing Mix Examples:

Focus was still on low pricing as the market leader through their pricing strategies eg cost bundling in kid's happy meals. Pricing was communicated through BTL an ATL promotion.

Promotion involved sponsorship of sporting groups and sporting celebrities. McDonalds famously sponsored the London Olympics.

Product mix was changed to introduce healthier food options eg. salads
And there was clear product labelling which informed consumers about the nutrition.

Placement – Outlets were re-designed to look more like contemporary niche competitors with customisable options in store and burger bar seating more associated with gourmet sliders.

Competitor Activity

The level of competitor activity needs to be assessed when determining whether a market is viable. Especially difficult to penetrate a market if competitors are part of the country's culture and if they have established distribution channels with strong working relationships with suppliers and retailers.

- **Business Planning;** *Links to Porters 5 forces analysis and the process of environmental scanning that needs to be undertaken in order to determine the feasibility of global expansion. This relates to the competitive intensity and competitive rivalry.*
- **Business can;** Differentiation (USP), IP, Competitive Advantage, Innovation, Achieve EOS
- If a market has a number of established players that have strong customer bases and loyalty, it makes it very difficult for a firm to break into that market and become competitive — this could include exports, local businesses or online sellers.

Considerations

- Barriers to entry into markets
- Intellectual property (insulate against)
- Pressure on margins, pressure to maintain competitive edge through innovation
- Need to differentiate brand through marketing
- Competitive intensity (influences profit margins, prices, need for differentiation etc.)

High competitor competition	Low competitor competition
• High emphasis on Marketing • Achieving brand loyalty through marketing + quality • Implementing country customs • Work towards taking market share	• Less competition • Premium pricing achieved due to low supply • Marketing to increase brand awareness • Process to ensure minimal competitor entry

Competitor Activity in relation to McDonalds: *McDonalds revenue has been falling since 2014*

↑ **Competition:** McDonalds faces significant competition from other quick-service brands, such as *Burger King, Wendy's, Taco Bell, KFC, and Subway*. Fast-casual restaurants are also close competitors, with names like Chipotle Mexican Grill, and Panera Bread Company. Burger King is probably the most direct competitor for McDonald's, with its staple Whopper challenging the Big Mac in the burger war.

Differentiation Strategies: McDonald's apply a number of strategies and tactics to compete with its competitors. For instance, ***branding*** is a big asset to the restaurant. McDonalds is one of the most famous brands in the world. People around the world know it at the back of their mind. It also tries to apply ***cost leadership strategy*** to offer customers food and beverages at prices that competitors struggle to match. Its speedy delivery of food is also useful to battle out competition.

- McDonald's offers specialized (Regionalized) version of its menu
- McDonald's focused on superior price performance during the time of economic crisis. This includes; Point of sales (POS) promotion programs, Combo meals. (Customers get more discounts through this.)
- They have introduced a group of products in early 2000s. It includes McDonald's larger chicken sandwich, salad line & coffee products. Grilled chicken & sandwiches are targeted different demographic markets. *Mc Cafes located in Australia within the McDonalds restaurant.*

CSR: McDonalds engages in CSR initiatives which helps to build the reputation of their brand. Environmental friendliness in effect brings goodwill to the company and also provides opportunity to build a brand. McDonald's also engage themselves in CSR activity like sustainable supply chain management, healthy and nutritious food products etc.

- Such as Macca's Junior Sports Grants
- **Ronald McDonalds House Charities** in response eg to **Zambrero** every meal you buy they donate one

Nando's *and* ***Mexican Restaurants*** *have gained market share in comparison to burger shops, there has been increased demand for fast casual restaurants such as Grilled. As a result, Mc Donald's have been impacted*

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Marketing Mix:

Marketing Mix – The term marketing mix refers to the combination of various elements needed to successfully market a product.

- Adapting marketing strategies increases the costs involved in strategy implementation. It is less expensive to standardised strategies across foreign markets but using standardised strategies may result in marketing failure.
- Need to consider customer needs/wants, language and culture, domestic demographic and legal requirements

Standardization: *Standardization refers to the process of ensuring **uniformity in the marketing** mix used in order to appreciate benefits from EOS, whilst also enhancing brand identity, loyalty and recognition*. ***McDonalds*** *differentiates its burger range in some countries, but it uses a generally standardized approach to branding. Selling the same product using the same marketing approach throughout the world, as used by global brand leaders. Appropriate in markets where customer demands, needs and wants are similar.*

Benefits

- **Consistency:** Provides a consistent message, creates common Identity
- **Economies of Scale:** Allows economics of scale for packaging and marketing costs
- **Consumer Perception:** Customers are visually aware of same branding in different markets (brand loyalty, identity). Enhances brand identity and reputation as it supports positive consumer perception of the product
- **Quality improvement** – standardised approach ensures uniformed marketing mix that focuses on one single product, leaving room for quality improvement.

Costs

- **Lacks uniqueness:** By selling one unified product lacks uniqueness, may not be as competitive against local products/businesses
- **Regional + Cultural Differences -** It might still be necessary to develop different products to suit cultural or religious variations. Otherwise cultural insensitivity can lead to controversial outcomes.
- **Legal Requirements** – may be incompatible with legal requirements concerning product liability and intellectual property. Litigation costs.
- **Price:** Setting the same price in all countries will fail to take into account different average income levels, exchange rates, consumption patterns

Adaptation: *Process of adapting the marketing mix, including differentiated products, to meet national and regional preferences, taking into account STEEPLE factors of a foreign market.* ***Global localization.***

Benefits

- **Respect:** Shows respect for local markets/culture/customers. Accounts for cultural differences.
- **Brand Image:** Leads to better company image and sales
- **Customer Satisfaction:** Leads to greater customer satisfaction
- **Local popularity –** Products are typically well received by the local market as they are tailored towards their niche tastes, preferences and customers

Costs

- **Higher Costs:** Generates higher costs to change marketing mix for each market
- **Time Consuming:** Is time consuming including market research and adaptation time.
- **Less consistency** in the marketing mix – impacts on brand identity, personality and recognition

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Corporate Slogan:

Corporate slogan – refers to a short phrase that encapsulates a firms mission, and or appeal which contributes to the process of brand development, recognition, value and personality through its ability to attach characteristics to a firm or product. A short memorable phrase used to attract customer attention

Mc Donalds has used standardisation of slogan to reinforce global brand awareness and consistently pitch a global brand personality. This is also relevant to ATL marketing techniques where expensive promotions are often very similar in markets perhaps only changing for language differences and hence marketing economies of scale are possible.

Standardised	Adaptation
• When entering Chinese market McDonalds retained its slogan – "I'm lovin it" – and kept the same Chinese translation • First time for the group to launch their branding promotion simultaneously on a global basis, with the same brand image and the same series of advertisements	• "Macca's is WA footy" – sponsoring the WAFL • Japan McDonalds restaurant name is adjusted to 'Makudonarudo,' a more appropriate and attractive sound

Standardised	Adaptation

• Could assist firms to promote the company's innovations
• **Creates brand awareness + customer loyalty**
• Benefits could include:
  ○ Increased recognition from the use of single global slogan
  ○ Hence increased brand loyalty
  ○ Increased market share (expansion of market presence, financial gain, brand value)
  ○ Economics of Scale in marketing and promotional activities.
• Arguments Against / Challenges are the inverse of <u>benefits</u> of <u>adaptation</u>
	• Shows **respect** for local markets/culture/customers
	• Leads to better **company image** and sales
	• Leads to greater **customer satisfaction**
	• Prevents offensive or embarrassing translations
	• Ensure compliance with legal requirements - intellectual property
	• Accounts for language and meaning differences
	• **Competitive advantage** by accounting for cultural differences

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Product Name:

Product name – refers to a term, title or label that encapsulates the purpose, function or benefit of a particular G+S which contributes to the process of brand development, recognition, value and personality through its ability to attach characteristics to a firm or product

Standardised	Adaptation
"Big Mac"	"Aussie BBQ Brekky Roll" - adapted to meet the needs/wants of Australian society, shows respect for culture etc. Maharaja Chicken Mac (Hindus do not eat beef, Muslims do not eat pork and Jains do not eat any meat) Adapted to meet customer needs/wants

Standardised	Adaptation
• Increased brand awareness (A standardized product name allows business to sell the brand as well as the product) • Mass Market product (A standardized name for a mass market product can be advantages as consumers are drawn to brand loyalty as well as quality of product) • Economies of Scale generated from uniform marketing messages/promotions. • Increased recognition • Ultimately benefit from increased sales as a result of recognition, loyalty and value (margins, retention of customers) • New products (A standardized product name allows business to sell a new product with a well-known product name for consumers. The product gets attributed the brand personality such as quality)	• Prevents offensive or embarrassing translations. Eg – Ford sold the 'Pinto' into Brazil which means tiny male genitals. • Shows **respect** for local markets/culture/customers • Leads to better **company image** and sales • Leads to greater **customer satisfaction** • Ensure compliance with legal requirements - intellectual property • **Brand loyalty** (A localized product name displays a personality of it being a local product (Product loyalty – Consumers like local products due to economic advantages such as jobs)) • **Individual independent** product (The product stands individual; it does not depend on a standard product name. Therefore bad publicity of the global brand name wont affect the quality or sales)

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Product Features:

Product features – distinguishable characteristics and qualities of a G+S in terms of its appearance, components and capabilities. They may provide a USP, product differentiation, and as an element of branding to establish brand recognition and personality

Standardised	Adaptation
• Fries - – "thin, elongated fries cut from russet potatoes" remains the signature innovation of McDonalds and is every-present and consumed world-wide by all McDonald's • Packaging – wrapping paper for sandwiches, and boxes for burgers with the same logo	Adapted to religious laws + customs • Israel – Big Macs served without cheese, permitting the separation of meat and dairy products required of kosher restaurants • India – serve Vegetable Nuggets + Maharaja Chicken Mac (Hindus do not eat beef, Muslims do not eat pork and Jains do not eat any meat) Adapted to meet customer needs/wants • In the winter of 2007, McDonalds launched a new hot drink with honey and ginger, for its widely believed in China that ginger decoction can help keep coldness away • Quarter Pounder + Big Mac in Australia uses 100% Australian beef • Japan – Teriyaki burger + Netherlands – vegetarian burger

Standardised	Adaptation
• Economics of Scale in production phase (less process divergence, increased mechanization) • Quality control and assurance • Should lead to greater recognition and hence sales of firms products • Benefits in quality of their products through the application of R&D and the resultant innovation process and USPs relating to their products • Use of identical global packaging saves on production costs; assists in protection of IP • **Mass market products** (Majority of mass-market products have standardized features. Cultural differences/preferences don't apply, therefore standardized features are more appropriate.) • **Product awareness** (High quality products are expected to have standardized quality and features globally. Within high economic regions, a standardized approach can be adapted)	• Meet legal requirements with regard to product liability, intellectual property. • Adapt, modify and augment products to meet tastes and preferences of different markets • Shows **respect** for local markets/culture/customers • Leads to better **company image** and sales • Leads to greater **customer satisfaction** due to Cultural differences (Different cultural have different customs and feature demands) • **Customer Preferences** (An adaptive approach takes into account the consumers demand and preferences. The product is more likely to be of use and attract consumers)

Positioning:

Positioning – refers to markets and consumers perception of a product in relation to others in the market; that is often based on perceptions about **price + quality**. *The promotion and presentation of a brand in the targeted consumers mind in relation to 2 metrics often price and quality.*

Mc Donalds has used standardisation positioning tactic of low price high quality. This is a difficult position to take as consumers naturally associate higher price with higher quality but McDonalds does this through pricing some items at near cost eg. their spare change menu while promoting the integrity of the products it uses eg. Australian beef, Tasmanian potatoes .

Standardised	Adaptation
• "Fast and Convenient" – campaign that involved the radical repositioning of the company's product portfolio to emerging food industry trends • - re-furbish of McDonald's restaurants to achieve a more natural dining environment • - "fast" and "convenient" elements were augmented by the "healthy" and "more natural" element, through adding salads, fruits, and carrot sticks to the menu "Barista made for the Coffee Connoisseur" – 2017	Cost of Big Mac in ***$USD***: • Switzerland - $6.91 USD • China - $3.48 USD • South Africa - $1.86 USD Due to lower production costs, living standards etc. *In relation to purchasing power of income The price of a Big Mac reflects a number of local economic factors, ranging from the cost of the ingredients to the cost of local production and advertising

Standardised	Adaptation
• Benefits in cost savings through economics of scale in promotion and production • Consistency in message • Brand identity • Improved brand loyalty, value and sales.	• Pricing strategy adapted to different demographic and income levels • Inputs may also be adapted to suit markets perceptions of quality such as the use of Australian beef in Australia.

Example of where they have positioned themselves differently:

McDonalds is positioned as ***low-quality low price in Australia***. This is different to their position in the ***Vietnam*** market in which they are perceived as ***low quality and high price*** due to there being lots of street restaurants that are high quality and cheaper. In Vietnam McDonalds has found it hard to position themselves in the market and to ***gain market share***. They only have ***17 stores***. This is due to a large amount of competition from street vendors. In Vietnam McDonalds focuses on high income customers who have cars and willing to pay reasonable high price for McDonald's fast-food experience.

Example of where they have re-positioned themselves in a market:

In 2004, a documentary film named ***"Super Size Me"*** was released. This is one of the reasons why McDonald's has a ***bad image***. The focus has been as much on "***repositioning McDonald's as a modern, progressive burger company***" and "***improving consumer perceptions***" of quality.

- **Green:** McDonald's is going green swapping its traditional red backdrop for a deep green to promote a more eco-friendly image in Europe
- **Breakfast:** Listening to customers by implementing all day breakfast in US in 2015
- **Technology:** Implementing digital checkouts and embracing technology. Also launching mobile app
- **Marketing:** Aggressive social media marketing