ATAR Business Management & Enterprise

Year 12 2019

Table of Contents

[Globalisation 4](#_Toc24371699)

[DEFINITION OF GLOBALISATION 4](#_Toc24371700)

[GLOBALISATION IS A PROCESS 4](#_Toc24371701)

[FACTORS DRIVING GLOBAL BUSINESS DEVELOPMENT 4](#_Toc24371702)

[IMPACT OF GLOBALISATION 5](#_Toc24371703)

[Home grown/developed products 8](#_Toc24371704)

[BENEFITS OF HOME GROWN/DEVELOPED PRODUCTS 8](#_Toc24371705)

[Global business ethics 8](#_Toc24371706)

[ROLE OF ETHICS IN GLOBAL BUSINESS DECISIONS 8](#_Toc24371707)

[Incentives for international trade 9](#_Toc24371708)

[HOST COUNTRY AND HOME GOVERNMENT INCENTIVES FOR INTERNATIONAL TRADE 9](#_Toc24371709)

[Free trade agreements 10](#_Toc24371710)

[DEFINE FTA 10](#_Toc24371711)

[FEATURES AND ROLES OF FTA 10](#_Toc24371712)

[DEFINE PROTECTIONISM 11](#_Toc24371713)

[PROTECTION ACTIONS BY GOVERNMENTS 12](#_Toc24371714)

[ASEAN – AUSTRALIAN – NEW ZEALAND FREE TRADE AGREEMENT (AANZFTA) 13](#_Toc24371715)

[AUSTRALIA NEW ZEALAND CLOSER ECONOMIC RELATIONS TRADE AGREEMENT (ANZCERTA) 14](#_Toc24371716)

[BENEFITS AND CHALLENGES TO AUSTRALIAN OWNED BUSINESSES AS A RESULT OF FTA’S 15](#_Toc24371717)

[E-commerce 15](#_Toc24371718)

[DEFINE E-COMMERCE 15](#_Toc24371719)

[BUSINESS TO BUSINESS (B2B) 18](#_Toc24371720)

[BUSINESS TO CONSUMER (B2C) 18](#_Toc24371721)

[THE ROLE OF E-COMMERCE IN A GLOBAL ENVIRONMENT 18](#_Toc24371722)

[Global brands 19](#_Toc24371723)

[DEFINITION OF GLOBAL BRAND 19](#_Toc24371724)

[THE BENEFITS OF A GLOBAL BRAND 19](#_Toc24371725)

[FACTORS THAT DETERMINE THE FEASIBILITY OF EXPANDING INTO A FOREGIN MARKET 19](#_Toc24371726)

[APPLYING THE MARKETING MIX TO GLOBAL BRANDS 20](#_Toc24371727)

[Strategic alliances 22](#_Toc24371728)

[DEFINITION OF STRATEGIC ALLIANCES 22](#_Toc24371729)

[TYPES OF STRATEGIC ALLIANCES 23](#_Toc24371730)

[Siemens and The Walt Disney Company 25](#_Toc24371731)

[Strategic Alliance Type 26](#_Toc24371732)

[Possible Success and Failure 26](#_Toc24371733)

[Summary 26](#_Toc24371734)

[Financial risk in export markets 27](#_Toc24371735)

[SOURCES OF FINANCIAL RISK IN EXPORT MARKETS 27](#_Toc24371736)

[STRATEGIES FOR MINIMISING FINANCIAL RISK IN EXPORT MARKETS 28](#_Toc24371737)

[Innovation 29](#_Toc24371738)

[DEFINITION OF INNOVATION 29](#_Toc24371739)

[ROLE AND BENEFITS OF INNOVATION IN IMPROVING PRODUCTS, PROCESSES AND SERVICES 30](#_Toc24371740)

[BENEFIT OF INNOVATION FOR BUSINESS 31](#_Toc24371741)

[FACTORS THAT IMPACT ON THE SUCCESS OF INNOVATION 32](#_Toc24371742)

[Change management 34](#_Toc24371743)

[FACTORS THAT DRIVE CHANGE 35](#_Toc24371744)

[RESISTANCE TO CHANGE 36](#_Toc24371745)

[LEWIN’S FORCEFIELD ANALYSIS MODEL 37](#_Toc24371746)

[KOTTER’S 8 STEPS CHANGE MANAGEMENT MODEL 38](#_Toc24371747)

[Managing diversity 40](#_Toc24371748)

[MANAGING DIVERSITY AS A STRATEGY FOR BUSINESS GROWTH 40](#_Toc24371749)

[Culture and ethics 41](#_Toc24371750)

[THE IMPACT OF CULTURAL CONSIDERATIONS ON GLOBAL BUSINESS PRACTISE 41](#_Toc24371751)

[ETHICAL PRACTISE IN A GLOBAL BUSINESS 45](#_Toc24371752)

[Economic activity 48](#_Toc24371753)

[ECONOMIC FACTORS WHICH IMPACT ON BUSINESS OPERATIONS IN THE GLOBAL MARKET 48](#_Toc24371754)

[Financial institutions 51](#_Toc24371755)

[TYPES OF FINANCIAL INSTITUTIONS 51](#_Toc24371756)

[SOURCES OF INTERNAL FUNDING 51](#_Toc24371757)

[SOURCES OF EXTERNAL FUNDING 52](#_Toc24371758)

[SHORT-, MEDIUM- AND LONG-TERM FINANCE 53](#_Toc24371759)

[Impact on business operations 54](#_Toc24371760)

[POLITICAL FACTORS WHICH IMPACT ON BUSINESS OPERATIONS IN GLOBAL MARKETS 54](#_Toc24371761)

[IMPACT OF LEGAL SYSTEM ON BUSINESS OPERATIONS IN GLOBAL MARKETS 55](#_Toc24371762)

[IMPACT OF TECHNOLOGY ON BUSINESS OPERATIONS IN GLOBAL MARKETS 57](#_Toc24371763)

[Strategic plans 60](#_Toc24371764)

[PURPOSE AND INTENT OF THE STRATEGIC PLANNING PROCESS 60](#_Toc24371765)

[KEY FEATURES IN STRATEGIC PLANS 60](#_Toc24371766)

[Financial ratios 63](#_Toc24371767)

[DEFINE FINANCIAL RATIOS 63](#_Toc24371768)

[LIQUIDITY 63](#_Toc24371769)

[PROFITABILITY 64](#_Toc24371770)

[STABILITY 65](#_Toc24371771)

[Product management 65](#_Toc24371772)

[PURPOSE OF PRODUCTION MANAGEMENT SYSTEMS 65](#_Toc24371773)

[FEATURES OF PRODUCT DEVELOPMENT 66](#_Toc24371774)

[Process control 67](#_Toc24371775)

[FEATURES OF QUALITY MANAGEMNT 67](#_Toc24371776)

[INVENTORY CONTROL TECHNIQUES 68](#_Toc24371777)

[Technology in global markets 68](#_Toc24371778)

[USE OF TECHNOLOGY IN GLOBAL MARKETS 68](#_Toc24371779)

[Leadership in cross – cultural settings 70](#_Toc24371780)

[ADAPTING LEADERSHIP STYLES IN A CROSS – CULTURAL SETTING 70](#_Toc24371781)

[LEADERSHIP TRAITS NEEDED IN A CROSS – CULTURAL SETTING 70](#_Toc24371782)

[Definitions 72](#_Toc24371783)

## Globalisation

## DEFINITION OF GLOBALISATION

Globalisation refers to the increasing interconnectedness of humanity and the many ways in which space and time have been compressed by technology, information flows, trade and power so that distant actions have local effects.

## GLOBALISATION IS A PROCESS

* That is a transformation of a local phenomenon to a global one.
* Where the world functions together as a single society as a result of economic, technological, socio-cultural and political forces.
* Where national economies are connected globally because of the increasing movement of goods and services, finance, labour, people, and technology.

|  |
| --- |
| Case Study  The furniture industry is an example of an industry that did not lend itself to globalisation before the 1960s. Compared to its value, furniture is very bulky and expensive to ship. In addition, shipping easily damages the furniture, so transport costs were high. Finally, unfavourable government trade barriers also made international trade difficult.  The Swedish furniture company IKEA pioneered a move towards globalisation in the furniture industry. IKEA’s furniture was unassembled and therefore could be shipped more cheaply. IKEA lowered costs by involving the customer in the value chain – a novel, and previously unheard of idea. IKEA also had a frugal culture that gave it cost advantages. IKEA successfully expanded in Europe; as customers in different countries were willing to purchase similar designs, and then went to expand globally. |

## FACTORS DRIVING GLOBAL BUSINESS DEVELOPMENT

Financial growth opportunities and/or loss minimisation

If an Australian business wants to increase sales or find new markets, then at some point, ‘going global’ is the obvious option due to the relatively small size of the Australian domestic market. The goals of increasing sales and finding new markets are pursued with the aim of increasing the businesses profitability.

Often countries offer tax incentives enabling tax minimisation to entice foreign businesses to locate there. Tax exemptions, along with loans, the use of property and subsidies are just a few of the incentives offered.

Consumer purchasing and spending patterns

‘Digital’ consumers present unique global opportunities for retailers. Consumers are more confident and likely to make online purchases. Businesses use technology to give customers access to avenues such as social media and group purchasing sites to shop, connect with businesses and increase loyalty to brands.

Global transportation, secure online payment systems, digital distribution of products and web based shops have also changed the way we buy things. They also provide a strong platform for global business growth.

Customer behaviour factors that contribute to online global business include:

* Access to a greater choice of products’.
* Widespread use of mobile devices.
* Widespread use of the internet.
* Continued strength of the Australian dollar.
* Increasing level of experiences and satisfaction with online shopping amongst consumer across all age groups.
* Use of social media by both consumers and retailers to drive brand awareness.
* Secure and reliable payment systems.

World Trade Organisation (WTO) regulations and sanctions

The WTO has growing authority over national governments with restrictions and controls it can impose on nations requiring assistance. The WTO sets standards for international trade and for countries participating in Free Trade Agreements. Under the WTO rules free trade agreements must:

* Eliminate tariffs and other restrictions on all trade in goods between member countries.
* Eliminate substantially all discrimination against service suppliers from member countries (helping to increase trade in services).

The WTO sets standards for global business including:

* Transparency: clear information about policies, rules and regulations.
* Commitments to lower trade barriers and to increase access to global markets.
* Centralised databases of trade information.
* Trade facilitation: the simplification and standardisation of customs procedures, removal of red tape and other measures to simplify trade between countries.

The WTO aims to maintain safe global trade where counties can trade with clear rules, standards and ways to resolve disputes. This should give businesses more confidence and opportunities to increase global trade.

Deregulation of the financial markets

Deregulation is the process of removing government restrictions on businesses and individuals that dictate how a market functions. Deregulation of Australian financial markets were initiated more than 20 years ago.

Examples of government regulations that can be imposed in the financial sector include:

* Interest rate control.
* Fixed exchange rates.
* Banks being subject to reserve and liquidity ratios.

## IMPACT OF GLOBALISATION

Employment levels

The globalisation of labour occurs through international migration but also through the use of technology in outsourcing operations such as call centres and support services.

Offshoring labour or outsourcing business functions to an overseas location is a way to cut costs for business. This may lead to decreased employment locally while employment increases in the overseas country. Companies only outsource part of their business to emerging low-cost countries. The jobs lots locally are in labour intensive, low skill areas such as manufacturing, for example clothing and electronics. The company cuts costs and increases profit and productivity, which may allow it to make new investments and expand locally and hire new employees.

Global warming, lack of food security, lack of water security and the disruption of local industries due to climate change and political and financial instability drive international migration and the global movement of labour.

Increased economic activity in developing counties may lead to increased employment as more businesses outsources functions or use offshore labour.

Global spread of skills and technology

Globalisation spreads the knowledge of new inventions, innovations, business models and technology. International companies are investigating in, and encouraging governments to support, training and education to build a supply of skilled local workers. Companies can take advantage of people with specialised skills in construction, technology and business, and local language and cultural knowledge.

A company may take their technology, design or process to a low-cost country. By basing manufacturing in another country, local people will be trained and employed, there may also be a transfer of technology because of joint ventures and licencing arrangements.

International cooperation

International marketing depends upon understanding the culture and norms of other populations; it increases travel and migration and exposure to diversity.

The growth of globalisation is built on free trade agreements. These are mechanisms for deregulation and creating agreed rules and standards for trade that apply across nations and regions. They involve intergovernmental negotiations and trade agencies working together to reach agreements about improving trade between nations.

Technology has made global cooperation easier, for example email, videoconferencing, being able to transmit larger files and documents easily and securely, and virtual workspaces where people in different locations can work on the same project.

A company is Australia may develop a product based on research by scientists in Europe and manufacture it in Asia.

There are many examples of collaboration between television and film production companies from different countries.

Companies working together on official co-productions can take advantage of the financial support provided by their respective governments. Since the start of the co-operation support by Screen Australia there have been 158 co-production titles that have been completed or have commenced production.

Co-productions:

* Open new markets for Australian film and television.
* Enable the sharing of expertise and creativity.
* Strengthen existing ties and cooperation between countries.
* Increase the number of high quality films and television programs.

Domestic market

Domestic businesses not only compete with each other but also with imported goods. Online shopping and secure online payment systems give customers access to business from around the world.

Globalisation involves the deregulation of international business and free trade agreements between governments of different countries. This makes it easier for business from other countries to sell their products in Australia and increases the competition domestic businesses face. To try and compete, domestic businesses may decrease their prices and provide consumers with value which will have an impact on their profits and may lead to some small businesses going out of business.

Global prices and customer demand impact on domestic businesses. If an Australian business exports goods to other countries they will be affected by changes in exchange rates, price and demand overseas.

Tax minimisation

Businesses are entitled to arrange their financial affairs to minimise the tax they have to pay. Tax minimisation is when you legally make arrangements to reduce the amount of tax.

Two methods businesses use to minimise tax are:

* Tax havens: Tax havens are counties with secretive tax and financial systems and low taxes for non-residents and foreign owned companies. It results in less taxes paid to the government where the business is operating. A country can be classified as a tax haven if in terms of taxation and finance there is:
  + A lack of transparency: no or weak laws about business records and reporting making it difficult to track business transactions, earnings and money.
  + A lack of information exchange: governments and financial institutions do not share information with other governments and resist sharing information to assist international investigations.

Companies benefit by creating a parent company registered in the tax haven country or by creating complex accounting arrangements to transfer global earnings to the tax haven.

The use and establishment of tax havens and transfer pricing arrangements are not necessarily illegal. At the least their use has an ethical aspect that must be considered.

* Transfer pricing: Transfer pricing refers to internal prices and is used by multinational companies to reduce their tax bill. It is when one part of a multinational company sells products or services to another part of the same company in a different country. The prices charged can manipulate profits and the amount of tax they have to pay.

If two unrelated businesses trade with each other at ‘arm’s length’, prices are set by the market. The prices charged are similar to what other companies charge each other.

When two businesses that are part of the same multinational company trade with each other, they can artificially distort the price to minimise the overall tax bill.

|  |
| --- |
| Case Study  A food business called Global Foods grows crops in Australia, then processes them and sells the finished products in China. Global Foods does this through three subsidiaries; Australia Foods, Bermuda Foods (in a tax haven with zero taxes) and finally China Foods.  Australia Foods sells the produce to Bermuda Foods at an artificially low price. This means that Australia Foods makes less money and pays less tax in Australia. It could be manipulated on paper for Australia Foods to make a loss and pay no tax. Then Bermuda Foods makes a big profit because of the low purchase price and high selling price, but pays no tax because they operate in a tax haven. China Foods has artificially low profit because of the high cost of importing the products, so has a low tax bill in China. |

# Home grown/developed products

## BENEFITS OF HOME GROWN/DEVELOPED PRODUCTS

For a business to have international success they must have a strong base. A business can use a strong domestic foundation to expand overseas. Marketing strategies can be tested, products developed and distribution channels established. Domestic success also established business systems in communication, administration and continuous improvement.

Sustainable revenue and profitability in domestic markets provides the finances needed to expand into international markets.

# Global business ethics

## ROLE OF ETHICS IN GLOBAL BUSINESS DECISIONS

Environmental responsibility

Sustainability aims to meet the needs of corporate stakeholders today while seeking to protect and preserve resources and the environment for the future. Many Australian businesses and organisations are responding by managing their environmental impact. This includes reducing use and waste, and recycling of resources such as water, energy and paper. Companies are also measuring their carbon footprint and investigating carbon offsets.

Outsourcing

Outsourcing involves an organisation identifying activates that can be given to another organisation (the vendor) to perform on their behalf. Instead of a company maintaining manufacturing, market research, administration or customer service operations these are provided by a third part for a fee. Outsourcing overseas is attractive because Australian companies can take advantage of lower pay and conditions in other countries.

A company can benefit from outsourcing because they are using a business that specialises in a particular function; it may have expertise that the company does not have. Other reasons to outsource functions are:

* Lowering costs.
* Management being able to focus on core business activities.
* Avoiding costly investments in technology (information, manufacturing).
* Improving customer focus.

Offshore labour

As free trade agreements deregulate labour markets workers can become more vulnerable to exploration. A globalised economy results in the expensive sports shoes or denim jeans bough in Australian being made in sweatshops overseas. A sweatshop is a workplace where people work long hours for little pay in unhealthy conditions, usually making consumer items sold for high prices in developed nations. Sweatshops exist in all countries around the world.

The ethical approach for global businesses relying on cheap labour working in poor conditions is to collaborate with local unions. Collaboration will put pressure on employers to raise wages and working conditions. Global businesses will continue to exploit workers to keep their profit margins.

Offshoring can also provide economic benefits and brand awareness in other countries. Selling goods and services in other countries supplements domestic revenue and there may be lower manufacturing and distribution costs. Building a global brand will also increase brand awareness in Australian.

|  |
| --- |
| Case Study  <https://www.youtube.com/watch?v=47s9dZqXzAQ> |

# Incentives for international trade

## HOST COUNTRY AND HOME GOVERNMENT INCENTIVES FOR INTERNATIONAL TRADE

Grants

Grants are funds that are disbursed to a recipient or organisation by a government department, foundation or corporation to fund a specific project. to receive a grant, an application or proposal must be submitted to a potential funder and the recipient must meet certain qualifications. This could require the individual or business to have tax-exempt status or become registered as a local government or non-profit organisation. In many cases, these grants do not need to be repaid but must be tracked, making it extremely important for grant proposals to be as detailed as possible.

For example, business.gov.au allows users to see which grants they are eligible for. A retail trader located in Rockingham (6168) looking for assistance to improve or grow their small business would currently be eligible for 9 grants, including:

|  |  |
| --- | --- |
| ../Screen%20Shot%202019-10-28%20at%209.03.18%20am.png | ../Screen%20Shot%202019-10-28%20at%209.03.54%20am.png |

Taxation

A means by which governments finance their expenditure by imposing chargers on citizens and corporate entities. Governments use taxation to encourage or discourage certain economic decisions. For example, reduction in taxable personal (or household) income by the amount paid as interest on home mortgage loans results in greater construction activity, and generates more jobs.

# Free trade agreements

## DEFINE FTA

Free Trade is when there are no artificial barriers to trade imposed by governments. Free trade allows the free flow of goods and services between countries. Or a situation where there are no artificial barriers to trade imposed by governments for the purpose of shielding domestic products from foreign competitors.

## FEATURES AND ROLES OF FTA

* Bilateral free trade agreements are made between two countries.
* Regional free trade agreements are made between two or more countries.
* Free trade agreements are negotiated over a long period of time.
* The six main advantages of international trade are: increased economic grow, more dynamic business climate, lower government spending, foreign direct investment, expertise and technology transfer.
* The creation of free trade environments which is an area that is reducing and eliminating barriers to trade.
* The removal of trade barriers.

## DEFINE PROTECTIONISM

Protection can be defined as any type of government action that has the effect of giving domestic producers an artificial advantage over foreign competitors. The main protectionist measures include tariffs, import quotas and subsides.

Arguments in favour of protection

A number of arguments have been put forward to justify why countries impose protectionist barriers to trade, including the need to assist infant industries, protecting industries from overseas firms dumping goods, reducing unemployment and arguments for self-sufficiency in certain items.

* Infant industries – New industries generally face many difficulties and risks in their early years. They usually start out on a small scale, with costs that are relatively higher than those of the more established firms competing in the international arena. It is argued that these ‘infant industries’ may need protection in the short run to enable them to expand their scale and reduce their costs of production so that they can compete with the rest of the world.
* Prevention of dumping – Dumping occurs when foreign firms attempt to sell their goods in another country’s market at unrealistically low prices. The practise of dumping may be used to dispose of large production surpluses or to establish a market position in another country. These low prices are usually only of a temporary nature but can harm domestic producers. Local firms that could normally compete with such foreign producers may be forced out of business, causing a loss in a country’s productive capacity and higher unemployment. The only gain from dumping is that it results in lower prices for consumers in the short term, but this does not last, as foreign producers will put up their prices once the local competition is eliminated. Under such circumstances, it is generally in the economy’s best interest to impose restrictions on such imports.
* Protection of domestic employment – One of the most popular arguments in favour of protection is that it saves local jobs. If local producers are protected from competitors with cheaper foreign imports, the demand for local goods will be greater and this will create more domestic employment. This argument would sound even more convincing during times of recession when unemployment is rising.
* Defence and self-sufficiency – Counties sometimes have non-economic reasons for wanting to retain certain industries. For example, major powers generally want to retain their own defence industries so that they can be confident that in a time of war they would still be able to produce defence equipment. For this reason a country such as the United States would not buy its defence equipment from overseas countries even if they could produce them cheaper because this could make it reliant on other countries for military goods. A similar argument can be made for self-sufficiency of food suppliers. For example, even though Japan is highly inefficient in producing its own food supplies, it retains very high tariffs on rice imports because it wants to retain its own food supply. There are historical reasons for this attitude, as Japan experienced famine twice in the twentieth century due to wartime blockades that prevented imports of food supplies. When a country adopts this approach it must accept that it may gain self-sufficiency at the expense of higher living standards that would be achieved with specialisation and free trade.

Arguments against protection

* Net loss of income – Protection causes loss of income through increased prices to consumers. Households have less to spend on other goods and services. Protection also reduces national income because of loss opportunities. Opportunities are lost because protection in habits investment, research and development and innovation in the unassisted sectors of the economy.
* Loss of employment – Although it may preserve or increase employment in the protected industries, protection costs jobs in unprotected industries, protection of some industries increases costs and reduces profitability in other industries.
* Protection taxes exporters – Increases in costs caused by tariffs are ultimately borne by industries unable to pass the costs on, importantly the export industries. These industries, competing on the world market, are restrained in their response to rising costs by the need to stay competitive with world price levels. Most other economic sectors are able to pass on cost increases to consumers or pass on their higher living costs to employers. On the other hand, farmers and exporters of manufactured goods and services have no control over world prices.
* Reducing protection improves productivity – There is considerable evidence that international competition has significantly improved productivity in the traded goods sector of the economy. For a high labour cost economy like Australia there is encouragement to improve management and concentrate on the production of higher quality, more innovative products to offset labour costs, the increase in Australia's exports of elaborately transformed manufactures reflects this.

## PROTECTION ACTIONS BY GOVERNMENTS

Tariffs

A tariff is a government-imposed tax on imports. It has the effect of raising the price of the imported goods, making the domestic producer more competitive. The economic effects of tariffs are:

* Domestic producers supply a greater quantity of the good. Therefore, the tariff stimulates domestic production and employment.
* More domestic resources are attracted to the protected industry. This leads to a reallocation of resources towards less efficient producers (i.e. those who are unable to compete on an equal footing with foreign producers).
* Consumers pay a higher price and receive fewer goods. This redistributes income away from customers to domestic producers.
* The tariff raises revenue for the government, but that is not the primary objective. In fact, the more successful the tariff as a protectionist device (i.e. the more imports it restricts) the less revenue it will raise.
* A retaliation effect can be experienced. In response to tariffs on imports, other countries may impose tariffs on the goods that are exported to them. In that case, any increase may impose tariffs on the goods that are exported to them. In that case, any increased production and employment gains for the import-competing industries would be offset by losses in the nations export industries. In fact, the loss would be even greater because less efficient import-competing industries would be encouraged, while more efficient export industries would be discouraged.

Subsidies

Subsidies involve financial assistance to domestic producers, which enables them to reduce their selling price and compete more easily with imported goods. While economists are generally opposed to subsides, they prefer subsides to tariffs as a form of protection for the following reasons:

* Subsidies are an expenditure by the government rather than revenue and as such, are more likely to be reviewed regularly and removed when necessary.
* Subsidies tend to reduce prices, thus lowering inflation and benefiting consumers.

Quotas

An import quota controls the volume of a good that is allowed to be imported over a given period of time. The quota guarantees domestic producers a share of the market. The effects of an import quota are largely the same as those for tariffs, except for the fact that they do not provide tax revenue for the government. However, some revenue may be obtained via the selling of import licenses, the way in which quotas are usually administered. Countries can also use a system of tariff quotas. Here, goods imported up to the quota pay the standard tariff rate, whereas goods imported above the quota pay a higher rate. In the past, many of Australia’s most highly protected industries (e.g. textiles, clothing, footwear and motor vehicles) were shielded from foreign competition in this way.

Local content rules

Local content rules specify that goods must contain a minimum percentage of locally made parts. In return for guaranteeing that a certain percentage of a good will be locally made, the imported components may not attract a tariff. In the past, Australia used local content rules to protects its motor vehicle industry. Today, television broadcasting remains the most significant industry protected by local content restrictions, although the main purpose of this protection is to foster Australian content, to promote Australian culture rather than just protecting jobs.

Embargoes

Embargoes are a complete ban on a nations imports. In doing this, the government removes competition created by imports.

Quarantine

Quarantine is when a government has strict screening which limits entry of certain products into the country.

## ASEAN – AUSTRALIAN – NEW ZEALAND FREE TRADE AGREEMENT (AANZFTA)

The Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) entered into force in January 2010 for Australia and eight other signatories; Laos, Cambodia and Indonesia followed in 2011-12. The Agreement delivers extensive tariff reduction and greater certainty for services suppliers and investors. The countries of ASEAN – Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam – belong to one of the most dynamic economic regions in the world.

AANZFTA was Australia's first multi-country free trade agreement (FTA). Negotiation of the AANZFTA was the first-time Australia and New Zealand were involved jointly in negotiating an FTA with third countries. It was also the first-time ASEAN embarked on comprehensive FTA negotiations covering all sectors simultaneously. AANZFTA remains the highest quality of ASEAN's FTAs with its partners.

Key interests and features:

* Extensive tariff reduction and elimination commitments.
* Regional rules of origin provide new opportunities for Australian exporters to tap into international supply chains in the region.
* Promotes greater certainty for Australian service suppliers and investors, including through certain legal protections for investment in ASEAN territories.
* Provides a platform for ongoing economic engagement with ASEAN through a range of built-in agendas, economic cooperation projects and business outreach activities.

## AUSTRALIA NEW ZEALAND CLOSER ECONOMIC RELATIONS TRADE AGREEMENT (ANZCERTA)

The Australia - New Zealand Closer Economic Relations Trade Agreement (known as ANZCERTA or the CER Agreement) is one of the most comprehensive bilateral free trade agreements in existence. It covers substantially all trans-Tasman trade in goods, including agricultural products, and was the first to include free trade in services.

The Agreement's central provision is the creation of a World Trade Organization (WTO)-consistent Free Trade Area encompassing Australia and New Zealand.

Key interest and features:

* All tariffs and quantitative import or export restrictions on trade in goods originating in the Free Trade Area are prohibited under ANZCERTA.
* Contains measures to minimise market distortions in trade in goods, including through domestic industry assistance and export subsidies and incentives.
* The harmonisation of Trans-Tasman food standards through the Australia New Zealand Food Authority (ANZFA) Agreement of 1995 means lower compliance costs for industry, fewer regulatory barriers, and more consumer choice.
* Mutual recognition of goods and occupations removes technical barriers to trade and impediments to the movement of skilled personnel between jurisdictions without the need for complete harmonisation of standards and professional qualifications.
* The Protocol on Investment to ANZCERTA entered into force on 1 March 2013. Under the Protocol investors in both countries benefit from lower compliance costs, higher screening thresholds and greater legal certainty when investing in their Trans-Tasman neighbour. Two-way investment between Australia and New Zealand is worth more than $130 billion (2014).

## BENEFITS AND CHALLENGES TO AUSTRALIAN OWNED BUSINESSES AS A RESULT OF FTA’S

Benefits/Advantages

* Free trade allows countries to specialise in the production of the goods and services in which they are most efficient. This leads to better allocation of resources and increased production within countries, and throughout the world.
* Free trade encourages the efficient allocation of resources. Resources will be used more efficiently because countries are producing the goods in which they have a comparative advantage.
* A greater tendency for specialisation leads to economies of scale, which will lower average costs of production and increase efficiency and productivity even further.
* Free trade encourages innovation and the spread of technology and production processes throughout the world.
* Free trade leads to higher living standards as a result of lower prices, increase production of goods and services and increased consumer choice as countries have access to goods that a lack of natural resources may otherwise prevent.

Challenges/Disadvantages

* An increase in short term unemployment may occur as some domestic businesses find it hard to compete with imports. However, the short-term rise in unemployment should correct itself in the long term, as the domestic economy redirects resources to areas of production in which it has comparative advantages.
* It may be more difficult to establish new businesses if they are not protected from larger foreign competitors.
* Production surpluses from some countries may be dumped (i.e. sold at unrealistically low prices) on the domestic market, which may hurt efficient domestic industries.

# E-commerce

## DEFINE E-COMMERCE

E-commerce (electronic commerce) is the trading of goods and services via the internet. The internet has become an increasingly important method of business activity as e-commerce allows businesses to operate 24 hours a day, with an international reach. E-commerce mainly takes place via the use of a computer linked to the internet. Mobile devices present further opportunities for online trading. Examples of e-markets include:

* Financial services – banking, foreign exchange and share trading can all be transacted online.
* Utility services – gas, electricity and water companies now use online bills and statements to save costs and the environment.
* Motor vehicles – the internet has intensified competition in the sales of cars throughout many parts of the world, especially in Europe where anything from private registration plates to brand new vehicles are traded online.
* Retailing – groceries, clothing, books, DVDs and toys can all be traded on the internet.

E-commerce can be classified as either Business to Business (B2B) or Business to Consumer (B2C).

Advantages

* Source of revenue – E-commerce provides another source of revenue for many organisations. For example, Google has earned revenue from selling advertising space (‘sponsored links’) on their frequency visited web pages. In addition to traditional ‘walk-in’ stores, customers can now shop online from the comfort of their own home or office. E-commerce can therefore help a firm to increase its customer base.
* Another channel of distribution – The internet gives businesses another channel of distribution. It allows organisations to sell to anyone in any part of the world at any time of the day. Online trading is set to grow as more people and businesses are able to access broadband and because of improved confidence in internet security.
* Greater flexibility to respond to competitors – it provides greater flexibility for organisations to respond to competitors more quickly. For example, a company can publicise revisions to its services and products (such as price changes) much faster via its website than through printing updated hardcopy material. IKEA, the home furnishing giant, prints and distributes a colossal 160 million copies of its catalogue each year; without their huge product range being available on the internet, this figure could be much higher.
* Excessive packaging reduced – Many businesses now require their customers to use the internet to download or view manuals (instruction guides), rather than the traditional method of printing these guides in several difference languages. This not only reduces waste and excess packaging, but also cuts production costs, furthermore, updating technical information for innovative products such as Apple’s iPod and Amazon’s Kindle can be done easier online.
* Reduced overheads – Retail outlets tend to have higher overheads due to costs such as rent, storage, insurance and staffing costs. These can be reduced somewhat by operating online. Hence, the business is able to pass on some of these savings to customers. Customers can also save associated transactions costs (such as travel time and transportation costs) as there is no need for face-to-face trading.
* Reduced operating costs – operating costs are reduced by e-commerce. For example, subscription newspaper websites such as Singapore’s Strait Times or the USA’s Wall Street Journal run their online editions for a tiny fraction of the costs of their paper-based publications, the New York Times sells single articles as well as offering bundle packages for archived articles. The marginal cost of supplying extra online editions to new customers is close to zero – the use of the internet means that there is no significant difference to its total costs if it sells 1, 000 or 100, 000 online subscriptions.
* Wider choice and convenience – Customers have more choice and convenience because e-commerce reduces many barriers to entry, thereby allowing unknown firms to set up and compete with established businesses. For example, Amazon.com has revolutionised the way that books are sold today. Customers can choose not only from their local book retailers from the comfort of their own homes. In addition, e-commerce can provide more convenience for the customers. For example, customers can book tickets for the cinema, theatre, concert, theme park or overseas holiday at any time of the day from the comfort of their home or office. Search facilities on company websites also makes it quicker to find products and for orders to be places with relative ease.

Disadvantages

* High set-up costs – Businesses are likely to hire specialists to set up and to market their website. Arranging electronic payment systems can also be very costly. Furthermore, additional running costs need to be considered, such as postage and packaging costs.
* Finance charges – Credit card companies impose finance charges for using their services (for online payments). These charges may be passed onto the customers in the form of higher prices or absorbed by the business by accepting lower profit margins.
* Fraudulent trade – Fraudulent trade tales place. For example, there is no way that a buyer can authenticate items being sold on eBay (the highly popular auction website). Furthermore, the increase in online fraud and identity fraud (when criminals use other people personal details to gain access to bank accounts and credit cards) costs businesses billions of dollars each year.
* Spam – Spam and unethical marketing opportunities. For example, there have been email claims that Nokia and Sony Ericsson mobile phones were being given away for free to recipients who forwarded the message onto 20 other people. The emails were a hoax to get hold of personal email accounts for sending on advertising spam (inappropriate and unsolicited online publicity and internet marketing messages.) ‘Pop-up ads’ on websites can also be annoying and waste the customers time. According to InsideSpam.com, around 40 per cent if daily emails are considered to be spam.
* Not always suitable – E-commerce is not suitable for some businesses. Although e-commerce can be cost-effective, customers may find browsing online quite time consuming and onerous. It is okay to use the internet to search for more information about a motor vehicle before making a purchase, but the customer will still want to visit a showroom to see the physical product and take a test drive. Moreover, customers cannot simply take the online purchased product home as there is a time lag between purchase and delivery of the product. Many supermarkets will now deliver fresh fruit and vegetables, but most customers still prefer to select their own from a retail outlet. It may also prove difficult or inconvenient to return faulty or substandard products that were purchased online.
* Bad web page design – There are far more internet web pages than there are people in the world. To deal with this, search engines such as Google, Lycos and Yahoo! have become very popular. Nevertheless, many websites and web pages have too much information or too many high-resolution graphics and pictures, so loading time is very slow. Information overload can also mean that people prefer to visit a physical retail outlet to purchase their goods and services.
* Reliant on advanced technology – E-commerce is reliant on advanced technology that is not necessarily available to all businesses or in all countries. In addition, websites and web pages need to be regularly updated, yet remain easy for viewers to brows and follow. The maintenance costs must therefore be considered by online retailers.
* Hackers and breakdowns – The internet is volatile as it is prone to hackers and breakdowns. Maintenance and upgrades with further add to the costs of e-commerce. For example, an earthquake on Boxing Day 2006 in Southeast Asia severely disrupted internet services for more than two weeks in Taiwan, Singapore, Hong Kong, Vietnam, South Korea and Japan.
* Job losses – A shift to e-commerce from traditional methods of retailing may result in job losses. Businesses will need to devise strategies to deal with any redundancies. Moreover, job losses can harm industrial relations at work and give the organisations a poor image.

## BUSINESS TO BUSINESS (B2B)

B2B refers to e-commerce catered for the needs of other businesses. Examples of B2B include: corporate banking services, suppliers of equipment and spare parts, insurance, general maintenance and advertising agency services. Note that B2B technically exists both online and off-line, although the term is now usually used in the context of e-commerce, China’s Alibaba.com is the world’s largest B2B e-commerce provider, with operations in more than 240 countries.

Specialists in the B2B field often argue that consumer marketing strategies (used by B2C businesses) are not suitable or sufficient for marketing B2B products and services. This is because B2B involves professional buyers, who have totally different agenda. For instance, look at how the telecom operators approach their marketing – targeting teenagers, who cannot really afford the services, and totally neglecting the business community. It is the latter segment of the market that would really need mobile telephones with internet access and who could afford to pay for it. Hence, the focus of marketing campaigns from mobile phone operators becomes questionable.

## BUSINESS TO CONSUMER (B2C)

B2C refers to e-commerce directly catered for the end-user, i.e. the consumer. Some of the most well-known B2C businesses are engaged in both B2B and B2C. Search engines such as Google and Yahoo! not only allow customers to carry out searches on their websites but also sell advertising slots to other business. They operate a ‘Pay-Per-Click’ scheme, where the advertisers pay Google and Yahoo! each time a person clicks on the advertising banner.

## THE ROLE OF E-COMMERCE IN A GLOBAL ENVIRONMENT

E-commerce ensures a business is always open for business in a global marketplace. E-commerce is widely acclaimed for its inherent ability to break borders and create a conducive environment for international trade.

# Global brands

## DEFINITION OF GLOBAL BRAND

Global brands are brands that are recognised throughout much of the world and firms employing this unified approach use a similar marketing strategy to support the brand and its development everywhere.

## THE BENEFITS OF A GLOBAL BRAND

Consistency

Global branding enables a business to communicate consistent messages to customers in all markets. This can result in stronger brand awareness and positioning as all marketing supports the same message.

Low risk

Businesses can use marketing strategies that have worked in domestic markets such as promotions and advertising.

Lower cost

A business will be able to achieve economies of scale by using the same advertising and packaging throughout the world. Multiple teams for research and marketing strategy are not needed. A centralised team of people will develop marketing strategies for all markets. There may be some updating for different languages but it will be quicker and less expensive to use the same approaches in all markets. Costs rise if different marketing strategies are required in different countries or regions, for example separate campaigns with different packaging, product name, slogan and advertising campaign.

Easier to manage

A standardised approach to global branding will be less complex than working with multiple advertising agencies, marketing teams and different strategies.

Better differentiation

A consistent global brand will stand out from the competition more than a business that tries to blend in with domestic businesses. Everywhere a consumer travels they will see the same logo, colours, product name and advertising.

## FACTORS THAT DETERMINE THE FEASIBILITY OF EXPANDING INTO A FOREGIN MARKET

Level of demand by customers

To assess feasibility, the size of consumer demand must be estimated. Estimate the total demand for the same or similar products and the possible market share that could be captured. Part of estimating demand is forecasting demand over time and considering economic characteristics that have an impact on demand. These include interest rate and inflation setting, unemployment levels, exchange rates and economic growth. Current settings and possible future changes should be evaluated. A business may hire a research company to undertake marketing analysis, ideally in the market they are targeting.

Consumption pattern

There may be political motivations behind consumption patterns in some countries or regions. A company and its products may be boycotted because of their business practises such as animal testing, sexist or racist advertising, this may present an opportunity for a competitor to step in and capture the lost market share. In developing counties, there can be change in consumption patterns. A country may grow in wealth and there may be a new middle class of people who have higher wages and more discretionary income. A result of growth in developing economies such as India and China, is the increase in living standards and spending for an increasing part of the population, even just the seemingly small transition from ‘poverty’ to ‘adequate food and clothing’ results in great demand for different products and a significant change in consumption patterns. There are also parts of the population that are reaching a high middle class standard of living. These segments of the population are demanding products and services such as high-nutrient food, larger homes, cars, health care, education and other services. China’s consumption patterns have changed remarkably in recent years. Chinese people now spend proportionately less on basic necessities and more on travel, IT products, housing, medical insurance, entertainment and education. L’Oreal purchased Yue Sai, a Chinese cosmetics company, in 2004. They are now positioning it as a luxury cosmetic brand. Ingredients from Chinese traditions have been included in the products. In Western countries, there have been two changes in food consumption patterns. There has been a rise in demand for processed, packaged foods for value and convenience and also a rise in ‘healthy’ products that target a range of health issues such as gluten intolerance, heart disease and weight loss. Analysis should also include seasonal patterns in consumption or peaks and troughs around holidays and cultural events. Social media is a useful source for information about changes in consumption patterns. Businesses should monitor social media to follow conversations about brands and consumer preferences to predict the types of products that are regarded as desirable, part of a fad or have become a trend.

Competitor activity

A competitor analysis is an important part of assessing the feasibility of a global venture. To gain an understanding of the target market, it is vital to have thorough understanding of the competition. The better that you understand competitors, the more effective marketing strategies will be. Global business increases competition. When identifying competitors, a business must include exporters, local businesses and online sellers. It can be difficult to assess competition in foreign country. A research company in the target country is a good source of primary data regarding competitors. Information can be:

* Primary data: based on research and observation, it may involve extensive time spent in the target country conducting market research and includes exploring competitor websites, outlets and patents and pricing
* Secondary data: this is available in published form and includes government publications, trade shows, media reports, advertising, competitor annual reports and product brochures
* Anecdotal data: comes from discussion with suppliers, customers and past employees of competitors

## APPLYING THE MARKETING MIX TO GLOBAL BRANDS

Product name and slogans

Language and cultural differences need to be considered when deciding whether the same product name and slogan will be used or if it will be different in different countries.

Coca Cola standardise their product name in all markets using the same font and wavy pattern and colour (red). Even if consumers cannot read English they can recognise the brand.

Follow are examples of businesses that got it wrong:

* Colgate introduced a toothpaste in France called ‘Cue’ which is the name of a well-known pornographic magazine there.
* In Italy, a campaign for ‘Schweppes Tonic Water’ translated the name into ‘Schweppes Toilet Water’.
* Clairol introduced the ‘Mist Stick’, a curling iron, into Germany where ‘mist’ is slang for manure.

Slogans are part of positioning and also depend on translations and language differences.

* In Chinese, the ‘Finger lickin’ good’ slogan of KFC translates into ‘Eat your fingers off’.
* In Spain, when Coors Brewing translated its slogan ‘Turn it loose’ into Spanish it became ‘Suffer from diarrhea’.
* Pepsi’s ‘Come alive with the Pepsi Generation’ translated into ‘Pepsi brings your ancestors back from the grave’ in Chinese.

Some businesses fail or have difficulty with entering overseas markets because they have not done the research to understand the culture. A standardised approach may not be possible.

Product feature

Colours play a significant role in the design and marketing of products, packaging, branding and advertising. Different cultures place difference significance on colours. In Australia, red is used in warnings and to signify danger, while in other cultures green or black are used. In Asia white is the colour of funerals, while white is the colour of weddings in Western cultures. Cocoa Cola has built global awareness of its red colour in its packaging and logo.

Differences in climate have an impact on marketing strategies. Climates create demand for products and services in some countries but not others with different climates. Products packaging and distribution methods may need to be adapted to different climates to prevent damage. Products made with a winter in Australia may not be suitable for winters in Europe, for example. An example is a washing machine manufacturer adapting the speed of their washing machines in Europe based on the amount of sunshine in each country. Washing machines sold in southern Europe, which has more sunshine, have slower spin cycles than washing machines sold in northern Europe.

The features of the product also include those set by common practise, laws and regulations. For example, different countries have different labelling rules and electrical requirements (appliances in the US should conform to 110 volts, in the UK 220 volts, and they have different types of plugs).

In the 1950s Pepsi lost market share to Coca Cola in some Southeast Asia countries when it changed its vending machines from dark blue to a light blue. Light blue is a symbol of death and mourning in Southeast Asia.

In 2004, IKEA found that it needed to change the colours of its products to better target California’s Latino population. After IKEA designers visited the homes of Hispanic staff, the Swedish furniture retailer realised the mostly black or white colour options were not bold enough for Latino tastes.

Positioning

In some cultures, individualism and individual success are highly valued. Products are marketed based on the sense of achievement that comes from owning them. Positioning is based on consumers feeling they have ‘made it’ if they own a certain product.

Other cultures value collectivism and collective achievement highly so marketing that focuses on standing out and being better than others is not as effective.

# Strategic alliances

## DEFINITION OF STRATEGIC ALLIANCES

A strategic alliance is when two or more businesses form a partnership for a project, business venture or for the long term to create a new business. Strategic alliance is a strategy of collaboration between businesses for mutual benefit. An alliance should bring income to alliance partners that would not otherwise occur.

Advantages

* Quick access to a new market.
* Reduction of competition by forming an alliance with competitors.
* Larger market share.
* Increased sales and income.
* Gaining new expertise and technology.
* Access to research and development for business development.
* Increase in the range of products and services.
* The opportunity to share operating costs and working capital.
* Access to established distribution channels.
* Gaining greater knowledge of customs and culture in other countries and regions.
* The opportunity to build global brand awareness.

Disadvantages

* They make take on the weaknesses of the partner, for example a lack of management expertise, unmotivated staff or high costs.
* Less efficient communication in a larger multinational business.
* Increased conflict over decisions and allocation of business resources.
* Making the alliance work takes time and energy away from the core business activity.
* Loss of control over product quality, operating costs, employees and so on.

## TYPES OF STRATEGIC ALLIANCES

Outsourcing

Outsourcing is a strategy that involves using a company overseas to perform a business function. This is different to offshoring where companies use their own employees in locations around the world.

A business in Australia can use an overseas company that specialises in a certain function. They have well-trained staff and efficient operations that can perform the function on a contract basis more cheaply than a company doing it themselves.

Examples of work Australian businesses are contracting overseas include game development, engineering and technical design, mobile app development, human resources and payroll.

The impact on employment of outsourcing including:

* Employment lost in Australia as a result of moving functions offshore.
* New jobs created in other countries.

The reduction in operating costs results in extra capital that can be used for business growth such as research and development, marketing and product development.

|  |
| --- |
| Case Study  Google is an example of a company that outsources in areas such as IT specialists, developers and virtual assistance work. In recent years, Google had decided to outsource phone and email support with AdWord, this has proved to be a successful step to further grow Google as a company. |

Acquisition

An acquisition provides a quicker start in exploiting an overseas market. A business buys another that has been operating.

Businesses acquire target businesses as a growth strategy because it can create a bigger, more competitive and more cost-efficient company. This exploits synergy; two businesses together are more valuable than they are apart, combining skills, expertise, technology, capital and market share.

When a target business is acquired it ceases to exist and becomes part of the purchasing business. Acquisitions are commonly made by using a majority of company shares. Acquisitions can be either hostile of friendly.

1. Hostile acquisition: this is the acquisition of one company by another by going directly to the shareholders and making an offer to buy their shares or by using their voting power to place people on the board of directors to approve the acquisition. It is hostile because the purchase is attempted without the consent or approval of existing management and directors.
2. Friendly acquisition: a friendly occurs when the purchase of majority shares is part of an agreed negotiated process with consent of the board of directors and full disclosure to existing shareholders. In order for a purchaser to buy majority shares, existing shareholders may have to agree to sell their shares. It is more likely shareholders will accept the offer if it is a friendly acquisition.

|  |
| --- |
| Case Study  An example of an acquisition is The Walt Disney Company purchasing Pixar in 2006 and not long later purchasing Marvel in 2009. Before the acquisition Pixar had already produced four highly successful animated film and since being brought by Disney, together they have now produced eleven movies. The success of this acquisition was the reason for Disney to then purchase Marvel three years later and this acquisition has led to another eleven Marvel movies. |

Merger

A merger is when the shareholders of two companies become the shareholders of a new merged company. A merger is similar to an acquisition, but both companies involved are of a similar size and agree to form a new company. Rather than a purchase or takeover it is an agreement between two companies.

It may involve a new name, logo and slogan to launch and identify the new company.

There are three main types of mergers and acquisitions:

1. Horizontal merger: a horizontal merger or acquisition is when two companies in the same industry combine. The South African company, Woolworths, purchased David Jones for $2.2 billion. Woolworths plan to use David Jones to sell some of their South African brands. Woolworths also have customer relationships management technology that will be used to refine the marketing strategies for David Jones.
2. Vertical merger: a vertical merger or acquisition occurs when a business buys ore merges with one of its suppliers. Owning a supplier can reduce operating costs and also increase competitive advantage. Control of a supplier can limit competitors’ access to a product. For example, Ansell purchased two suppliers of gloves, BarrierSafe Solutions and Midas.
3. Conglomerate merger: a conglomerate merger or acquisition occurs between two unconnected companies. A company may want to branch out into a different industry or market. The plan is to achieve this with lower risk by buying an established company. A company can maintain profits over seasonal and economic highs and lows because they own businesses in a range of industries. Perth based company Wesfarmers own businesses in a range of industries including coat mining, LGP, safety products, chemical and industrial products and is now the owner of supermarket chain Coles, Bunnings, Target and Kmart.

|  |
| --- |
| Case Study  During 2013 the already successful publishing companies Penguin Group and Random House merged to create the world largest publishing company, Penguin Random House. Advantages of this merger for the companies included the chance to invest on a larger scale then either could do alone, a larger range of diverse content and potentially the power to take on Amazon.com. |

Joint venture

A joint venture is an alliance where the businesses involved start up an independent company. The company is formed using the resources from all alliance partners and each partner owns a percentage of the joint venture company. The venture partners usually form a new company for the joint venture. That way the company can focus on the joint venture project and the individual partners can still focus on their own core businesses.

Joint ventures often fail because of the resistance to change and poor communication. Employees of all joint venture partners must be committed to making the arrangement work. They must understand the difficulties of the joint venture but also what they have to gain from it.

|  |
| --- |
| Case Study  Siemens is a world-wide company that helps with infrastructure and industry solutions. Active in Australia and New Zealand for 145 years, the company is one of the world’s largest producers of systems for power generation and transmission. Electrification, automation and digitalization are Siemens focuses which leads them to provide ‘state of the art’ solutions in fields including IT, industry, finance and energy.  The Walt Disney Company is a ‘leading diversified international family and media enterprise’ that is operating in over 40 countries and territories. They are one of the largest producers and providers of entertainment and information and they focus of producing the best creative content possible, fostering innovation and utilising the latest technology. The Walt Disney Company continues to search for the ‘most creative, innovative and profitable entertainment experiences and products’ as they continue expanding into the global market. Siemens and The Walt Disney Company During the October of 2005, Siemens US and The Walt Disney Company signed at 12-year agreement, lasting until 2017. Both companies were likely to benefit together due to their shared values such as innovation, service and quality. “Embracing new technology is a key strategic priority at Disney because it supports our commitment to creating an outstanding guest experience and driver’s growth for the entire company.” Said Robert A. Iger, president and CEO of The Walt Disney Company. This lead to the combined goal to drive sales, push business development and position the brand with potential business clients. Part of Disney’s agreement with Siemen included marketing, promotional rights, attraction sponsorship and promotional presents that features Siemens products and services.  Before the alliance, Disney already used a range of Siemens technologies. After the alliance in 2005, the first shows and attractions were presented by Sylvania, A Siemens Company at Disney’s parks. The first Illuminations: Reflections of Earth at Epcot. Closely followed by Osborne Spectacle of Dancing Lights at Disney Hollywood Studios. 2006 brought Disney’s Electrical Parade at Disney California Adventure and Walt Disney Parade of Dreams at Disneyland both of which were presented by Sylvania, A Siemens Company. Siemens VIP Centre at Epcot opened with a private executive meeting and guest area n 2007. Followed by Spaceship Earth and Project Tomorrow at Disneyland in 2008. The last project in 2010, It’s a Small World at Disneyland. Along the way, many smaller projects were undertaken including Disney characters appearing in advertisements for Siemens medical equipment including hearing aids. Strategic Alliance Type The agreement between The Walt Disney Company and Siemens is a joint venture. Both companies have invested into an agreement to undertake projects over the 12 years. Due to the similar company values they were both able to successfully gain from the joint venture. The Walt Disney Company had access to better resources and expertise which helped to build new attractions at the parks. While Siemens were able to have a promotional presence that featured their products and services. At the end of the 12-year joint venture both companies had benefited however the agreement was not continued. This was expected due to The Walt Disney Company’s goal to keep on changing and exploring new technologies. Possible Success and Failure At first, the agreement between Siemens and The Walt Disney Company might look to be a poor decision and one that might fail due to the diversity of the companies. Another factor is that while Siemens would most likely be able to help Disney in several ways could Disney help Siemen. However, the possible failure is less likely than the possible success due to the amount of advantages the agreement brings both Siemens and The Walt Disney Company.  Siemens deal with Disney represents a large change in the businesses target market. Originally focused on sports sponsorship and medical technology the market was small. This agreement then allowed Siemens to broaden their market and become well known by families. Along with Disney’s characters appearing in advertisements for Siemens medical products such as hearing aids, it has proven to be a massive benefit for the company. Disney’s benefits being much more noticeable and recognised through the improvement of their parks attractions and shows. Due to the high number of advantages and the similar values for both Siemens and The Walt Disney Company, the agreement successfully succeeded. Summary The joint venture between Siemens and The Walt Disney Company lasted from 2005 to 2017, 12 years as planned. It was a successful joint venture that lead to an increased market, an increased awareness of the company, the chance to demonstrate innovation to customers and a strengthened brand in memorable ways for Siemens. The joint venture lead to new rides and attractions, access to Siemens intellectual property and a drive-in sale for The Walt Disney Company.  <https://www.youtube.com/watch?v=O7OIq1hmtEo> |

Franchising

The International Franchise Association defines franchising as a: ‘continuing relationship in which the franchisor provides a licensed privilege to do business, plus assistance in organising training, merchandising and management in return for a consideration from the franchisee.’ The franchise is able to expand into global markets without having to invest its own capital. The franchisee gains through access to an established, proven business model and brand awareness which makes it a lower risk business venture.

International franchises are more difficult to manage, and ensure standards are maintained, because of the geographic distances, language barriers and different laws and regulations in different countries.

A company may form a relationship with a Master Franchisee in a country or region. The master franchisee acts on behalf of the franchisor to set up and fund new franchises. This can be more successful than the franchisor trying to manage new franchises from a location in another country. The master franchisee is located in the target country with knowledge of the local language, culture and business environment.

The benefit for a franchisor is increased global market access and global brand awareness at a lower cost than if they opened fully-owned stores with the added income of ongoing franchise fees and royalties.

|  |
| --- |
| Case Study  Baker’s Delight is an example of a successful franchiser in Australia. Established in Melbourne during 1980, the company became a chain eight years later when the owners had 15 bakeries and decided to expand into other parts of the world including Canada and New Zealand. There are now over 600 stores world-wide and Baker’s Delight have won the Australian Franchise System of the Year Award several times. |

# Financial risk in export markets

## SOURCES OF FINANCIAL RISK IN EXPORT MARKETS

Currency fluctuations

Currency fluctuations are a natural outcome of the floating exchange rate system. Rises and falls in the exchange rate can have both negative and positive effects for businesses.

**Depreciation** is the word used to describe a fall in the value of the Australian dollar. The dollar can fall quite a large amount over time. In recent years it has hovered at around US70-75 cents, but in 2001, the value of one Australian dollar went below US50 cents for the first time. Depreciation lowers the value of the dollar and thus allows owners of foreign currencies to buy more Australian goods. As such, depreciation will make Australian exports cheaper (and thus more desirable) on the international market.

The cost of imports, however, will rise, given the relative weakness of our currency. In this scenario, Australian businesses are more competitive globally, which is good for the economy, but Australian consumers pay more for imported goods - not to mention the higher cost of international travel - and so they experience this depreciation as a negative.

**Appreciation** in the Australian dollar has the opposite effect. The competitiveness of Australian exports declines, but the price of imported goods, overseas travel and foreign investments also falls, which benefits the consumer.

Non-payment of monies

A financial risk is not receiving payment from the customer after incurring costs and possibly providing the goods or service. Unlike a domestic transaction, it may be very difficult to track down a customer that hasn’t paid in another country and difficult to find legal recourse to recover the debt.

It can take longer to get paid for exports than for sales to domestic customers. You may not be paid in full until the products or services have been delivered. Transporting goods to other countries can be slow; there may be weeks between dispatch and delivery.

The longer the delay between providing the goods or service and payment, the higher the risk of non-payment. This has an impact on cash flow.

Payments may be made by:

* Transfer through a bank.
* Credit card payment.
* International bank cheque or bank draft.

## STRATEGIES FOR MINIMISING FINANCIAL RISK IN EXPORT MARKETS

Documentation

* Documentary letter of credit: a form of guarantee from the customer’s bank that the money will be paid. The letter of credit will detail terms that must be met before payment is made. Terms could include that the goods arrive as ordered, without damage and within a certain time. In these terms are met the bank will transfer the money to the exporter’s bank. If the customer does not have the funds in their account, their bank will make the payment to the exporter then chase the customer for reimbursement.
* Documents against payment: an exporter receives an order from a customer. Goods are manufactured or sourced as per the order. The exporter uses their bank to send a bill and any documents that will allow the buyer to collect the goods to the customer’s bank. The customer’s bank will give the documents to the buyer only after payment is made. The customer makes the payment to their bank and it is forwarded to exporters bank.

Insurance

A way to encourage people to buy goods is to offer generous credit terms. Credit terms overcome the obstacle of the customer not having the funds to pay for the goods. But there is a risk to exporters when they give credit to customers. It is the same risk that when you’re dealing with customers in other countries.

Hedging

The uncertainty of the Australian dollar against other currencies has an impact on the profit of Australian businesses. If a business deals with international customers and suppliers, managing foreign exchange variations is a daily issue. Currency fluctuations is a financial risk for international business and may be managed through hedging.

If payment is to be received in foreign currency, movements in exchange rates can adversely affect the amount of money received and reduce the profit margin.

A currency exchange rate is the price at which one currency is exchanged for another currency at one point in time. If a business deals with international customers and suppliers on a regular basis they are at risk because of exchange rate variations that do not go in their favour.

A risk for exporters is if currency exchange rates change in the time between signing the contract and customer making the payment. For example, an Australian business signs a sales contract with a US customer for USD 10 000. At the time of the contract signing the exchange rate in USD 1.00 to AUD 1.10. This means that at he time the contract was signed the Australian business would receive:

USD 10 000 x 1.10 = AUD 11 000

A few weeks have passed and the US customer is now making payment. At the time of payment, the exchange rate is $1.00 USD TO $1.06 AUD. This means that when the customer pays the invoice the Australian business will receive:

USD 10 000 x 1.06 = AUD 10 600

The business has lost a cash inflow of $400 through a fall in the exchange rate.

The best way to protect against exchange rate losses is to require customers to pay in your currency. Exchange rate variations have no impact on the income and there is no delay or fees associated with converting payments in foreign currencies. Or the contract could be signed with a set exchange rate, the rate at the time of signing the contract, for example.

Another way is to hedge against the risk. Hedging is a method to reduce losses from exchange rate variations. The basic idea of hedging is to make an investment that makes hedge against unfavourable changes in exchange rates.

The two forms of hedging are:

* Forward: the exporter and the customer sign a contract that sets an exchange rate for the transaction. When payment is made the agreed exchanges, rate will apply.
* Option: an exchange rate is set which can be used instead of the current exchange rate at the time of payment. If the current exchange rate is better for the business it can be used in the transaction instead of the agreed rate.

# Innovation

## DEFINITION OF INNOVATION

Innovation can be described as the process of pioneering new and creative ideas in the production process. In business, the term is regarded as the commercial exploitation of new ideas and inventions. It can refer to both radical and incremental changes. There are technical differences between innovation and inventions, the terms are often used interchangeably.

* Incremental innovation refers to minor improvements to products or work processes. For example, car manufacturing might work on developing safer and more energy efficient vehicles.
* Radial innovation is much more disruptive and involves larger risks. For example, vinyl and cassette tapes were replaced by CD technology (which has been threatened by the growing use of internet downloads).

There are several classifications of innovation:

* Process innovation – refers to changes in the way production takes place.

|  |
| --- |
| Case Study  Australian company, Moraitis Fresh, supplies supermarkets, fruit markets and national restaurant chains with fresh fruit and vegetables. Moraitis places radio frequency identification tags on tomato trays to track the origin, packing date, type, quality and size of the tons of tomato’s it ships every day. This means that it can track the precise amount and quality of tomatoes in its supply chain at any point in time. The company can respond rapidly to customers’ requests for a specific volume and grade of tomato and tell its customers exactly when and where the produce was grown, packed and shipped. This real-time data also improves financial control, allowing Moraitis to pay growers based on the actual quality and number of tomatoes received. |

* Product innovation – refers to new creations or the radical development of existing productions.

|  |
| --- |
| Case Study  <https://www.youtube.com/watch?v=U48nmKPJclA> |

* Cost reducing innovation – refers to improved processes that reduce the costs of productions of a business.

|  |
| --- |
| Case Study  <https://technology.inquirer.net/55507/googles-culture-of-innovation> |

## ROLE AND BENEFITS OF INNOVATION IN IMPROVING PRODUCTS, PROCESSES AND SERVICES

Management guru Peter Drucker once said that all successful businesses at some point required a manager to make courageous decisions. He argued that businesses cannot grow through cost cutting alone, but required innovation to sustain or increase their profitability.

Benefits and goals of innovation

* Growth opportunities: innovation can be a source of business growth and evolution. Nintendo, the Japanese producer of games consoles, originally sold playing cards.
* Productivity gains: process innovation can help a business to increase productivity levels.
* International competitiveness: innovation can also give a business or country a competitive edge over its foreign rivals.
* Brand switching: this is the act of consumers turning away from rival products for a more appealing or innovative product. Games console and mobile phone manufacturers are constantly trying to get customers to switch to their products
* Job creation: product innovation can create plenty of employment opportunities.
* Social benefits: innovation can often improve the quality of life for many people. For example, developments in later technology for correcting eyesight has meant that many people no longer need to rely on glasses or contact lenses.

## BENEFIT OF INNOVATION FOR BUSINESS

A business case can be made for innovation. Before implementing a change its cost and benefits must be analysed to ensure that it will have a positive impact on the business. Benefits of innovation include the following.

Financial gain

Innovation may lead to increased income or a new income source through the creation of a new market or the capture of more market share. Innovation may also prolong a products life cycle by delaying the onset of the decline stage. By adding features or improving quality and performance, customer demand can be maintained or increased. This will prolong the maturity stage of the product life cycle or result in a period of sales growth.

Process innovation may reduce waste and costs which also result in sustained profit. Innovation may involve a less expensive manufacturing process or substituting materials for higher quality options which decreases defects and production losses.

Apple have perfected this approach by offering incremental improvements to existing products to drive sales growth. For example, each iteration of the iPhone is marginally different to the last but results in high global demand from customers upgrading to the ‘new’ product.

Expansion of global market presence

An innovation can be marketed to the world if the intellectual property driving it is protected. The competitive advantage created by the innovation can be translated into global competitiveness.

The innovation could lead to options for expansion such as franchising and licensing. Technologies such as e-commerce, groupware and online ordering, distribution and payment systems make global expansion possible.

Process innovation may reduce costs and increase production capacity. These will enable a business to implement marketing strategies to enter or expand global markets.

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 fad, response to existing customer demand in a new and better way or anticipate a market trend. Process innovation may result in a better way to interact with customers, such as a social media, online purchasing and payment methods.

A company can enhance their public image and potentially consumer demand and loyalty through environmental management innovation. If a company uses new or improved technology to reduce the carbon footprint, reduce waste or better manage pollution they can promote their commitment to sustainability and being ‘green’. This will increase consumer awareness of the brand and may result in a competitive advantage over similar products and service that may not be as environmentally friendly.

## FACTORS THAT IMPACT ON THE SUCCESS OF INNOVATION

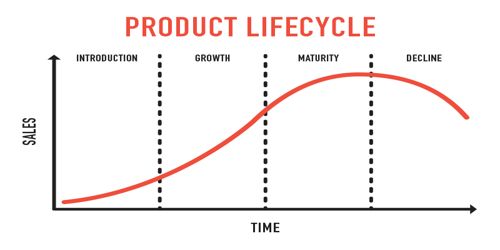
Some indicators of successful innovation are:

* It works: the innovation has got to the stage where it is fully developed, it works and it can be taken to the next stage of commercialisation and market launch
* Commercialisation: an innovation has been developed into a product or service and packaged with marketing strategies and launched into the market
* Integration into a product or service: the innovation has been incorporated into existing products or services, e.g. improved quality, added features, better performance
* Income: sales and revenue can be attributed to the innovation

Timing

Innovation is more likely to succeed during times of prosperity than times of economic slowing or downturn, consumers are more likely to try a new product or service id they have discretionary income and consumer confidence is good. If there is potential demand for a new product or service, retailers and wholesalers are more likely to take it on because of the lower risk.

In stronger economic times a company is more likely to take on the risk of dedicating time, money and focus to creating something new.

The stage of the product life cycle will also have an impact on the success of an innovation. When a product is in the growth or maturity stage there is already brand awareness and a market presence, consumers know about the product, many have brought it and there are established distribution and marketing strategies.

An innovation can build on existing success and exploit the market share and marketing systems that already exist. A company will also have substantial data from market research and their customer database to refine innovations and generate ideas. At the maturity stage the company may also have made profits that could finance innovation.

Market research is largely based on the past. It identifies performances, data and characteristics on a past point in time. Ideas may also be based on current capabilities and performance of the company. Things may change. There may be changes in the economy, consumer behaviour, staff turnover, technology and other factors that may have an impact on the nature and viability of the innovation.

Management needs to use their judgement and the information at hand to identify the ways the company and the business environment may change, to anticipate change. That way they can manage the risk of innovation and prepare for the future.

Cost

Innovation is risky and it usually requires considerable investment of time and money either from retained profits or from external funding such as loans, grants, share issues. An innovation may take some time to be commercialised and profitable (if at all). In the meantime, the company must bear the increased operational costs.

An important responsibility is to know when to pull the plug on an innovation. Sunken cost describes the money and effort already committed to an innovation. Regardless of the money and effort already spent, if the project is no longer beneficial or cost-effective, the costs that have been sunk into the innovation cannot be recovered and it should be terminated.

This has been identified as an ‘innovation death spiral’. Financing innovation allocates people and money to a project and takes resources away from existing operations. If an innovation looks like it will be unsuccessful, a company may allocate more people and money to the project to try and make it work. This puts greater pressure on the core business and decreases the resources available for operating and marketing existing products and services. The losses from the innovation project can have an impact on the company as a whole and jeopardies its survival. This may also happen if a company invests substantial resources into incremental innovation, making small changes to existing products with little impact on the market.

One way to assess an innovation is in terms of net cash flow – earn versus burn: the difference between the income from the innovation (earn) and the money spent to make it happen (burn).

Marketing strategy

To successfully commercialise an innovation, a company must align production and marketing strategies. A radical change may require an education campaign to build understanding about the need for the innovation and the benefits it will bring to consumers.

Marketing strategy may need a range of approaches including public relations, advertising, and changes to packaging and promotion within distribution networks. These will build awareness, interest and desire for the innovation. Wholesalers and retailers will need to be educated so they can sell the features and benefits to the consumer to help generate demand.

Positioning may also have an impact on the success of innovations. If a company has built an image and reputation for being innovative and high quality, consumers, wholesalers and retailers are more likely to believe their claims about new and improved products and services.

Technology

Technological discovery or invention can provide the stimulus for innovation. A new technology may enable a company to do something they could not and give them the platform to change their business. An example is the way that secure online payment systems and a stable internet allows companies to change to digital distribution of products and services.

Technology development can lead to radical and disruptive innovations; not only in the area of computing and software. Other technologies such as nanotechnology and genetic modification have created new markets and new products and services.

INTELLECTUAL PROPERTY PROTECTION

A company is more likely to benefit from an innovation if they can prevent competitors from using it too. An innovative product design, manufacturing technology or improvements made to features or packaging may result in increased sales, a new market or increased profit through lower costs.

Protecting the design through patent, copyright or a registered design will stop competitors from making and launching their own versions and benefiting from the time and money another company invested in the innovation.

|  |
| --- |
| Case Study  Lego had been in a decline in sales and profits since the 1990s. To turn it around they invested heavily in innovation to create a range of new products including virtual Lego and toys that moved away from their core business of construction. One of their experiments was called Galidor. It was a buildable action figure and also a huge, expensive failure. Galidor had electronics in it that you could play games with, an accompanying video game and a TV show.  Lego did what you are supposed to do when facing a challenge, thought outside the box. They changed the way they did business, started marketing strategies they has no ../500px-LEGO_logo.svg.pngexpertise in and launched stand-alone products very different to everything else they sold.  Some innovations were successful (Bionicle, Harry Potter and Star Wars-themed Lego) but the costs of the unsuccessful innovations (Technic, Galidor, Lego Baby) almost led to disaster. |

# Change management

Change management is a process that coordinates business systems to control and manage change within an organisation. Businesses operate in an environment that is always changing. Change in the business environment is brought about by new government policies and laws, demographic changes, developments in technology and increase competition.

## FACTORS THAT DRIVE CHANGE

Internal factors

Internal forces for change can have just as much impact as external forces. However, these forces can be more easily controlled and accounted for. Some internal forces for change are:

* Corporate culture.
* New management styles.
* Management skills.
* Stakeholders (shareholders, suppliers, competitors)
* Changing employee expectations.
* New policies.

Management must respond to internal forces as quickly as external forces; they must plan to meet these changes and limit their effects.

External factors

The external pressures that influence change in large-scale organisations come from a variety of forces. The organisation has little control over these forces. Some external forces for change are:

* Legal forces.
* Geographical forces.
* Social forces.
* Political forces.
* Technological forces.

|  |
| --- |
| Case Study  SPC Ardmona restructures as drought effects bite  SOC Ardmona has announced a reduction of approximately 50 positions from its permanent workforces, citing the combined effects of the drought, increasing volume of imported processed fruit and vegetable products, and the need to maintain its long-term competitive market position. Nigel Garrard, the Managing Director of SPC Ardmona, announced the restructure across all areas of the business, resulting in both redundancies and a number of vacant positions not being replaces.  ‘We regret having to take this step,’ Mr Garrard said. ‘We have been dealing with the effects of this drought and the competition from imported products for some time now, and have managed to keep the business profitable and our growth plans on track.’  ‘however, to remain competitive, we have had to make the hard decision to take further costs out of the business and restructure our operations.  ‘At the same time we have expanded our operations and markets overseas, to ensure our ongoing domestic and global competitiveness. I am confident that SPC Ardmona will emerge in a much stronger position.’  Since being acquired by Coca-Cola Amatil in 2005, SPC Ardmona has invested substantially in its Australian manufacturing operations based in the Goulburn Valley.  SPC Ardmona has maintained a string commitment to its grower supplier base, during the drought, and has to date:   * Provided them with more than $2.5 million of interest-free loans to finance costs of water purchases. * Purchased significant temporary water entitlements for both fruit and tomato growers. |

## RESISTANCE TO CHANGE

Financial costs

A change may be so significant that it involves rebuilding the whole business, in which case the financial cost will be great. On the other hand, incremental change may be involved, where changes can be more easily budgeted for. The projected cost of implementing change may cause resistance, particularly if the benefits of the change are uncertain or unclear.

Managerial inertia

In physics, inertia is the tendency of a body to preserve its state of rest or uniform motion unless acted upon by an external force. In business, inertia is about being stuck in a routine because it has worked on the past. Inertia is the lack of motivation to do something about a problem and the preference to continue with the status quo.

Managers may display inertia because they:

* Do not want to deal with the problem.
* May not have the skills to solve the problem.
* See that it is safer to keep what they know rather than risking the change.

Cultural incompatibility in mergers/takeovers

Mergers or takeovers result in two businesses, each with its own string culture, becoming one. Staff will have different approaches to doing their work. New work groups are required and friendships are broken. Therefore, staff resist adjustments in their jobs. When they are forced to do so, motivation for change falls.

This is also true of cultural differences in a global business. Cultural differences can create barriers to effective communication, the growth of working relationships, and building a common understanding of the company.

Staff attitude

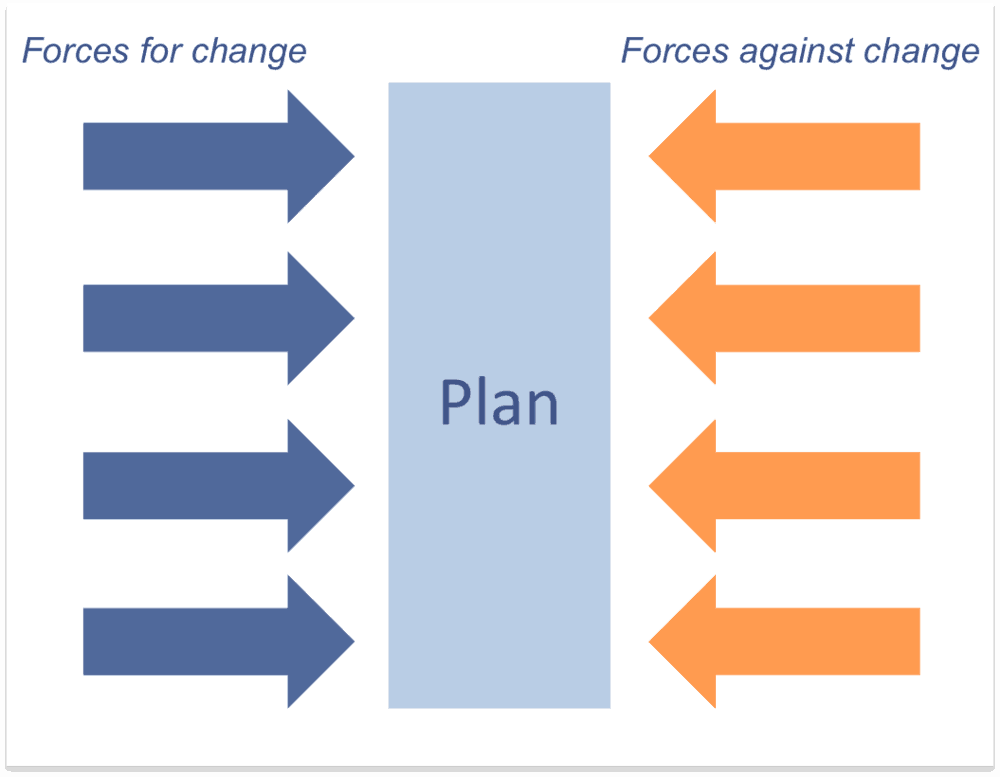
Staff may feel that they do not have the skills to learn new systems and processes. They may resist because of their fear of failure. Staff must be supported, there must be training and education to support the change and there must be a realistic time frame to implement the change, it is also a good idea to acknowledge how difficult the changes is and to celebrate successes along the way.

Staff may feel overwhelmed or powerless when faced with major changes in the workplace. Some employees may embrace them and others may remember bad experiences in the past. Past experiences of workplace change that was managed badly may result in staff feeling pessimistic, cheated or critical.

Another aspect is a person’s tolerance for risk or uncertainty. People with a high tolerance for uncertainty may have the attitude of change being a challenge, an opportunity to learn something new or just part of life. Others with a low tolerance will experience fear, stress and worry about something replacing the routines of the past.

Staff’s attitude towards the company and management will also have an impact on the success of a change. If employees trust managers and have a good working relationship they are more likely to commit to the change and forgive mistakes and setbacks. If there is an attitude of mistrust, if employees do not believe that the management can succeed, then the change is doomed to failure.

## LEWIN’S FORCEFIELD ANALYSIS MODEL

For change management to be successful employees must be convinced that the forces for change are stronger than the forces against change. Force field analysis is a method to analyse and compare the forces of change. It is a tool that can be used as part of the unfreezing stage to help employees understand the need for change.

To organise thinking a template is used. In a meeting or in brainstorming sessions template is used to record forces that support change and those that create resistance and obstacles to change. The nominal technique is used in the analysis. Ideas for forces are brainstormed and recorded. Then the forces are reviewed and the most important kept and rated according to their importance. The rating could be out of 5 or 10, the higher the rating the more impact the force has on the proposed change.

A proposal looks viable if the force for change score is higher than the force against change score. The analysis lists the forces that can be supported and built on the forces against change that can be managed and reduced. If the forces against change result in greater, the management may be able to find ways to reduce the forces and the total. For example, communication across countries may be a force against change. If a company is able to introduce videoconferencing or groupware, then the rating for the force is reduced.

The analysis also assists management to develop action plans that exploit the forces for change and reduce the forces against change.

## KOTTER’S 8 STEPS CHANGE MANAGEMENT MODEL

John Kotter developed eight steps for change management to make change more likely to be successful and a long-term change. He saw these eight steps to be critical success factors in managing change.

1. Create urgency

People will be motivated for change if they understand why they should do it and the costs or risks if they don’t change. Communicate the problems and reasons for change and get people talking about it, sharing ideas. Kotter suggests that 75% of management must support change to be successful. They must be convinced that change is necessary.

How to do it:

* Identify threats and opportunities in the business environment.
* Discuss the reasons for change to get people talking and thinking.
* Ask for input and support from staff.

1. Form a powerful coalition

With management on side they will work to make changes. Identify people with leadership and technical skills that can be relied on to make the change happen. Convince people that change is necessary.

How to do it:

* Identify leaders in the workplace.
* Create a change team that will work together to make it happen.
* Have a good mic pf people from different departments and different levels.

1. Create a vision for change

Develop a clear goal for change so people know that they are working towards. They will see the benefit and why the work and stress is worthwhile. What people have to do will make more sense if they see what the business is trying to achieve.

How to do it:

* Use the change team to develop a goal.
* Write a clear plan for the change process to achieve the goal.
* Write a clear plan for the change process to achieve the goal.
* Ensure the vision is easy to understand and communicate to others.

1. Communicate the vision

One staff meeting announcing the change is not enough. People throughout the workplace and work sites must understand what is happening. Good and regular communication is important to deal with fears and concerns about change. Hold meetings, talk to individuals, give regular updates and seek feedback about how the change is going.

How to do it:

* Talk often about the changing vision.
* Seek feedback and address concerns.
* Lead by example.

1. Remove obstacles

Planning for change includes anticipating what could go wrong or delay success. Put things in place to address these issues and use feedback to identify other barriers to success. Obstacles blocking change and how to remove them are summarised in the table.

|  |  |
| --- | --- |
| Obstacle | How to remove it |
| Lack of skill and expertise | Bring in consultants and experts to train staff and assist with the change process, research and learn from what similar businesses have done and how to avoid their mistakes, consult staff and draw on their experiences and skills. |
| Fear of change | Communicate the vision and goals, discuss why the change is needed and what the risks are with the status quo, include people in making decisions and seek feedback and ideas, keep people informed about progress. |
| Location of staff | Use technology, emails, newsletters, team and staff meetings and site visits to include people from all work areas in the change team. |

How to do it:

* Use meetings and communication to identify barriers and find solutions.
* Reward people for making change happen.
* Identify people who are resisting change and try to convince them of its importance.

1. Create short-term wins

The change plan should have short-term targets. People will be more motivated if they can see progress being made and targets are celebrated and their efforts are recognised.

How to do it:

* Take care when choosing early targets, failure to achieve them will jeopardise future success and commitment.
* Communicate successes to all staff.

1. Build on the change

Long-term success depends on changing how work is done but more importantly the workplace culture. Change involves learning new ways and believing they are better than the old methods. If people don’t believe that, the change wont last.

How to do it:

* Keep reviewing and improving to make sure the change is working.
* Ensure all policies, procedures, manuals and instructions are updated.
* Seek feedback from staff.
* Identify where the new methods are not being followed.

1. Anchor the changes in corporate climate

Ensure workplace leaders, teams and new staff continue to support the change. Ensure that business strategies and goals are aligned with the change.

How to do it:

* Keep celebrating successes.
* Show how success has come from change.
* Keep workplace leaders informed so they can answer questions from their work teams.

# Managing diversity

## MANAGING DIVERSITY AS A STRATEGY FOR BUSINESS GROWTH

To benefit from diversity, a culture in which all employees feel free to contribute ideas must be established. This will encourage all staff to share their ideas and opinions, give feedback and participate in decision making.

Strategies to do this include:

* Ensure everyone is heard: hold meetings, organise consultation, have formal and informal ways to collect feedback and suggestions.
* Make it safe to propose ideas: this will encourage creativity and looking at problems in innovative ways.
* Give employees authority to make decisions: if they have the responsibility for making decisions they will feel more valued by the business and be more committed to the outcome.
* Share credit for success: acknowledge the contribution of all staff.
* Give constructive feedback: work with staff on their ideas and give them support to develop them.
* Implement feedback from staff: participation and innovation will be encouraged if employees see that their input is valued and acted upon.

Managing diversity can create market opportunities. A diverse workforce reflects and better understands the diverse community and consumers in the marketplace. If there is at least one member of a team with traits (ethnicity, age, ability) in common with the target market, the entire team will understand the target market.

By bringing together individuals from different backgrounds and experiences in work teams, businesses can more effectively market to consumers from different backgrounds. Diversifying the workplace helps businesses increase their market share.

An example is the situation where a customer with English as a second language makes a complaint or enquires about products and services with a staff member with the same language background. They can converse in the same language, reduce misunderstanding and more easily identify the needs of the customer. The customer feels more comfortable with the staff member and is more likely to return in the future.

This also applies on a global scale where managers may be in complex contract negotiations with potential partners in other countries. If they share the same language, negotiations are more effective. Staff knowledge of the culture of the target market will also help refine marketing strategies.

Having a diverse workforce and a workplace that is free from discrimination will decrease staff turnover and help build high employee satisfaction and loyalty. This will reduce the disruption and costs of staff turnover.

Bringing together workers with different qualifications, backgrounds and experiences will lead to effective problem solving on the job. People with similar backgrounds and experience will look at problems in similar ways. Diversity will bring together people who have worked in small and large workplaces, in similar companies in different countries and who may have faced the problem before.

Diversity in the workplace is necessary to be competitive in a globalised world. Capitalising on the unique talents and contributions that diver workers bring to the workplace will make Australian companies competitive in the global economy.

# Culture and ethics

## THE IMPACT OF CULTURAL CONSIDERATIONS ON GLOBAL BUSINESS PRACTISE

Understanding culture will help you to build long-term business relationships and more effective marketing strategies. An understanding of the management and communication styles used in different countries is important if you want to be successful at a global level. A lack of knowledge about international business practises is a cause of conflicts and misunderstanding between managers from different countries.

Cultural knowledge and understanding is applied on a personal level and when incorporated into business strategy and planning will increase the likelihood of business success.

Levels of education

The Organisation for Economic Co-Operation and Development (OECD) studied the link between levels of education and economic growth. They studied 76 countries and prepared a list of global school ranking.

Singapore is on the top of the ranking, followed by Hong Kong with Ghana at the bottom. The UK is in 20th place, Australia is in 14th place and the US in 28th.

Based in their research, the OECD estimated the growth in GDP of the lower ranked countries if all 15 year olds achieved a basic level of education, for example Ghana 3881% growth (or their GDP would expand by 38 times). South Africa 2624%, Pery 1076%, Colombia 910%.

They concluded that levels of education are a powerful predictor of the wealth that countries will produce over time. Poor education policies and practises result in countries being in what may be a permanent state of economic recession.

Global companies have taken advantage of poor education levels to sell their products. Tobacco companies target poor and developing countries (particularly children) because they do not have the same history of health education regarding the dangers of smoking as developed nations. While smoking is in decline in Australia and other developed nations, smoking is on the increase in developing nations. The Asia Pacific region is the world’s biggest tobacco market with 30 million people expected to become smokers in recent years. The World Health Organisation calculates that of the 6 million people who will die from tobacco use this year, 80 per cent will be in the developing world.

Understanding the levels of education in a country will have an impact on business plans to expand globally. If there is a shortage of skilled labour in a country a company will need to base employees there or use financial packages to attract staff.

In developed countries, there is a pool of skilled labour that can be accessed to fill positions and drive business growth. Poor and developing nations do not have the educational system in place to create that pool of skilled labour.

One reason for the knowledge divide between nations is the level of investment in school education. There must be an early focus on basic literacy and primary education must be universally accessible. A good foundation or primary education leads to secondary and tertiary achievement.

Holidays and celebrations

If you are working overseas, make sure that you learn about local holidays and ow they might have an impact on campaigns and other business projects. The month of Ramadan is important in many parts of the world, and, having critical deadlines during this month is challenging. If your target countries have a strong religious basis from their culture, make sure that you learn about the religion and its taboos, restrictions and ways that religious beliefs can work in your favour.

Religious beliefs

Religious beliefs are part of the foundation of a country’s culture, religious values determine beliefs, the way people interact, lifestyles and in terms of marketing, scales and spending patterns.

Secular norms and practises have a religious basis, for example Christmas holidays and Easter. Countries have celebrations and holidays based on religious observations.

Religious beliefs may have minimal impact on business in some countries such as Australia, Europe, and the US. In Muslim countries business is stopped five times a day for prayer. Business may also be affected during the month of Ramadan.

Following are examples of how religious beliefs can have an impact on business.

* Muslim business ethics: in Islam, the basic of societal laws in the Qur’an. Islamic teachings strongly stress an ethical moral code in human behaviour. Muslim ethics include avoidance of people’s exploitation through lending them money at interest, and prohibitions against false advertising. Under Islamic laws, if a vendor sells an item by making false claims about it, the customer has the right to have the transaction cancelled.
* Buddhist business ethics: the Buddhist business code and professional ethics are closely tied with respect for environment. Essentially, according to Buddhist teachings, ethical and moral principles are run by examining a certain action, which has to avoid any harm. Therefore, some Buddhist texts emphasise on the role of enlightenment – one of the elements which prohibits occupations associated with violence (such as arms dealing).
* Christian business ethics: in Christianity, the basis of this theology is the Old Testament and the New Testament. The Christian in commerce should not desire ‘to get another’s good or labour for less than it is worth’. One must not try to obtain a good price for his own wares by extortion. If one is buying from the poor, ‘charity must be exercised as well as justice’; purchaser must pay the full price that the goods are worth to him. Moreover, the purchaser shouldn’t allow suffering of the vendor because he cannot stand firm for his price, but the vendor should offer a loan or persuade someone else to do so.

Business etiquette

Some examples of business etiquette from around the world follow.

* Brazil: Brazilians stand very close and use physical contact during conversations. Closeness inspires trust, and trust inspire long-term relationships.
* Canada: Canadians tend to be extremely punctual and adhere to time schedules.
* China: bring a small gift from your hometown or country to business meetings but do not use white, black or blue wrapping paper. Chinese people will decline a gift three times before finally accepting, so as not to appear greedy. You will have to continue to insist. You will be expected to go through the same routine if you are offered a gift.
* India: Indians are very polite. Avoid use of the word ‘no’ during business discussions; its considered rude. Opt for terms such as ‘we’ll see’, ‘I will try’ or ‘possibly’. Don’t order beef if attending a business meal in India. Cows are considered sacred in Indian culture. Traditionally Indian food is eaten with the hands. When it is necessary to use your hands, use your right hand, as the left hand is considered unclean.
* Japan: expect to bow during an introduction and wait for them to initiate a handshake because it is less common. The exchange of business cards is a very formal act that kicks off meetings. Present your card with two hands while facing your colleague. Do not conduct a brief exchange or slide your card across the table. During meetings, the most senior person will lead discussions. When in a meeting the people of a similar level of authority and experience should sit opposite each other.

Different cultures have different levels of formality and place different emphasis on time constraints. In some parts of the world, more value is placed on a meeting resulting in positive outcomes than if it begins or ends on time. It is important that you accept that as long as you achieve your objectives, the way a meeting takes place is not so important.

Communication protocols

Business people who know correct communication protocols show professionalism and can from their competitors. If competing firms have similar products, prices and levels of service the customer may choose the business that seems to understand their culture the best.

In some countries, like the United States and Germany, it is common for people to speak loudly and be more assertive or aggressive when sharing ideas or giving direction. In countries like Japan, people typically speak softly and are more passive about sharing ideas or making suggestions.

When interacting with people from different cultures, speaking in a neutral tone and making a conscious effort to be considerate of others’ input, even if it is given in a manner to which you are not accustomed, can help build effective business communications.

Examples of communication protocols from China:

* Bowing or nodding is the common greeting; however, you may be offered a handshake. Wait for the Chinese to offer their hand first.
* Applause is common when greeting a crowd, the same is expected in return.
* Introductions are formal, and use formal titles.
* Often Chinese will use a nickname to assist Westerners.
* Being on time is vital in China.
* Contacts should be made prior to your trip.
* Bring several copies of all written documents for meetings.
* The decision-making process is slow. You should not expect to conclude your business swiftly.
* Many Chinese will want to consult with the stars or wait for a lucky day before they make a decision.
* Present and receive cards with both hands
* Never write on a business card or put it in your wallet or pocket. Carry a small card case.
* The most important member of your company or group should lead important meetings, Chinese people value rank and status.
* Allow the Chinese people to leave a meeting first.

Examples of communication protocols for the United States:

* Offer a firm handshake, lasting 3-5 seconds, upon greeting and leaving.
* Maintain good eye contact during your handshake.
* It you are meeting several people at once, maintain eye contact with the person you are shaking hands with, until you are moving on the next person.
* Good eye contact during business and social conversations shows interest, sincerely and confidence.
* Good friends may briefly embrace, although the larger the city, usually the more formal the behaviour.
* Introductions include one’s title if appropriate, or Mr, Ms, Mrs and the full name.
* Business cards are generally exchanged during introductions; however, they may be exchanged when one party is leaving.

Examples of communication protocols for the Australians:

* Shake hands when meeting and when leaving.
* Exchanging business cards is common among professional workers.
* Australians are friendly and open, but directness and brevity are valued.
* Opinions are respected, and opinionated discussions are entertaining.
* Be an active listener, and ask if you do not understand something in the conversation.
* Do not hype yourself, your company and your information.
* Sightseeing and sports are good conversational topics.

## ETHICAL PRACTISE IN A GLOBAL BUSINESS

Minimum standards of labour by the International Labour Organisation (ILO)

Globalisation has provided opportunities for many countries but it has also led to increased inequality and a growing gap between the world’s richest and poorest nations. While companies use low-cost countries to grow their profit there is still poverty, social instability and conflict. The low-cost countries do not necessarily see the benefits of globalisation. Which is the point. Ig poor countries have better employment standards, and comparable pay and conditions and safety, then they would no longer be attractive as targets for offshoring and outsourcing.

To ensure fair treatment and increased prosperity for everybody around the world, basic global standards for labour are needed.

Since 1919, the International Labour Organisation (ILO) has been setting standards for employment to ensure that along with economic growth there is social justice, prosperity and peace for all. These international labour standards are legal instruments which define basic minimum standards in the world of work.

International labour standards are either conventions or recommendations.

* Conventions: legally binding international treaties, ratified by the ILO’s member nations.
* Recommendations: non-binding guidelines which provide detailed suggestions on how conventions could be applied.

The ILO has 188 conventions and 199 recommendations. There are four aspects of labour standards that are considered to be fundamental to social justice and prosperity:

* The elimination of discrimination related to employment and occupation.
* The effective abolition of child labour.
* The elimination of all forms of forced or compulsory labour.
* Freedom of association and the effective recognition of the right to collective bargaining.

The ILO estimated there are 317.4 million children aged 5 1o 17 engaged in work, including 190.7 million in the age group from 5 10 14 years. ‘Child labour’ is a well-defined concept. It excludes children 12 years and older who are doing light work for a few hours a week and children 15 years and above whose work is not classified as hazardous. The ILO understands that because of poverty, social conditions and the absence of government supports (such as unemployment benefits, financial support for children and families) children may have to work. But they have strict standards to try and prevent the exploitation of children.

ILO estimate that child labour declined by 30% between 2000 and 2012. Still, 11% of the world’s children are in situations that deprive them of their right to go to school without interference from work.

Most child workers are employed in the clothing industry making the clothes that are sold in developed countries.

Child labour is prohibited as defined in the ILO Minimum Age Convention and the ILO Worst Forms of Child Labour Convention. Child labour is a violation of fundamental human rights. It has been shown to perpetuate poverty across generations as children grow up without access to education or decent health care.

The Minimum Age Convention sets the following minimum standards for work:

|  |
| --- |
| The minimum age at which children can start work |
| Hazardous work – 18 (16 under strict conditions)  Any work which is likely to jeopardise children’s health, safety or morals should not be done by anyone under the age of 18. |
| Basic minimum age – 15  The minimum age for work should not be below the age for finishing compulsory schooling, which is generally 15. |
| Light work – 13 to 15  Children between the age of 13 and 15 years old may do light work, as long as it does not threaten their health and safety, or hinder their education or vocational orientation and training. |

The Worst Forms of Child Labour Conventions requires member nations to eliminate all forms of slavery or practices similar to slavery. For example:

* The sale and trafficking of children.
* Debt bondage (a child is forced to work until the debts of their family are repaid).
* Forced or compulsory labour.
* Recruitment of children for use in armed conflict.
* The use, procuring or offering of children for use in armed conflict.
* The use, procuring or offering of children for illicit activities such as the production and trafficking of drugs.
* Work which is likely to harm the health, safety or morals of children.

Australia is a founding member of the ILO and a major contributor to the work of the organisation through the Australian Government-ILO Partnership Agreement (2010-2015). Australia contributes to projects in Indonesia, Papua New Guinea, Timor and Pacific Island countries. Australia has ratified 63 ILO conventions.

The ILO has formed complaints procedures under Articles 24 and 26 of the ILO Constitution. It includes the establishment of a Commission of Inquiry in the most serious cases of alleged non-compliance, and referral to the International Court of Justice.

The role of corporate social responsibility

CSR is a strategic commitment by companies to ethical conduct and to consider the quality of life of employees, the local community and society when making business decisions.

When planning and operating a business, social and environmental concerns are considered as well as financial ones. A company looks beyond the demands of shareholders and is motivated by the needs of a boarder range of stakeholders such as employees, customers, suppliers, the environment and people in the local community.

CSR involves:

* Creating a safe and healthy workplace.
* Encouraging staff to find a good work/life balance.
* Corporate sponsorships and donations.
* Maintaining high standards of ethical business practice.
* Reducing waste and managing sustainable energy and resource consumption.
* Controlling its carbon footprint.
* Taking responsibility for the social impact of business operations.

Some of the benefits of CSR include:

* Improved financial performance.
* Reduction in the exposure to risks in the business environment.
* Improved public image.
* Increased sales and customer loyalty.
* Better staff retention.
* Improved relations with governments.
* Reduced costs though waste reduction and process efficiency.

CSR is also known as the ‘triple bottom line’. Companies evaluate their performance not just in terms of profit but also in terms of social and environmental outcomes.

Consumers and investors are interested in supporting responsible business practices and are demanding more information as to how companies address social and environmental issues.

There are businesses that provide investment advice based on ethical standards of companies. Investment companies also offer products such as managed funds and superannuation that focus on companies that have a strong commitment to environmental and social issues and do not derive income from products such as guns, tobacco or child labour.

Companies expanding their operations into other countries face scrutiny by local competitors and customers. If they are known for and can demonstrate social responsibility, a commitment to improving the community and society around them, it is more likely they will be accepted by the new market.

A company shows it is committed to CSR by not just complying with laws and regulations but by going beyond the minimum legal requirements. If a company has a good reputation and history of CSR, they may be given preferential treatment when applying for tenders or permits. If the company breaches laws and regulations the penalty may be minimised because of their good track record.

The reputation of a company will be based on how they treat the most vulnerable. The more a company is committed to CSR, the less they are exposing themselves to business risk. This could be risk to their public image because of bad press (for example Nike and sweatshops, Nestle and marketing baby formula is poor countries), financial risk or environmental risk.

Our demand for cheaper products, more value and choice means that companies will always be looking for cheaper suppliers and materials. This may lead them to consider unethical sources such as illegally harvested timber, food manufactured under questionable quality and health standards, or exploited labour. This is where CSR plays a role. By looking beyond short-term profit a company will resist unethical options because they are motivated by long-term success and what is best for society.

Environmental sustainability

Companies today are making an effort to put sustainable practises into action. They are motivated by protecting the environment and society and by creating goodwill for their brands.

Globalisation has increased the level at which businesses rely on each other to deliver products and services to the market. Improved technology, communications and distribution channels have increased the reach of Australian businesses. Business decisions and activities can have an impact on other countries not just locally.

Green initiatives can also save money by such things as reducing packaging materials, minimising transportation costs and energy-efficient lighting.

Companies can manage sustainability proactively in their supply chain; for example, by ensuring they do not import and retail timber that has been illegally harvested. Companies can make a commitment to sustainability by demanding sustainability from their suppliers.

# Economic activity

## ECONOMIC FACTORS WHICH IMPACT ON BUSINESS OPERATIONS IN THE GLOBAL MARKET

Economic activity

In general economic activity involves the production, distribution, buying and selling of products and services. One way it is measured is by a country’s gross domestic product (GDP). The strength of economic activity and estimated future levels can significantly affect business growth and profits, inflation and interest rates.

An economic expansion is an increase in the level of economic activity, and of the goods and services available. It is a period of economic growth as measured by a rise in real GDP. The explanation of fluctuations in aggregate economic activity between economic expansions and contractions in one of the primary concerns of macroeconomics.

Economic expansion is an upturn in economic activity. Economic activity is influenced by factors such as:

* Global: global prosperity, weather conditions, technological change, and conflict.
* Domestic: government policies, interest rates, availability of credit, laws and regulations, and government incentives.

Economic contraction and expansion relate to the overall output of all goods and services, while the terms inflation and deflation refer to increasing and decreasing prices of commodities, goods and services in relation to the value of money.

Consumer confidence is also influenced by economic activity. If the economy is strong, spending is high, unemployment is low then consumers and businesses are confident that their level of income will continue and grow into the future. They are more likely to borrow and spend. This keeps economic activity going and growing.

Australian companies have prospered from the strong growth in China’s economic activity. Chinese companies are employing more people and living standards are improving. There has been a huge demand for Australian raw materials to build housing, factories and infrastructure such as roads. It seems now that the economic activity in China has plateaued and perhaps is slowing. This means that the sales and income earned by Australian businesses will fall.

It is a delicate balance. If economic activity is string and spending keeps increasing, inflation may become an issue. Interest rates are used as a tool or lever to try and balance economic growth and inflation.

Discretionary spending

As the economies of countries develop there are more people earning decent wages in stable employment. This means that they have greater discretionary income. This is the amount they have left over once they pay life’s essentials such as food, rent, clothing, education and taxes (non-discretionary spending). The more discretionary income someone has the more they can spend on goods and services and stimulate economic growth.

Part of assessing market potential is to measure and estimate discretionary income in the population and in target markets.

China will record the highest real growth in consumer expenditure, at 67.5% over the 2013-2020 period, reflecting the country’s shift from an export-dependent economy to a consumption-driven one. Nevertheless, despite rising disposable incomes and spending, China will still have the lowest proportion of discretionary spending in total consumer expenditure – at 59.3% in 2020, compared to 57.1% in 2013. This partly reflects the string inclination by Chinese consumers to delay immediate consumption in favour of saving for the future, due to the inadequate provision of social welfare and also the high costs of living in China, especially in major cities.

By contrast, Brazilian consumers place a great importance on living in the moment, as demonstrated by the consistently high proportion of discretionary spending in total consumer expenditure in Brazil. Despite slowing economic growth since the 2008-2009 global financial crisis, consumer expenditure in Brazil has continued to grow robustly, driven by a consumer credit boom.

Consumers continue ‘tightening their belts’, according to the Boston Consulting Group’s 2013 Global Consumer Sentiment Survey of more than 35, 000 people in 20 countries. Nearly half of the consumers surveyed in developed economies do not expect economic improvement in the next several years, and 45 per cent said that they plan to cut discretionary spending. Translation: businesses shouldn’t expect a return to the free-spending days before the recession. Global consumers are concerned about job security, personal finances and the health of the economy.

Interest rates

The interest rate level is an indicator of the strength of an economy. It is the cost of borrowing money. Consumers and businesses borrow money to purchase products and services and to make investments.

Domestically, interest rates have an impact on how easy it is to fund business expansion, including expansion into overseas markets. If interest rates are high, debt repayments will be high. This will have an impact on cash flow and the ability of a business to borrow money to finance business growth. High interest rates will also limit the borrowing of consumers and business and their spending on products and services. This fall in demand and sales will impact on the income and profit of businesses.

The interest rate is set by a central agency in an economy. The banks and other financial institutions add their profit margin and offer that rate to consumers and businesses to borrow money.

If economic activity is slowing or the economy is shrinking, central agencies will decrease interest rates to try and stimulate activity. By making loans more affordable the hope is that consumers and businesses will borrow more, spend more and economic activity will increase.

Currency fluctuations

From political turmoil to a natural disaster, there are plenty of factors that cause a currency’s value to rise and fall. When a business engages in international business transactions – such as importing, exporting and paying foreign employees – swings in currency value can have a significant impact on the bottom line.

Market fluctuations can affect everything from purchasing power to operating costs, making it difficult for businesses to predict profits and losses. If exchange rates take an unfavourable turn, an international business may end up paying more or receiving less from its partners and overseas customers.

If you are a business owner with products or services offered overseas, you should be very aware of the foreign exchange rates. While many companies do have finance or accounting employees or advisor who may follow these rates, many businesses, and small business owners in particular, are not giving enough heed to the rates and the effects they can have on the business.

The rates are moving every few seconds, and in just a few minutes the rate can move in either direction very quickly and without warning. That leaves any business susceptible to potential losses on a number of fronts.

Therefore, organisations have to evaluate the risks of doing business on an international level. For example, McDonald’s increased sales and profits in Europe but, because of a strong US dollar, the contribution was lower when the Euros were converted into USD.

# Financial institutions

## TYPES OF FINANCIAL INSTITUTIONS

Banks

* Trading banks: they offer a range of deposits, investments and loan accounts to individuals and businesses. They money collected from depositors and earned through investments is used to fund loans to customers.
* Merchant banks: focus on bringing together parties that have large amounts of capital to invest and parties that need large amounts of capital for acquisitions and the projects. Merchant banks also invest their own funds in acquisitions and projects. Investment banks are similar to merchant banks but do not invest their own funds. They bring together the lenders and borrowers and facilitate the transaction for a fee.

Finance companies

A finance company provides loans for businesses and consumers. But unlike a bank, a finance company does not accept deposits. A finance company organises funding from banks and other financial institutions at a certain interest rate and uses these funds to extend credit to customers. They earn profit by charging their customers a higher interest rate than what they are paying and charge customers loan fees and administration charges.

## SOURCES OF INTERNAL FUNDING

Retained profits

Retained profits refer to the amount of profit the business keeps for the business. A business makes a profit when, after all expenses have been deducted from its income, there is money left over. In the case of a small business, the owner may take some of this profit as his reward for investing in the business. the leftover profit becomes retained profit and can be used by the business to fund current or future operations or activates. Larger businesses such as companies listed on the stock exchange that make a profit must distribute some of the profits to their shareholders in the form of dividends. Any profit remaining after this is done is also known as retained profits, and is retained by the company to be used for whatever purposes may be required.

## SOURCES OF EXTERNAL FUNDING

Debentures

Debentures are loans for a fixed rate of interest and period of time made by a company to a business wishing to borrow funds. The business borrowing the funds promises to pay the full amount at a particular date as well as making regular interest payments during the term of the loan. Security for these types of loans is usually held against a business’s assets.

Share capital

A privately-owned business can raise money by becoming a company. To form a privately-owned company, shares are sold to a limited number of owners or parties who want to make an investment and be involved in running the business. a publicly listed company raises money for operations and growth by selling shares to the public.

Shareholders put funds into a company by paying for a new issue of shares and/or through retained profits. Shareholders are entitled to a share of company profits through the payment of dividends. Dividends are not mandatory; they are paid if the Board of Directors believes the company can afford it. By not paying dividends profits can be retained in the company.

Trade credit

trade credit is extended when suppliers provide goods or services to a business on credit with payment to be made within a specified period, depending on the credit terms of the suppliers. Most suppliers provide credit because it helps build good relations with the businesses they provide to.

|  |
| --- |
| Case Study  A pizzeria may get deliveries of flour every week from the same supplier. Rather than paying each time a delivery is made; the supplier may allow 30 days credit. This means that once the business is invoiced for the flour at the end of the month, it has 30 days within which to pay. Most suppliers provide credit because it helps build good relations with the businesses they provide to. |

Venture capital

Venture capital is money invested by firms or individuals willing to take the risk in investing in business that are young or newly established and that have not as yet built up a strong credit history. Because of this, banks may be reluctant to lend to such businesses; however, venture capitalists see a possibility for high returns in these high-risk businesses and that is the motivator for investing in them. The venture capitalist will lend money to the business in exchange for a share in it. Rather than taking a percentage of the profits, they make money by selling their share in the business to someone else or on the share market, once it has established itself.

Secured loans

A business can arrange a loan that is secured against assets it owns such as property, account receivable, vehicles or equipment. The amount a business can borrow, the interest rate charged and the term of the loan depend partly on the security provided to the lender. A lender is more likely to approve a loan if there is security. If a business cannot repay the loan the lender can take control of the assets and sell it to try and recoup the debt.

Before a financial institution decides whether to extend a loan to a customer they consider the following factors:

* The purpose of the loan – is it likely to result in earnings that can finance debt repayments?
* The amount of the loan – the customer must state exactly how much he wants to borrow and be able to verify how they calculated the estimate (quotes, business and asset valuations).
* Other assets and income – can the customer draw on other income and assets to meet debt repayments?
* The duration of the loan – this will determine the type of loan, for example overdraft, lease for short term or long-term mortgage.

Financial institutions

There is a range of financial institutions a business can go to for funding. Building societies and credit unions focus on personal lending and residential home loans. Institutions with a primary focus on business funding listed above.

Governments

Governments aim to build the economy and encourage business and investment. One way in which governments encourage business growth is by providing grants and subsidies. A business may be eligible for a grant to finance activities such as business expansion, commercialisation of an innovation, research and development or exporting. The Federal Government has a grants and assistance finder to help businesses access government support.

## SHORT-, MEDIUM- AND LONG-TERM FINANCE

Short-term

Short-term refers to the current tax (or fiscal) years. In terms of external sources finance, this means anything that has to be repaid to creditors within the next twelve months. Short-term sources of finance include:

* Retained profits.
* Government subsidies and grants.
* Overdraft.
* Trade credit.

Medium-term

Medium-term refers to the time period of more than twelve months but less than five years. Medium-term sources of finance include commercial loans or hire purchase agreements in excess of a year. Medium-term sources of finance include:

* Retained profits.
* Government subsidies and grants.

Long-term

Long-term refers to any period longer than five years. The longer the time period in question, the harder it becomes to plan effectively. Long-term sources of finance include:

* Debentures.
* Government subsidies and grants.
* Share capital.

# Impact on business operations

## POLITICAL FACTORS WHICH IMPACT ON BUSINESS OPERATIONS IN GLOBAL MARKETS

When planning business growth, companies should consider the political environment in the target country. Political factors that can affect global business strategy include:

* The stability of the government.
* The relationship of the foreign government with the Australian government.
* Governments passing legislation that can have an impact on business, for example tobacco plain packaging.
* The government passing laws to protect consumers and the public interest.
* Government policies which influence economic development.
* The government being a major consumer of goods and services.
* Government policies regarding privatisation which can create business opportunities.

Lack of political stability in a country affects business operations. Unstable countries may have riots, protests, looting and general disorder. These disrupt business operations. This conflict is often a product of poverty, corruption, civil unrest and warfare which create an environment that will not support business.

Relationships between governments

The diplomatic and economic relationships between governments can have an impact on the success of global business. if there is an issue or disagreement between governments, one or both governments may retaliate or punish the other with economic restrictions. For example, Australia temporarily suspended live animal trade with Indonesia after evidence of animal cruelty was uncovered.

Free trade agreements and regional partnerships which make trade easier between countries are more likely to be developed and agreed to between countries with good relationships.

Countries that have similar cultures and shared histories often develop into trading partners which encourage cross-national business; European countries for example, and Australia with the US and New Zealand.

One way to look at giving foreign aid to developing countries now is that it creates trade partners in the future when their economy and standard of living improves. For this to occur the foreign aid must help develop the health, education and transport systems in a country so it has a foundation for economic growth. Foreign aid is often only enough to assist the government of developing countries to manage crises and to maintain services not to develop economic capabilities.

## IMPACT OF LEGAL SYSTEM ON BUSINESS OPERATIONS IN GLOBAL MARKETS

There can be major differences between the laws in different countries. Managers of a business must understand what the differences are and how they will affect the export and sale of products or services.

For example:

* The differences between legal systems.
* Differences in control law.
* Patent registrations and other intellectual property protections.
* Product liability laws and warranties.
* Product safety and labelling laws.
* Consumer protection laws.
* Competition and foreign investment laws.

Differences regarding competition regulation

* Patent registrations

To grow and succeed in business you must maintain a competitive advantage; to have something your competitors do not. One strategy to achieve this is to protect intellectual property (IP). If IP is protected no competitors can take sales and market share from you, they cannot compete directly with your products or services.

An important tool for IP protection are patents.

A patent is legally enforceable and gives the owner exclusive rights to manufacture and sell any device, substance, method or process that is new, inventive and useful.

To protect IP globally there are two options:

* + Apply for a patent in countries individually – good if you only have a few target countries.
  + Register a patent in multiple countries under the Patent Cooperation Treaty (PCT).

The PCT is administered by the World Intellectual Property Organisation (WIPO) and takes effect in 148 countries. There are also regional patent agreements such as the European Patent Convention.

A patent is maintained as long as annual fees are paid. Patents must be updated if there are any changes to the device, substance, methods or process.

You may find you patent is being breached and a company is making a copy of your patented product or service without permission or license. The first step is to send them a letter of warning to tell them to cease using your IP. This legal action can be followed by negotiations to settle damages out of court and court action to stop the offending company from making and selling products and services based on your IP, and to claim damages for lost sales and profits.

An Australia patent does not give you legal rights in other countries. If a company wants to protect their IP overseas they must register it in the target countries or under the PCT.

* Product liability

Globalisation offers opportunities for Australian businesses to expand into new markets, find new business partners and suppliers. It also creates significant operational and regulatory challenges around product liability. Operating in different countries with different laws and regulations makes managing product liability risk complex.

Laws of countries hold the business responsible for any loss, damage or injury caused by any product. Legal liability travels with every product that is exported and sold overseas. Global consumers are aware of their rights and will exercise those rights by filing product liability suits against exporters, manufacturers, processors and suppliers of products. When managing product liability the different policies and regulations in all the countries where a business operates must be considered.

Product liability risks include:

* + Fines and penalties for breaching laws and regulations.
  + Civil damages.
  + Boycotts and negative social media campaigns.
  + Costly court actions.
  + Product recalls.
  + Loss of market share.
  + Loss of sales.
  + Damage to the business’ public image in the event of a particular failure.

Just one liability claim could out a severe financial strain on a business. Even a business defending itself against a claim and winning can cost millions of dollars in legal costs and public relations.

For example, if a sharp edge or a small removable part was left on a product and a child gets hurt using it, the business will be liable for legal action and civil damages.

A business can be held liable for a faulty or dangerous product in one of three ways:

* + Negligence: a business fails to take reasonable care to manufacture, supply and sell a safe product or provide adequate warning and instructions.
  + Strict liability: harm or injury is caused by using the product.
  + Breach of warranty: the does not meet the legal requirement of being fit and suitable for its purpose.

Product liability insurance protects you in case a product causes harm to a customer, their property or the environment. Insurance is recommended for every business that manufactures a product.

The level of insurance required depends on:

* + How likely it is for the product to cause harm.
  + The severity of the harm that it could cause.

If the product has a high risk of injury, insurance cover must be higher. Liability in products can include design defects and manufacturing defects. Harm or injury may also be caused by inadequate labelling, poor instructions for use or the absence of warnings about the product ingredients, use or storage.

Product liability insurance does not prevent a product from failing or causing harm. If a product fails, a business can make a claim and use the insurance payout to help pay the legal and operational costs of managing the problem.

## IMPACT OF TECHNOLOGY ON BUSINESS OPERATIONS IN GLOBAL MARKETS

E-commerce is the use of online systems and technologies to conduct business. When launching a global product using e-commence it is important to design a website that attracts consumers around the world. The design must be stable and able to be accessed with a range of computer operating systems and Internet speeds. Websites designed with language options and for mobile devices are also effective tools for ease of access and purchasing.

It’s important to include a payment process for international buyers that is easy to use, secure and which minimises the risk of online fraud. The process must also be designed to collect information from international (and domestic) customers and transactions to refine your marketing strategies.

The e-commerce platform can be designed to automatically detect where visitors are in the world and trigger adjustments to website content such as language, currency, prices, shipping information and product availability.

Social media, mobile payments and augmented reality offer new ways to market products and services to consumers. Consumer access to infinite product and service knowledge and globalisation create business opportunities. But this also increases competition and maintaining an online business and a high level of consumer awareness of online offering is very costly. Both of which combine to put pressure on profitability.

Consumers use online technologies to search for what they want from around the world; they easily verify product claims through online research and user reviews; and are more difficult to reach through traditional media such as TV and print. Businesses adapt and find new ways to attract and stay connected to customers. Social media is an important tool, but it must be one part of a larger strategy to communicate and attract customers, collect personal information and habits to refine marketing strategies, personalise their experiences and make purchasing and payments an easy, trusted process.

Technology that assists business in the expansion into global markets

Businesses can reduce the barriers to market entry by distributing their products digitally. They can avoid the cost, risk and time involved in manufacturing and supplying a product, establishing distribution channels (suppliers, wholesalers, retailers) storing and transporting goods into other countries.

Products such as eBooks, music, event tickets, movies, TV shows, software and games can be purchased online then downloaded or streamed instead of objects such as discs and packaging being manufactured and delivered to them.

E - commerce security

Customers around the world are more likely to buy products and services online if they are confident that their personal and payment information is secure and their money is going where it should.

Poor e-commerce security is a deterrent for potential e-customers. If security is strengthened consumer confidence will increase and e-commerce will grow. In addition to businesses’ security, banks have security measures such as fraud detection and disputed transactions management which also increase consumer confidence in e-commerce.

Secure websites have https not http as part of their website address. Every webpage of an e-commerce website must have https to be secure. A website may have a padlock icon at the bottom of the screen or in the address bar. It indicates that the page uses the SSL protocol.

This is a data transfer security standard that encrypts data and authenticates the server and the integrity of the message. This symbol indicates that all information, most notably banking details, is secured.

To validate customer credit cards businesses can use a payment system that uses live address verification services in the checkout. Fraudulent credit card purchases are prevented by comparing the address entered online to the address on file with the credit card company as part of the transaction process. Another prevention measure is to always request the 3 or 4-digit Card Security Code (CSC) for every online payment.

Businesses can have secure payment processes as part of their shopping cart or use third party services such as Paypal, Visa Checkout or Google Wallet (which may end up being called Android Pay). These have security and fraud management systems in place.

Having a statement or policy about e-commerce security will encourage customers to trust the business. For example, a policy could state that customer information is encrypted, the website is protected by SSL and the credit card details are not stored without consent. There could also be a statement about actions taken if a customer believes there has been fraudulent used of their credit card.

Online criminals illegally access the networks of businesses, steal customer information including credit card details and use it for identify theft. It is important to have strong security to protect the customer database and business information systems. Security can be strengthened by:

* Protecting the business network with a firewall.
* Using string encryption for the transmission of data.
* Not using the default user names and passwords that come with business technology such as Point of Sale systems and software.
* Keeping anti-malware software up to date and performing frequent virus scans.

E-commerce privacy

Operating an e-commerce web site requires collecting and storing customer details. This includes sensitive information such as address, financial details and other personal information. An important aspect of e-commerce security is the security of customer information.

Businesses have a legal obligation to treat this information carefully and to maintain their privacy. Providing your customers details to a third party is illegal in most countries and there may be penalties for doing so without consent.

Have a clear privacy policy on the website and clearly state what you will and will not do with customers personal details and tracking tools such as cookies.

Cookies collect information and send it back to the server of a business. when visiting an e-commerce website cookies are sent to a visitors computer. It serves as a digital identifier that notifies the vendor whenever that user re-enters the vendor’s website. Although an Internet browser can be set to disable cookies, some websites require users to accept them before using the site.

Cookies allow a website to remember a user and what they looked at and used in the site. The website can then automatically customise content and interaction for that user, for example suggested products, currency and shipping information, advertising and promotions. Companies can track a user’s cookies around the internet and collect information about their surfing habits.

Companies operating globally are subject to the privacy laws of each country. The best idea is to have strong privacy policies and systems to ensure compliance with the range of laws they operate under.

In Australia, there are the National Privacy Principles (NPPs) detailed in the Privacy Act 1988. In China, the Computer Processed Personal Information Act 1995 protects personal information processed by computers.

In New Zealand, the privacy Act 1993 sets out principles in relation to the collection, use, disclosure, security and access to personal information.

India does not have comprehensive privacy laws in place. The laws that do exist relate to the privacy of data held by banks. Taiwan has the Personal Data Protection Act.

# Strategic plans

## PURPOSE AND INTENT OF THE STRATEGIC PLANNING PROCESS

A 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. The strategic planning process involves stakeholders of the company and its purpose is to build commitment to the agreed upon goals and objectivise.

## KEY FEATURES IN STRATEGIC PLANS

Mission and objectives

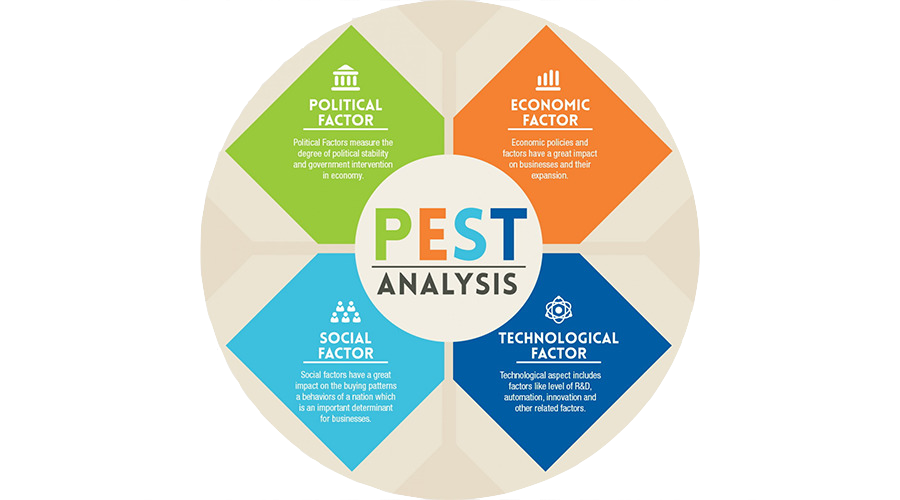
A business mission statement outlines its purpose of going into business, what it wants to achieve and how it is different to its competitors.

Key values identify the foundation from the culture of business. they are the norms and standards that are expected of employees in the way they work and interact with other employees, customers and suppliers.

Environmental scan

Also, known as a situational analysis, a scan researches and analyses the business environment to identify and anticipate factors that will affect business growth and success. Without a good scan, there will be factors that affect sales, costs and profits that were not anticipated and prepared for. There are various models to use to organise a scan and the information it brings.

By understanding the business environment informed decisions can be made about:

* Marketing mix.
* Advertising.
* New products and services.
* Target market.
* Compliance with laws and regulations.
* Obtaining business funding.
* Recruiting or dismissing staff and assigning shifts and hours.

There are various models to use to organise a scan and the information it brings. Some models include:

* PEST

PEST is a method used to analyse the macro environment of a business. Each of the factors identified in a PEST analysis are examined in terms of their impact on the business and the likelihood of it occurring. The analysis should be ongoing so change and trends can be identified and included when making decisions about the business. PEST is an acronym identifying the four elements of the macro environment as shown below.

* Porter’s Five Forces

Porter’s Five Forces explains an industry’s level of competition. Analysing a market on the basis of the five forces assists management to evaluate the viability of entering a new market or expansion into an existing one. The strength of the forces determines how easy or difficult it is to complete in a market.

|  |
| --- |
| Case Study  Porter’s Five Force’s Analysis for the Café Industry../../Screen%20Shot%202019-11-11%20at%209.39.27%20am.png |

Porter suggests that the five forces determine whether an industry has high profits or low profits. A high profit industry gives a business more control over costs and prices and enables them to capture and keep market share. A low profit industry’s competitive pressures keep prices and profits low.

* Strengths, Weaknesses, Opportunities, Threats (SWOT) strategies

Business decisions and strategies are influenced by a range of factors that are analysed using a decision-making tool such as SWOT analysis.

SWOT analysis is used to gather and categorise information about a business opportunity, market, strategy or change. SWOT stands for:

* + Strength: internal characteristics and capabilities that can contribute to business success.
  + Weakness: internal characteristics and weaknesses that could cause barriers to business success.
  + Opportunity: external conditions, events and changes that could create opportunities for a business to succeed and grow.
  + Threat: external conditions, events and changes that could have a negative impact on a business and how it operates.

Strategic formulation

Strategies are aimed at improving business performance and profits. The focus is on how the business can gain a competitive advantage and succeed in the market.

From these general strategies, managers develop more specific business strategies which provide guidance and direction on achieving the objectives and goals set out in the mission statement. Some example of strategic goals that can be implemented in a business are:

* Growth: also referred to as market penetrations, this involves the company focusing its resources on the growth of a particular product in a market.
* Market development: this involves modifying existing products or creating new related products which are marketed to your existing customers.
* Innovation: this involves the creation or modification of new products, services and ideas.
* Horizontal integration: this involves acquiring businesses of a similar nature, which eliminates competitors and creates access to new markets.
* Strategic alliances: this involves contractually partnering with other businesses to collaborate on particular projects or tasks.

The steps to formulate strategies are:

1. Analyse the business and business environment
2. Set a clear strategic direction
3. Develop projects or initiatives
4. Establish action plans

Strategic implementation

The strategy is more likely to work if it builds on and aligns with existing systems and culture. Everyone within the workplace must understand their responsibilities and how they fit in with the overall goals. This is where resistance to change may arise, employees may not agree with or support the strategy. Overcoming resistance to change is part of successful strategy implementation.

The resources and funding the strategy requires must be organised and allocated. Budgeting for and allocating resources shows commitment to achieving strategic goals and is a big step in making the strategy happen.

Evaluation and control

Strategy evaluation and control includes performance measurements and regular reviews of operations to identify and make corrective actions. Evaluate progress by comparing results to the planned targets and timeframes.

Monitoring the internal and external environments enables a business to collect information and respond to changes and problems. By responding quickly negative impacts can be controlled.

Evaluation and control follows the cycle as shown here.

Questions to ask when evaluating a strategy include:

* Are the goals and objectives being achieved?
* Are the time frames being met?
* Are the time frames realistic?
* Have there been unanticipated changes, events or market conditions?
* Do staff have adequate resources (money, equipment, facilities, expertise) to achieve the goals?
* What improvements can we make?
* Do we need to revise the goals?

Success should be acknowledged and celebrated. This reinforces the strategic path and the desired values and keeps staff motivated.

# Financial ratios

## DEFINE FINANCIAL RATIOS

Ratios are indictors of performance and are used to measure business activity. Ratios are compared with those of previous periods of time to monitor and identify trends in business performance. Ratios can also be compared to industry averages and similar businesses to evaluate performance.

## LIQUIDITY

“A measure of the amount of cash in a business and its ability to pay its cost and repay debts." Liquidity ratios assume that certain assets can be quickly converted to cash to meet financial commitments. In some instances, the liquid assists may already by cash on hand or cash at the bank, but can include finished goods ready for sale or inventory on hand. These are important because they reveal the ability of the business to meet their day to day financial obligations. (e.g. cash – most liquid asset, stock – fairly liquid, machinery and property – not very liquid at all)

Current ratio

* e.g. 380, 000 - 275,000 = $ 1.38 - for every $1 of short term debt there is $1.38 of current assets (liquid assets)
* A current ratio of less than one indicates a business with poor liquidity and could be risky if creditors demand payment immediately (e.g. 0.50 : 1 - for every $1 of current liabilities the business only has 50c to pay for them, the business cannot meet its short term debts as they fall due)
* A current ratio of 10 : 1 means that for every $1 of current liabilities the business has $10 worth of current assets. This is more than required and suggests the business could make better use of the funds it has tied up in current assets
* The current assets could be:
  + Too much cash - could be used to generate more income for the business
  + Too many debtors (people who owe the business money) - increases the risk of bad debts
  + Too much stock - increases insurance and storage costs

## PROFITABILITY

"The capacity of a business to make a profit and provide a return on investment." Figures are taken from the income statement and can be improved by cutting costs, however this must be managed so that cost cutting does not lead to poorer quality and poor customer service or loss of sales due to less advertising.

Gross profit ratio

* e.g. 230,000 / 720,000 = 32% - 0.32c profit, for every $1 of sales the business makes
* Shows how much cents of gross profit are in each dollar of sales
* Expressed as a %
* Can be improved by:
  + Increasing the selling price to gain more sales revenue - tends to only work with price inelastic products (where customers are not sensitive to price changes because there is no substitution product)
  + Decreasing the selling price to generate more sales in price elastic products.
  + Marketing strategies to boost sales
  + Reducing direct costs - cheaper suppliers and cheaper materials
  + Reducing labour costs - more efficient practices, delayering

Profit ratio

* e.g. 150, 000 / 720,000 = 21% - for every $1 of sales the business makes 0.21c profit.
* Considers cost of sales and expenses, therefore shows the profits available to distribute to shareholders or invest in the business
* A large difference between GPR and NPR suggests overheads are difficult to control
* High volume products e.g. milk will have a low NPM but the high sales volume compensates for this, Low volume products such as cars will need a high NPR to compensate for relatively fewer sales
* Can be improved using the same strategies as GPR but also can improved by reducing cheaper rent, cost cutting in overheads that won't damage the business's brand image - e.g. energy costs, stationery, administrative costs

Expense ratio

e.g. 160,000 / 720,000 = 0.22c - There is 22c of expenses for every dollar of income earned

* Shows the amount of expense in each dollar of income earned
* Cost controls improves the expenses ratio

Return on equity ratio

* e.g. 46,000 / 144,000 = 32% - For every dollar invested in the business by the owner they are getting a return of .32c
* Measures the adequacy of the return to the owner of the amount of money invested in the business
* This investment can be compared with other types of investments e.g. share market to see if their money would be better invested elsewhere.

## STABILITY

Debt to equity ratio

* e.g. 326,000 / 144000 = 2.30 : 1 -  For every dollar of equity the business has $2.30 of debt
* Solvency is the ability to meet long term financial obligations
* Gearing is the amount of debt the business has used to finance its operations as opposed to equity finance
* The higher the ratio the higher geared the business is and the less solvent
* A business which is highly geared may be vulnerable if they are unable to make repayments on borrowings
* The level of gearing may vary between businesses e.g. a business in the establishment and growth stage may be more highly geared than an older established business
* The goal over the longer term would be to reduce the level of gearing

# Product management

## PURPOSE OF PRODUCTION MANAGEMENT SYSTEMS

The process of production is also known as the ‘transformation process’. It takes raw materials, skills, knowledge and technology and transformations them into a finished product. If the selling price for the finished product is greater than the total cost of production, the business has added value and will make a profit.

The production process can be viewed as a system with inputs that are processed into outputs:

1. Inputs: labour, capital, raw materials, technology, intellectual property and research.
2. Process: methods, technology, skills, quality, control and inventory management.
3. Outputs: finished goods or services and packaging.

Production management systems work to monitor and control the production process to ensure the inputs are organised, production processes are operating effectively and efficiently, and the outputs meet quality standards and client needs.

Production management systems are linked to sales, inventory and customer systems to help a business plan production schedules and materials purchasing. Production targets are set based on customer orders or inventory levels and the production management system is used to gather production, inventory and customer data to ensure the targets are reached.

The goal of production management is to produce goods and services at the right quality, right quantity, at the right time and at minimum cost. If achieved a business can compete effectively in the marketplace. A production management system ensures that a business gets the most out of their production capability.

A good production management system helps a business to attain the following.

* Achieve business goals.
* Build a positive public image.
* Support other business functions.
* Be competitive.

## FEATURES OF PRODUCT DEVELOPMENT

Product development can be based on incremental innovation or disruptive innovation.

Incremental innovation leads to product improvements, new features or better performance. The development adds on to an existing product and customers are still very familiar with it and the brand.

Disruptive innovation results in a totally new product that will be sold to a new or niche market.

Product development involves investing time, money and skills and involves a high-level risk. After this substantial investment, customers may not respond to the product. It is important that any product development is based on:

* A clear plan.
* Market research.
* Business environment research.
* The skills and expertise of staff.
* Intellectual property protection.

Planning product development and making informed decisions increases the likelihood of success. Product development helps to create new opportunities, increase profits and increase the satisfaction levels of consumers.

|  |
| --- |
| Case Study  In 1998 Pets.com was launched with a multimillion dollar advertising campaign. The sire sold pet food and pet accessories online. The business bought huge warehouses and filled them with stock, waiting for all the customers they expected. Within two years the business closed. They didn’t not do any market research. If they did they would have found that customers prefer to buy their pet products at the supermarket instead of online and having to wait a few days for delivery. And instead of the expected large orders, customers buy pet food in small amounts as they need it. |

# Process control

## FEATURES OF QUALITY MANAGEMNT

Quality management has become a central focus of the operations systems in organisations as a result of competition in the marketplace, especially in light of globalisation. Producing high-quality goods or services in necessary for competing in global marketplace.

Quality management is the management of the production process to ensure that the outputs are consistently reliable and durable. It includes the implementation of quality controls at different stages of the production process. Modern approaches to quality management that have been implemented by organisations include:

Control

Organisations must monitor the quality of their products during the production process. Similarly, service organisations must critically observe the services they provide at the point of delivery. Through these regular inspections of quality, any defects or problems can be detected early. The organisation is then able to correct these and maintain its quality standards in its finished output. Quality control can thus be described as a preventive measure.

Assurance

Quality assurance is the process through which an organisation achieves a level of quality in its goods and services that is defined by an independent body. These specified standards of quality are set down for the industry and apply throughout the world. Organisations that meet quality assurance standards obtain certification or endorsement. The most widely used international standard is the ISO 9001. (ISO stands for International Organisation for Standardisation). The ISO standards are voluntary; that is, an organisation can choose whether or not to meet the specified standards and get the quality assurance.

Improvement

Businesses look to continuous improvement in their production processes as this will result in products and service o higher quality, customer loyalty and attracting new customers through word of mouth and company reputation.

Improvements are aimed at streamlining processes so that waste is eliminated, improving product quality and maximising the skills of the workforce.

A company must have a baseline to compare against. This includes the level of quality is increased compared to past production.

## INVENTORY CONTROL TECHNIQUES

Inventory management encompasses the control of three types of inventory:

* Materials: raw materials and other suppliers for manufacturing a product.
* Work in process: partially completed goods.
* Finished goods: the completed products ready to sale to customers.

Two examples of inventory control techniques are Just in time and Just in case.

Just-in-time

If a business uses just in time (JIT) management they do not maintain an inventory of materials or finished products. When a customer places an order the business then orders materials and manufactures or sources the product and delivers it to the customer. The success of this method relies upon a high level of coordination, reliable suppliers and a highly efficient production process. The JIT inventory method results in low inventory costs because there is no need for a warehouse, warehouse staff and bulk purchases of inventory.

Usually the customer pays for the goods up front so the business has the funds available to pay for the materials and productions. But there is no room for errors or delays. A problem at any stage of the supply chain (materials supply, production, delivery) will result in unhappy customers.

Just-in-case

Just in case (JIC) control is where a business stores and maintains a large amount of inventory to avoid running out of stock.

This approach involves higher costs initially as the inventory is stockpiled, but it reduces the number of lost sales and delay in cash flow due to not having stock on hand. It means that customer service does not depend on suppliers and distributors; delays between a customer order and delivery is minimised. It can also increase costs in terms of storage overheads. JIC may also reduce the transport costs associated with the JIT approach. Inventory is stored in the business and does not have to be ordered and delivered every time, as with JIT.

JIC may be used as a temporary measure to respond to supplier closure over Christmas or seasonal fluctuations in supply. There may also be supply issues due to weather or transport disruptions, or suppliers may go out of business. JIC control will ensure there is stock I the business during these times of uncertainty of supply. A business being able to take an order and deliver a product quickly will differentiate them from their competitors.

# Technology in global markets

## USE OF TECHNOLOGY IN GLOBAL MARKETS

As technology adoption rises across Australia, your customers’ expectations of your business will increase. Your customers will demand high-quality communication through the Internet and social media. Customers will also expect engaging content and online experiences, as well as innovative mobile commerce tools and applications.

Distribution of products

It is time-consuming and expensive to establish a distribution network domestically. It is more complex to establish one internationally. You will need to deal with different languages, different workplace cultures, different currencies and different postal and transport systems. It will take time to find suitable retailers and find cost-effective ways to either store products in the target country, or distribute products safely and quickly, or a combination.

Technology can assist business to get their products to international customers. Instead of having a network of retail stores or agreements with shops to stock your products, customers could buy direct from your website. An Australian business can communicate directly with customer’s around the world instead of having to go through a network of wholesalers and retailers.

The digital distribution of products will also save time and money, for example software, games, books, tickets and music.

Technology can also be used to help keep track of inventory and automate distribution. An order through a website can be linked to the warehouse for real time stock availability and an order is generated automatically.

E-commerce

A country’s potential for online retail success relies on how many people use the Internet and how comfortable they are purchasing products online. The longer a country has had easy access to the Internet the more likely a majority of the population has experience with online shopping and confidence in online payment systems.

Social media campaigns

The term ‘social media’ is thrown around a lot today and understanding how to integrate social media strategies into your company’s promotional activities can be time-consuming, costly and in no guarantee of success.

Social media can be an effective tool to help promote your product or service, but posting photos and links from other sites is not enough to build a presence that keeps customers coming back.

High quality content as part of your social media strategy can turn a website or web presence into a magnet for potential customers.

Social media engages with customers like traditional media does not. There is a sharing of information, the ability to communicate.

|  |
| --- |
| Case Study  Globally Facebook has over 1 billion monthly active users. In April 2015, there were 14 million Facebook users and about 3 million Twitter users in Australia. Facebook remains the largest and most used social network. Instagram is continuing to grow with 5 million monthly active users in Australia. Instagram now overtakes Tumblr as the 4th most popular social network in Australia. |

# Leadership in cross – cultural settings

## ADAPTING LEADERSHIP STYLES IN A CROSS – CULTURAL SETTING

Autocratic

The typical autocratic manager does not involve others in the decision-making process. The communication styles of an autocratic manager is one-way. They tell staff exactly what they have to do. All decisions are made by the autocratic leader and employees are directed to implement their decisions.

The autocratic style is effective in the workplace where there is a need for urgent action and where the manager is the only one with the experience and expertise. It is common in workplaces that are based on standardised, repetitive processes like a factory or in the kitchens at fast food restaurants. The autocratic manager will focus on making sure staff follow the rules and keep up the pace of production.

Participative

The participative style is the opposite of the autocratic style and is also called democratic. Employees are involved in the planning and decision making in the workplace. Although the manager may still make the final decision, decisions and plans are based on the ideas and feedback from staff. This style can increase job satisfaction because it gives employees more control over how they work.

This is an effective style where employees are motivated, skilled and experienced. Employees known what to do to get the job done and the role of the manager is to organise resources for the teams and help them solve problems that may arise.

Situational

A situational style is one where a manager uses the most appropriate behaviours and adapts their leadership style depending on the situation. Managers adapt their actions, methods of communication and decision making to the situation and are able to utilise multiple styles as conditions change. Managers recognise the strengths and weaknesses of each style and apply this knowledge to a work situation or business challenge.

## LEADERSHIP TRAITS NEEDED IN A CROSS – CULTURAL SETTING

Skilled communicator

Given the challenges of working via interpreters or fumbling through conversations in more than one language, the ability to say clearly what you mean is a key global business skill. Clear communication is a powerful leadership trait to have on the global stage.

Strong communication skills are needed to build business network, solve problems, negotiate deals and resolve conflict.

Being able to clearly and succinctly describe what you want done is also important. Employees wont all be working towards the same goal if the vision and standards are not clear.

Socially aware

Understanding social and cultural customs and differences is very important when building international business relationships. Recognise that your culture and background are not inherently superior. Adjust eating and sleeping habits to match the local routines and patterns. In other countries, seemingly minor things such as sticking chopsticks in your rice or touching someone with your left hand can be offensive.

Skilled decision maker

All leaders must make tough decisions. They understand that in certain situations, difficult and timely decisions must be made in the best interests of the entire business; decisions that will not please everyone. Good leaders also known when not to act unilaterally but instead consult others and use collaborative decision making. By being flexible and open-minded to new ideas, the likelihood of the best possible decision is increased.

Future thinker

Having a global perspective and thinking strategically is about using the best people from around the world. To make strategic decisions you need to understand how the business world works on a global scale.

Leaders create a vision and long-term goals for a business and can see how the short-term activities contribute to the long-term goals. They keep people motivated by explaining how the day-to-day difficulties and achievement can add up to long-term success.

Leaders also keep scanning the macro business environment and identify threats and opportunities and how to manage them.

Self-discipline

There is a difference between bosses and workers. Leaders understand the nature of this difference and accept it and how it had an impact on their image, actions and communication. They conduct themselves in a way that sets them apart from their employees. Not in a way that suggests they think they are better than them, but in a way that gives the, an objective perspective on everything that’s going on in the workplace.

A strong vision and the discipline to see it through is one of the most important characteristics of leadership. The leader who believes in the vision and goals and works toward them will be an inspiration and resources to their team.

Responsible

Leaders take responsibility for everyone’s performance, including their own. They follow up on performance issues, monitor how employees are going and review the effectiveness of company policies and procedures. When things are going well, they praise. When problems arise, they identify them quickly and put solutions in place.

Motivational

The best leaders guide employees through challenges, always on the lookout for solutions to build long-term success. Rather than making things personal when they encounter problems, or blaming individuals, leaders look for constructive solutions and focus on moving forward.

An inspiring leader communicates clearly, concisely and often. By doing so motivates everyone to give their best all the time. They challenge their people by setting high but attainable standards and expectations, and then giving them the support, resources, training and authority to achieve their best. They avoid personal criticism and pessimistic thinking, and look for ways to gain consensus and get people to work together efficiently and effectively as a team.

When things go wrong, employees look to leaders for answers and judge the situation based upon their reaction. If the company is experiencing a major problem, such as a new competitor or economic downturn, it’s important to always be confident. A leader’s job is to maintain a motivated work environment.

# Definitions

Acquisition: the purchase of all or a portion of a corporate asset or target company

AUS trade: provides coordinated government assistance to attract and facilitate productive foreign direct investment (FDI) into Australia

Balance sheet: shows the financial position of a business at a point in time

Bilateral trade agreement: an exchange agreement between two nations or trading groups that give each party favoured trade, removes trade barriers

Bank bill: a promissory note made by a bank payable to the bearer on demand

Banks: provides a range of services including deposits, secured loans, managed funds and insurance

B2B (Business to Business): online trade conducted directly for business customers rather than the end user

B2C (Business to Consumer): online business conducted directly for the end user (the customer

Change management: processes and techniques used to plan, implement and evaluate changes in business organisations

Child labour: work that deprives children of their childhood, extreme forms involve children being enslaves or separated from their families, exposed to serious hazards and illnesses

Culture of innovation: environment that supports creative thinking to generate new or improved products, services or processes

Current assets: converted to cash in more than a 12-month period

Clicks and mortar (or brick and click): businesses that combine the traditional retail existence with an online presence

Debentures: loans for a fixed rate of interest and period of time made by a company to a business wishing to borrow funds

Debt finance: funds borrowed from an external source

Deregulation: the process of removing government restrictions on businesses and individuals that dictate how a market functions

DFAT (Department of Foreign Affairs and Trade): provides foreign, trade and development policy advice to the government

DFI: Direct Foreign Investment

Direct investment: when a company sets up production and distribution facilities overseas

Dividends: payments made to shareholders from the profits of the company in which they hold shares

Driving forces: those forces that encourage and drive change

Dumping: the practise of exporting goods to a country at a price lower than their selling price in their country of origin

E-commerce (electronic commerce): the trading of goods and services via the internet

Economic cycle: the natural fluctuation of the economy between periods of expansion and contraction

Economies of scale: reduce operating costs and greater efficiency allows for more competitive pricing, allowing for increased market share and profitability

EFIC (Export Finance and Insurance Commission): one of Australia’s many government

bodies that supports and promotes exports. EFIC offers working capital guarantees and advanced payment to Australian exports

Embargoes: a complete ban on a nations imports

Ethics: what is regarded as socially acceptable in one country may not be acceptance in another

Exchange rate: the number of units if a foreign currency that can be bought with one unit of the domestic currency or vice versa

Exploitation: treating someone unfairly in order to benefit from their work

Exports payment insurance: protects exporter against the risk of non-payment by foreign buyers

Exporting: when a company sends its products directly to an overseas buyer without setting up a business abroad

Fair trade: movement which aims to create fair terms of employment and trade for vulnerable people including children

Finance companies: provides loans to small to medium businesses

Financial institutions: where a business can go for funding such as a bank, merchant banks and finance companies

Financial risk: the risk for a business or individual to lose money

First-mover advantage: benefits of being first company to launch a new product

Fiscal: relating to government revenue, especially taxes

Forward exchange contract: agreement between two parties to exchange a designated currency at a specific time in the future

Franchising: one company grants the right to another company to use its competences, resources or brand name to operate in the market

Free trade: a situation where there are no artificial barriers to trade imposed by governments for the purpose of shielding domestic products from foreign competitors

GDP (Gross Domestic Product): the value of a nation’s total production of goods and services over a year.

Global brand: brands that are recognised throughout much of the world

Globalisation: Globalisation refers to the increasing interconnectedness of humanity and the many ways in which space and time have been compressed by technology, information flows, trade and power so that distant actions have local effects.

Global marketing: selling a product using the same marketing approach throughout the world

Governments: aim to build the economy and encourage business and investment

Grants: funds that the government or other funding organisations make available to business for particular purposes

Hedging: methods used by businesses to ‘counter balance’ investments strategies to minimise any losses cause by price fluctuations

IMF (The International Monetary Fund): an international headquarters working to foster global monetary cooperation, secure financial stability

Imports: bring goods or services into another country

Incremental change: ongoing piecemeal which takes place of an organisations evolution and development

Innovation: the process of commercially pioneering new ideas and creations in the production process

Intellectual property: refers to creations of the mind – inventions, literary and artistic work, symbols, names

International business etiquette: use of numbers, spoken language, greetings, physical contacts, dress code, body language

International marketing: the marketing of a firms products in foreign countries

Joint venture (JV): a project or enterprise in which multiple companies or individuals invest. Participants usually share equally in the project's direction and profits

Leasing: the payments by a business (the lessee) to use the non-current assets such as buildings and motor vehicles supplied by another business (the lessor)

Licensing: allow another firm the rights to produce the goods of the business

Liquidity: how quickly and easily a business could transfer assets to cash to pay its debts

Local content rules: a requirement that a certain percentage of domestic content must be used on manufactured goods

Long-term debt finance: larger amounts of funds borrowed over a longer period of time, usually more than one year

Market share: the portion of a market controlled by a particular company or product

Merchant bank: provides loans to large companies, provides advice and services regarding company finance, capital market, foreign exchange and investment management

Merger: a corporate strategy of combining different companies into a single company in order to enhance the financial and operational strengths of both organizations

Monetary: money or currency

Mortgage loan: a loan that is used to finance the purchase of land or buildings and which is secured by these assets if repayments cannot be met

Multinational corporations (MNC): has head office based in home country

Niche market: a small, specialised market for a particular product or service

Non-current assets: converted to cash in more than a 12-month period

Oligopolistic market: market share dominated by large businesses

Organisational change: the planned or unplanned response of an organisation to the internal and external forces

Organisational inertia: an organisations inactivity and tendency to remain static rather than implement change

Outsourcing: the process of contracting a portion of a company's activities to third-party providers

Overdraft: a feature of a bank account that allows a business to withdraw, up to a certain limit, more than is in the account

Owners’ equity: money the owners or shareholders have invested in the business

Process innovation: changes in the way production takes place, methods of production

Product life cycle extension: establishment of new markets when home market is saturated

Product innovation: new creations, radical development of existing products, common in industries with high R&D expenditure

Product positioning: the process markets use to determine how to best communicate their products attributes to their target customers

Profitability: refers to a business’s ability to earn enough revenue to cover all expenses or day-to-day costs and generate enough to make a profit

Profit and loss statement: show the income (revenue) generated by the business

Protection: refers to government policies that give domestic producers an artificial advantage over foreign competitors, such as tariffs on imported goods

Protectionism: economic policy of restricting imports from other countries

Protectionist policy: protecting domestic industries against foreign competition

Quality assurance: the process through which an organisation achieves a level of quality in the goods and services it produces that is defined by an independent body

Quality control: the process of inspecting and maintaining the quality of a good or service at regular intervals during production

Quarantine: a strict screening which limits entry of certain products

Quotas: limits places on the amount of foreign produced goods allowed to be imported

Radical innovation: large improvements to products or processes, disruptive and larger risk

Regional trade agreement: an agreement that is signed by two or more countries to encourage free movement of goods and services across the borders of its members

R&D: Research and development

Restraining forces: those forces that pressure against and restrict change

Retained profits: the amount of profit the business keeps for itself

Secured loans: a business can arrange a loan that is secured against assets it owns

Share capital: a privately-owned business can sell shares to a limited number of owners or parties who want to make an investment and be involved in running the business

Short-term debt finance: funds borrowed to meet short-term commitment, usually those requiring repayments in less than a year

Solvency: the ability of a business to meet its long-term debt obligations

Step change: radical alteration in a business

Strategic alliance: formal relationship (usually contractual) between two or more parties to pursue a set of agreed upon goals or meat a critical business need while remaining independent organisations

Subsides: financial assistance to domestic producers

Sunrise industries: rapid growth potential

Sunset industries: old and declining industry

Tax Deduction: a reduction of income that is able to be taxed and is commonly a result of expenses, particularly those incurred to produce additional income

Tax haven: a country that doesn’t have to pay tax, lack of transparency (secretive), lack of information exchange

Tariffs: a tax that is imposed on imports which inflates the cost of those goods

Tax offset: an offset (sometimes called at rebate) is a direct reduction in tax owed

Trade credit: when suppliers provide goods or services to a business on credit with payment to be made within a specified period

Transfer pricing: when costs need to be transferred from one department of a company to another department of a company

Transnational corporations (TNC): has regional headquarters rather than a single international base and produces its goods in at least two countries

Unethical employment practises: the practise of moving labour intensive business operations to low cost countries (child labour)

Venture capital: money invested by firms or individuals willing to take the risk in investing in businesses that are young or newly established

WTO (World Trade Organisation): global international organisation dealing with the rules of trade between nations, the goal is to ensure that trade flows as smoothly predictably and freely as possible