# Enterprise Innovation and Markets

Enterprise Innovation and markets (Western Sydney University)

**Enterprise Innovation and Markets**

Innovation, Marketing, Economics and Enterprise.

**Chapter 1:**

**1.1 understand the meaning of innovation, six aspects of innovation and entrepreneurship**

**1.3 list some resources of innovation, both from within companies or industries and in the social environment**

**1.4 discuss different innovation types**

**1.5 understand the key practices of successful innovators and entrepreneurs.**

## 1.1 Meaning of innovation

- The word ‘innovation’ comes from the Latin in and novare, meaning ‘to make something new’
- Innovation is ‘**the process of creating value from ideas**’.
- Innovation is the successful implementation of creative ideas within an organisation
- **Entrepreneurship** is the powerful mixture of energy, vision, passion, commitment, judgement and risk-taking which provides the motive power behind the innovation process.

**6 aspects of Innovation**

- The 6 ways innovation can be viewed or characterised are:
    1. Identifying or creating opportunities – the ability to see the connections and opportunities and take advantage of them to make something new or improved. e.g. Mobile phones and tablets have revolutionised the way we communicate.
    2. New ways of serving existing markets – Not all about opening up completely new markets it can mean to expand established and mature ones. E.g. Coles, Woolworths online shopping.
    3. Growing new markets – The ability to spot where and how markets can be created and grown. E.g. the auction market with eBay
    4. Rethinking services – In economies the service sector often accounts for the vast majority of activity so there is likely to be plenty of scope. E.g. online banking and no more lines.
    5. Meeting social needs – innovation offers huge challenges and opportunities for the public sector and pressure to deliver more and better services without

increasing tax burden is a puzzle. E.g. Facebook and LinkedIn as social platforms.

6. Improving operations – Business must ensure productivity is kept up to scratch which depends on the workforce being able to contribute innovative ideas on a continuing basis. E.g. using robotics in manufacturing, mining and medicine.

**Innovation and entrepreneurship**

- Innovation does matter, but it doesn't happen automatically! - Peter Drucker
- Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service. It is capable of being presented as a discipline, capable of being learned, capable of being practised.
- Innovation is driven by entrepreneurs: passion, vision, energy, enthusiasm, judgement and lots of hard work!
- Start up entrepreneur's, Intrapreneurs/corporate entrepreneurs and social entrepreneurs: champions of social causes.

**Innovation –** as a process which can be organised and managed whether in a startup venture or in renewing a 100 year old business.

**Entrepreneurship –** as a motive power to drive the process through the efforts of passionate individuals, engaged and focused networks.

| ***Stage in life cycle of an organisation*** | ***Start-up*** | ***Growth*** | ***Sustain/scale*** | ***Renew*** |
|---|---|---|---|---|
| ***Creating commercial value*** | Individual entrepreneur exploiting new technology or market opportunity | Growing the business through adding new products/services or moving into new markets | Building a portfolio of incremental and radical innovation to sustain the business and/or spread its influence into new markets | Returning to the radical frame-breaking kind of innovation which began the business and enables it to move forward as something very different |

| | | | | |
|---|---|---|---|---|
| ***Creating social value*** **e.g. Mission Australia having a cafe that acts as training grounds from the unemployed** | Social entrepreneur, passionately concerned to improve or change something in their immediate environment | Developing the ideas and engaging others in a network for change — perhaps in a region or around a key issue | Spreading the idea widely, diffusing it to other communities of social entrepreneurs, engaging links with mainstream players like public sector agencies | Changing the system — and then acting as agent for next wave of change |

### 1.3 Sources of Innovation

**Within a company or an industry:** Peter Drucker identified four sources of innovation:

1. Unexpected occurrences - unexpected successes and failures are productive sources of innovation because most people and businesses dismiss them, disregard then and even resent them. Many innovations are the result of unexpected successes, particularly in the pharmaceutical industry.
2. Incongruities - these occur whenever a gap exists between expectations and reality.
3. Process needs - these exist whenever a demand arises for the entrepreneur to innovate as a way of answering a particular need.
4. Industry and market changes – there are continual shifts in the marketplace, which are caused by changes in consumer attitudes, advances in technology and industry growth.

**Within social and intellectual environment:** three additional sources of opportunities exist:

5. Demographic changes – external sources of innovation opportunity, demographics are the most reliable.

6. Perceptual changes – often the members of a community can change their interpretation of facts and concepts and thereby open up new opportunities.

7. New knowledge – history shoes that innovations based from new knowledge – whether scientific, technical or social, rank high.

### 1.4 Different types of innovation

- Ideas are NOT enough for innovation!
- Innovation is a multidimensional concept, and it is not necessary to reinvent the wheel to become an entrepreneur.
- Innovation is the successful creation of value within an organisation
- Entrepreneurship can occur with little, if any, innovation

**Incremental innovation:**

Incremental innovations make existing products or services better.

Characteristics -

- steady improvements
- based on sustaining technologies
- obedience to cultural routines and norms
- can be radially implemented
- immediate gains
- develop customer loyalty

Types of incremental innovation:

- Extension - improvements or new use of an existing product, service or process.
- Duplications - create replication or adaption of an existing product, service or concept. Duplication can take place across different market or industries.
- Synthesis - Combination of an existing product, service or process into a new formulation or use such as the fax (telephone = photocopier)

**Disruptive (Radical) innovation**:

Characteristics –

- fundamental rethink
- based on disruptive technologies
- experimentation and play/make believe
- need to be nurtured for long periods
- worse initial performance
- potential big gains
- create new markets

-Disruptive innovation changes the value proposition.

-Causes fundamental changes in the marketplace.

-Disruptive innovations, such as Uber disrupted traditional taxi services.

-Also is simpler, less expensive, more convenient, adequate and easier to use.

‘Innovations dilemma’ in large organisations cna enable more flexible, entrepreneurial companies to capitalise on industry growth.

**Cost Innovation**

- Innovation that considers the 'value of money' segment
- Can be delivered in 3 different ways:
    1. Selling high end products at mass-market prices
    2. Offering choice or customisation to value customers.
    3. Turning niches into mass markets

### 1.5 What do successful innovators and entrepreneurs do?

- To manage the innovation and entrepreneurship process, successful innovators/ entrepreneurs do the following:

1. Explore and understand the dimensions of innovation – The 4 P's of Innovation:
   *Product* – changes in the things (product/services) which an organization offers. E.g Cars with GPS, auto reverse.
   *Process* – changes in the ways in which these offerings are created and delivered. E.g. McDonald's; create your own taste.
   *Position* – changes in the context into which the products/services are introduced. E.g. Lucozade – from illness recovery to health drink.
   *Paradigm* – changes in the underlying mental model which frame what the organization does. E.g. easing the fears of online banking
2. Manage innovation as a process -
   - *Recognising the opportunity* – innovations triggers come in all shapes and sizes from all sorts of directions. They arise from all different situations. For these to be successful we need to develop from pretty extensive antennae for searching and scanning around us and that includes some capability for looking into the future.
   - *Finding the resources* – Does the idea fit a business strategy, does it build on something we know about? (or where can we get access to that knowledge easily?) and do we have the skills and resources to take it forward? And if we don't have those resources, which is often the case with the lone entrepreneur at start-up, how will we find and mobilise them?
   - *Developing the idea* – invest the time and money and find people to research and develop ideas and conduct market studies, competitor analysis, prototyping, testing etc. In order to gradually improve our understanding of the innovation and whether it will work.
   - *Capture Value* – despite all the effort in recognising opportunities, finding resources and developing the venture, there is no guarantee we will be able to capture the value from all our hard work.

**The context of success:**

The innovation and entrepreneurship process doesn't take place in a vacuum; it is shaped and influenced by a variety of factors.

- *Clear strategic leadership and direction*, plus the **commitment** of the resources to make this happen.
- *An innovation organization* with a climate which enables people to deploy their creativity and share their knowledge.
- *Proactive links* across boundaries inside the organization and to external agencies who can play a part in the innovation process: suppliers, customers, sources of finance, skilled resources and of knowledge, etc.

3. Develop innovation capability –

The problem with partial models

| **If innovation is only seen as…** | **…the result can be** |
|---|---|
| Strong R&D capability | Technology which fails to meet user needs and may not be accepted: 'the better mousetrap nobody wants' |
| The province of specialists in white coats in the R&D laboratory | Lack of involvement of others, and a lack of key knowledge and experience input from other perspectives |
| Meeting customer needs | Lack of technical progression, leading to inability to gain competitive edge |
| Technological advances | Producing products the market does not want or designing processes which do not meet the needs of the user and are opposed |
| The province of large firms | Weak small firms with too high dependence on large customers |
| Breakthrough changes | Neglect of the potential of incremental innovation. Also an inability to secure and reinforce the gains from radical change because the incremental performance ratchet is not working well |

| | |
|---|---|
| Associated with key individuals | Failure to utilise the creativity of the remainder of employees, and to secure their inputs and perspectives to improve innovation |
| Internally generated | The 'not invented here' effect, where good ideas from outside are resisted or rejected |
| Externally generated | Innovation becomes simply a matter of filling a shopping list of needs from outside and there is little internal learning or development of technological competence |

4. Create innovation strategy –

- Putting an innovation strategy together involves three keys steps, pulling together ideas around core themes and inviting discussion and argument to sharpen and shape them. These are:

4.1 Strategic analysis: what could we do? A useful place to start is to build some sense of the overall environment, to explore the current threats and opportunities and the likely changes to these in the future.

4.2 Strategic selection: what are we going to do, why? Choosing which one we will do and why? What is our overall business strategy (where we are trying to go as an organisation) and how will innovation help us get there. Do we know anything about the direction we want to go in.

4.5 Strategic implementation: how are we going to make it happen? Having explored what we could do and decided what we are going to do, the third stage in innovation strategy development is to plan for implementation. What resources do we need? How do we obtain the resources? Who we may need to partner with? What likely roadblocks we could face.

5. Build Dynamic Capability –

- Most of the time innovation takes place within a set of rules of the game and involves players trying to innovate by doing what they do (product, process, position and paradigm) but better.
- Occasionally somethings happens which dislocates this framework and changes the rules of the game. By definition, these are not everyday events but have the capacity to redefine the space and the boundary conditions.
- *Dynamic capability* is the ability to review and reset the approach which the organisation takes to managing innovation in the face of a changing environment.

## Chapter 2

### 2.2 understand the creative process

### 2.3 understand the components of creativity, use a series of creativity techniques, and identify factors influencing creativity

### 2.4 explain the link between creativity, innovation and entrepreneurship, and outline the steps for screening opportunities

### 2.2 Creativity as a process

- It is easy to see creativity as a flash of inspiration!
- Research has shown there is more to creativity - there is a process which starts long way before the light bulb moment!
- Process is associated with convergent and divergent thinking
- The creative process:
  Creativity is purposeful, not accidental
  Creativity is a process – not an event. It occurs overtime

**The creative process: cycles of divergence and convergence in creativity**

1. Preparation/recognise – the problem is first perceived and defined
2. Incubation – the conscious and unconscious mind manipulate the problem
3. Insight - aha – suddenly sees the idea, concept or solution to the problem
4. Verification/validation – evaluate, verify or tests the idea, concept or solution.

Step 1: Recognition/preparation – creativity starts with recognising we have a problem or puzzle to solve and then exploring it's dimensions. Working out the real problem, underlying issue, is an important skill in arriving at a solution which work.

Step 2: Incubation – This is where we need not to force it to work but to allow the brain some time to play around, to incubate. It needs to allow new connections to be made.

Step 3: Insight – the light bulb moment, it may not be entirely clear but they 'know' it is the right idea. Techniques like brainstorming make much of the act of writing down ideas and variations on the theme use pictures and sketches to capture the insights.

Step 4: Validation/refinement – The core insight become refined and developed. It involves trying the idea out – prototyping – and using feedback from that to adapt and develop it.

### 2.3 Components of creativity and creativity techniques

- Creativity is often associated with the arts
- In business, creativity can be defined as the production of new and useful ideas.
- Ideas must fulfil a need in the marketplace and generate profit
- Successful, innovative companies do systematically encourage the development of ideas.

**Three components of creativity**

- Creativity does not only consist of creative thinking, this is only one part of creativity
- Knowledge and motivation are two other important elements

1. Creative thinking skills -

- Creative thinking is how people approach problems and solution.
- Depends strongly on individuals personality as well as how a person thinks or works. Creative people's personality traits: capable, clever, informal, individualistic, snobbish.
- People are more creative if they feel comfortable disagreeing with others.
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2. Knowledge –

- Expertise or knowledge encompasses everything a person know and can do, information that is stored in your long-term memory.
- Knowledge can be acquired in different ways:
  Through formal education,
  practical experience
  or interaction with other people. People can serve as models e.g. collaborating

3. Motivation –

- Determines what a  person will actually do
- Two types of motivation exist:
  *Intrinsic motivation* (motivation from inside, motivated internally, such as enjoyment of work)
  *Extrinsic motivation* (motivation from the outside, motivation for the external rewards, such as financial rewards.)

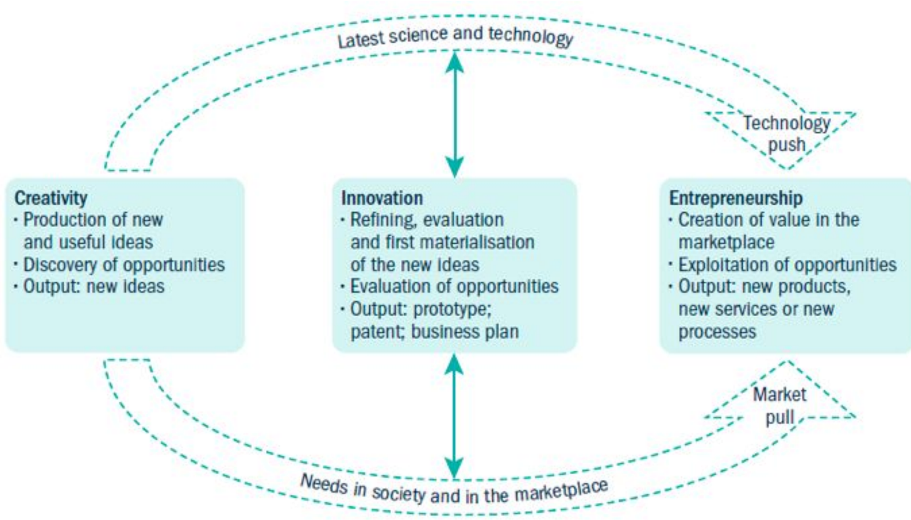
**Creativity techniques**

- Problem reversal – the action of viewing a problem from an opposite angle
- Forced analogy – The action of making an association between two unlike things to obtain new insights
- Attribute listing – The identification and listing of all major characteristic of a product, object or idea.
- Mind maps – A visual method of mapping information to stimulate the generation and analysis of it.
- Brainstorming – the conference technique by which a group tries to find a specific solution for a specific problem by amassing spontaneous ideas. Also a way to get a diverse group of people together to make a creative idea.

**Factors influencing creativity:**

- Encouragement of creativity
- Autonomy – feel that you have a sense of ownership over the project
- Resources – don't let a lack of resources make you stop from coming up with something creative.
- Pressures – negative and positive impact, if the pressure is coming from a large workload this could have a negative impact, if the pressure is coming from the challenge that's a positive impact.
- Mental blocks – functional fixation: seeing a object for its name.

## 2.4 Linking creativity, innovation and entrepreneurship




*A process model linking creativity, innovation and entrepreneurship*

**Knowledge development during the entrepreneurial process**

- Creativity stage: knowledge is present in a very raw form
- Innovation stage: knowledge is further refined and the initial idea should pass the ‘feasibility test’
- Entrepreneurship stage: knowledge is embedded in the product or service sold.
- What creativity, innovation and entrepreneurship have incommon is Knowledge development

**Developing and the disseminating knowledge through social networks**

- Social networks are the catalyst for the development and dissemination of knowledge both emerging and established organisations.
- Networks impact on social, emotional and material support available to entrepreneurs.

Three features of social networks:

- Diversity – age, gender, ethnicity, occupation
- Affective strength – strong ties, positive and ties within the networks are amnug people who like each other.
- Structural equivalence

**From creativity to entrepreneurship: Screening opportunities**

- The creativity- innovation-entrepreneurship process essentially entails identifying and evaluating opportunities.
- During this process, business idea will be assessed to determine if they represent an entrepreneurial opportunity – i.e. sustainable value and wealth can be created.

**Three critical issues to consider when screening opportunities**

<u>Product feasibility – is it real?</u>

Can the product be made or service be delivered using currently available technology

<u>Market feasibility – is it viable?</u>

Does anyone want it? Has the product got any features that someone values and would be ready to pay for?

<u>Economic feasibility – is it worth it?</u>

Can the product be developed, manufactured and distributed while generating a profit?

### Chapter 4

### 4.2 Identify market segmentation categories and their variables for consumer and business markets, and develop market segment profiles.

### 4.4 Understand how to effectively position an offering to a target market in relation to competitors, and develop an appropriate marketing mix.

## 4.2 Segmentation

- Segmentation variables: Characteristics that buyers have in common that might be closely related to their purchasing behaviour

**Segmenting consumer markets**

- Segmentation variables: are characteristics that buyer have in common and fall into four broad categories:

1 – Demographic

2 – Geographic

3 – Psychographic

4 – Behavioural

Effective segmentation involves choosing segmentation variable that are easy to measure and readily available, and liked closely to the purchase of the product in question.

**1. Demographic segmentation-**

Market segmentation based on demographic variables, which are the vital and social characteristics of populations, such as age, education and income. Demographic variables are the most commonly used variables for market segmentation. Consumer behaviours is often closely linked to demography and ongoing studies ensure demographic information is readily available, up-to-date and comprehensive.

The demographic variables most frequently used by marketers are:

- Age
- Education
- Ethnicity
- Family life cycle
- Household size
- Income
- Marital status
- Occupation
- Religion

- Sex
- Social class

**2. Geographic segmentation-**

- Market segmentation based on variables related to geography. Useful geography variables include: climate, local population, market density, region, topography and urban, suburban, rural footprint.
- An emerging trend in segmentation is geo-demographics, which combines demographic variables and geographic variables to profile very small geographical areas (such as a suburb).
- Geo-demographic segments enable micromarketing, which is the intense and specific targeting of small groups. It is particularly useful to retail businesses, which could choose to vary their product offering based on the distinctive demographic characteristics of these areas.

**3. Psychographic segmentation-**

Psychographic variables are based on consumer characteristics.

Psychographic segmentation is based on differences in:

- Lifestyles
- Motives
- Personality attributes

In contrast to demographics, psychographics is based on the need to understand not who you are, but how you live your life. People who share common demographics (e.g. age, gender, education) may lead very different lifestyles. Conversely, people sharing a common lifestyles (e.g. active, outdoor living) may have very different demographic characteristics.

Advocates for psychographic believe lifestyles are more powerful motivators than traditional demographic indicators and as such better predictors of behaviour.

**4. Behavioural segmentation-**

Market segmentation based on actual purchase and/or consumption behaviours. Typically towards particular products. It is therefore likely to be a better indicator of market segments and their purchasing behaviour than segmentation based on generalized consumer characteristics. Behavioural variables include:

- Benefit expectations- understanding why consumer purchase particular products
- Brand loyalty
- Occasion
- Price sensitivity
- Volume usage

**Business market segmentation**

- Business markets are often characterized by a small number of buyers who might display a very close relationship with the seller. 'Customised' or 'one-to-one' marketing is a good approach to use.
- Business marketers often isolate business customer by using commercial industrial directories that contain detailed information on companies.
- In some cases, this will display all characteristics of mass marketing. A great deal of business is customised and sometimes so highly customised that the product can only be delivered to one client.

**Effective segmentation criteria**

Effective segmentation involves ensuring:

- Measurability – abstract variables can be difficult to measure
- Accessibility – through distribution and communication channels.
- Substantiality – the segment must be of sufficient size to allow profitability
- Practicability – segments are only of use if they can be identified and serviced.

The ability of the firm to service a segment is a key issue. There could be significant logistical issues in getting products to that market due to distance, size or weight. The quantities involved in that market may far exceed the capacity of your firm to meet the market needs – can you expand to meet the needs, or is this too much risk, or financially impossible.

**Market segment profiling**

- A market segment profile describes the typical potential customer in the market segment; it describes the common features shared by members of the market segment and how they differ between market segments, typically described in terms of a number of segmentation variables.
- Individual segments will be uniquely described by a combination of segmentation variables such a age, gender, occupation and lifestyle. With a range of possible segmentation variables that can be used, it is usual for segments to be constructed in a multivariate and hierarchical fashion.
- We have to understand the target market segments completely.
- The number of possible segments grows by multiple with each extra segmentation variable is added e.g. adding gender doubles the number of market segments.

### 4.4 Positioning

- **Positioning:** the way in which target market segments perceive an organisations offering in relation to competing offerings.
- The organisation must determine how its offer is 'positioned' in the minds of each of its target market segments (relative to competitive brands) and develop its marketing mix accordingly.
- Company positioning: a positioning strategy designed to create a single market perception of the entire organisation in relation to competitors.

- Brand perception: a positioning strategy designed to create market perception of a particular brand, usually based on product attributes.

**Positioning: a 2 step process**

1. <u>Determine how the company wishes to be perceived in the target market segments</u>:
   - Analyse current position- The use of a common technique called perceptual mapping
   - Assess competitive position
   - Reposition towards the desired position in the buyer's mind
2. <u>Develop an appropriate marketing mix strategy for each segment of the target market</u>
   The marketing mix for each target market segment should:
   - Be consistent with the desired positioning
   - Be internally consistent – each element of the marketing mix should be coordinated and supportive of the other elements.
   - Be sustainable in the long term.

**Segmentation-** identify and describe market segments

**Targeting-** evaluate segments and decide which to go after

**Positioning-** design a product or service to meet a segment's needs and develop a marketing mix that will create a competitive advantage in the minds of the selected target market.

## Chapter 5

## 5.2 define ‘product’, and understand product classification, product differentiation and branding

## 5.5 understand the concept of place and how distribution channels connect producers and consumers.

## 5.6 describe how to develop and manage an effective marketing mix based on the unique characteristics of services

### 5.2 Product

A **product** is defined as a good, service or idea offered to the market for exchange. Clearly, product plays a vital role in the marketing process. Without product, a marketer has nothing to offer. On the other side of the exchange, potential customers require products to satisfy functional, social and psychological needs, wants and demands. The core concept is that both parties must gain value from the exchange.

- **Goods** are physical, tangible offerings that are capable of being delivered to a customer. E.g. shoes, toothpaste.
- **Services** are intangible to the market. E.g. taxi ride
- **An idea** can also be offered to the market in the form of a concept, issue or philosophy. Ideas are often the products of community organisations, charities and political parties.

**Total product concept**

- The features of a product can be described as a ‘bundle of attributes’. At the most basic level, marketers must ensure that the product attributes satisfy the needs and wants of potential buyers. It is this ability to satisfy a need or want that makes the product of value to potential customers. It is useful to describe the product in terms of its four levels: core product, expected product, augmented product and potential product.

- *The core product -* comprises the fundamental benefit that responds to the customer’s problem of an unsatisfied need or want; the key benefit they want from a product.
- *The expected product* – describes those attributes that actually deliver the benefit that forms the core product, the attributes that fulfil the customers most basic expectations of the product. Marketers usually try to differentiate their offering using fundamental characteristics such as branding, packaging and quality standards at the expected product levels.
- *The augmented product* – benefits that the buyer may not require as part of the basic fulfilment of their needs. The augmented level enables marketers to significantly differentiate their offerings from those of competitors. It is often the augmented product features that form the main reason for choosing a particular brand.

- *The potential product* – The potential product comprises all possibly that could become part of the expected or augmented product. This includes features that are being developed, planned or prototyped, as well as features that have not been conceived. Potential product features are attractive to marketers as they offer new ways to differentiate their product and increase the value for customers.

**Product relationships**

- *Product item* – a particular version of a product
- *Product line* – a set of product items related by characteristics such as end use, target market, technology or raw materials
- *Product mix* – the set of all products that an organisation makes available to customers.

**Product classification**

1. Consumer products: purchases by households and individuals for their own private consumption.
2. Business to business products: purchased by individuals and organisation for use in the production of other products or for use in their daily business operations.

**Consumer Product –** can be further sub-classified according to the way in which the consumer buys them. Consumer products fall into one of the following categories:

**1)** Shopping products: moderate to high engagement in the decision-making process, with the purchase decision based on features, quality and price (clothing, camera…)

**2)** Convenience product (fast-moving consumer goods): Inexpensive, frequently purchased, products bought with little engagement in the decision making process. (milk, bread…)

**3)** Specialty products: highly desired products with unique characteristics that consumers will make considerable effort to obtain. (car – BMW, overseas holiday)

**4)** Unsought products: To meet a sudden, unexpected need.

**Product Differentiation**

- The creation of products and product attributes that distinguish one product from another.
- Characteristics that consumer may perceive to be differentiators include design, brand, image, style, quality, features and price.

**Branding**

- Brand - collection of symbols such as a name, logo, slogan and design intended to create an image in the customer's mind that differentiates a product from competitor's product.
- Brand image – The set of beliefs that a consumer has regarding a particular brand.
- Brand name – part of a brand that can be spoken, including words, letters and numbers.
- Brank mark – the part of a brand not made up of words – it often consists of symbols or designs.
- Trademark – a brand name or brand mark that has been legally registered so as to secure exclusive use of the brand.
- Brand equity – added value that a brand gives a product
- Brand loyalty – Customer's highly favourable attitude and purchasing behaviour towards a brand
- Brand metrics – measure the value of brands and include: brand assets, stock price analysis, replacement cost, brand attributes, and brand loyalty.

## 5.5 Place

- **Marketing Intermediaries –** are individuals or organisations that act in the distribution chain between the producer and the end user. (e.g. industrial buyers, wholesalers, agents and brokers and retailers)
- The **distribution channel** involves a group of individuals and organisations directing product from producers to end users.

**Market coverage strategies**

- Market coverage decisions take into account the nature of the product and the target market. Generally, marketers will choose from:
- *Intensive distribution* which distributes products via every suitable intermediaries
- *Exclusive distribution* which distributes products through a single intermediary for any given geographic region
- *Selective distribution* which distributes products through intermediaries chosen for some specific reason.

## 5.6 The services marketing mix

- Combined with the traditional 4 P's of the marketing mix, People, Processes & Physical Evidence make up the 7P's marketing framework, also known as the "extended services marketing mix".

- Focus on ‘the delivery of the promise’
- Heavy focus on the people who deliver the service

**4 characteristics that distinguish services from goods**

1. Intangible
2. Inseparability
3. Heterogeneity (variability)
4. Perishability

**People**

- Create and deliver the service, and affect value for the customer as they are directly involved in the service experience.
- Staff is the most controllable factor in service delivery. Must choose staff who are:
- Technical competent
- Deliver high standards of service
- Promote products through personal selling.

**Processes**

- All of the systems and procedures used to create, communicate, deliver and exchange an offering that exceeds the customer’s expectation.
- **Functional expectations**: expectations of the technical delivery of the service transaction
- **Customer service expectations**: relate to the service experience

**Physical Evidence**

- Tangible cues that can be used as a means to evaluate service quality prior to purchase.
- The physical environment includes architectural design, floor layout, furniture, décor, shop or office fittings, colours, background music and even smell.

Chapter 6

**6.3 understand what a demand curve is, explain why demand curves normally slope downwards, and describe source of shifts in demand curves.**

**6.4 understand what a supply curve is, explain why supply curves normally slope upwards, and describe sources of shifts in supply curves.**

**6.5 understand how demand and supply curves can be used to determine the market equilibrium price and quantity of a good.**

## 6.3 Demand

**Demand:**

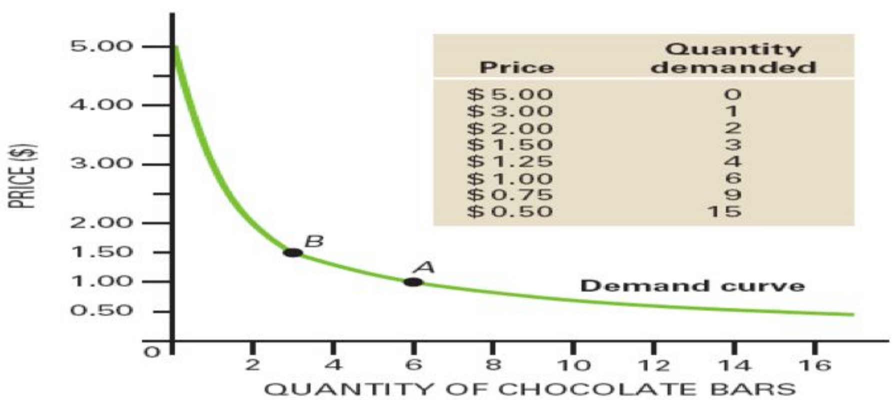
- A economic concept that describe the quantity of a good or service that a household or firm choose to buy at a given price.
- Buyers chooses to buy not only based on what they desire (willingness) but also what they can afford to buy (ability). So demand look at both.

**Ceteris Paribus**

- In analysing demand – the first question economists ask is how the quantity of good purchases by an individual changes as the prices changes, when everything else is kept constant.

**Demand schedule and demand curve: an individual buyer example**

- The demand curve shows the relationship between the quantity demanded of a good and the price of that good for an individual (e.g. Alex)

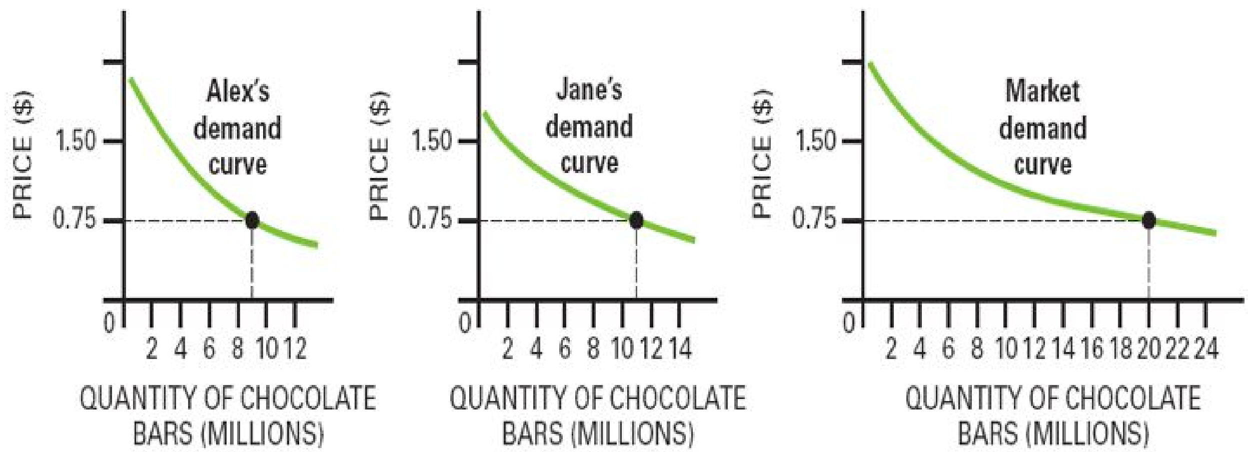



| Price | Quantity demanded |
|---|---|
| $5.00 | 0 |
| $3.00 | 1 |
| $2.00 | 2 |
| $1.50 | 3 |
| $1.25 | 4 |
| $1.00 | 6 |
| $0.75 | 9 |
| $0.50 | 15 |

**Deriving the market demand curve**

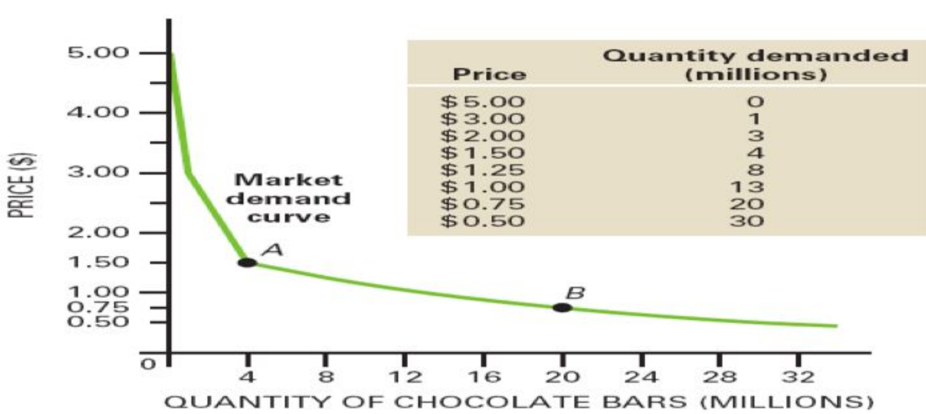
Now assume that there two people (buyers) in the chocolate market (Alex and Jane). Each of whom have their own specific demand curve

How many chocolate bars do Alex and Jane each consume at price 75 cents (and at the price $1.50)?




**Market demand curve**

- If we add both demand curves horizontally (adding the quantity demand by Alex and by Jane, at each given price) then the total market demand curve is achieved.
- Therefore, the market demand curve is the total amount of a particular good or service demanded in the economy at each price (at any given price the market demand curve shows the sum of the individual demands).
- The market demand curve is downward sloping for two reason: (1) if the price increases, buyers buy less; (2) if the price is high enough some buyer will not buy at all.



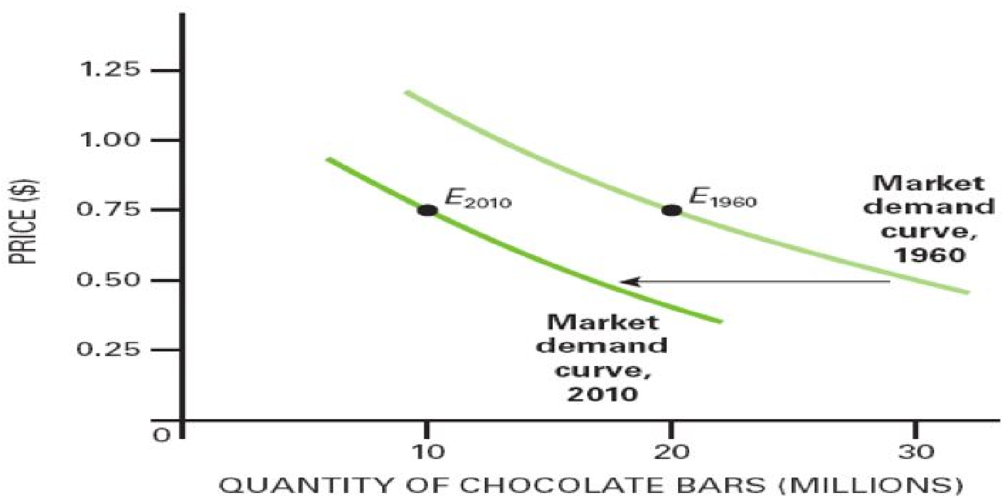

| Price | Quantity demanded (millions) |
|---|---|
| $5.00 | 0 |
| $3.00 | 1 |
| $2.00 | 3 |
| $1.50 | 4 |
| $1.25 | 8 |
| $1.00 | 13 |
| $0.75 | 20 |
| $0.50 | 30 |

**Shifts in demand curves**

- If the price of chocolate changes, the quantity will change and so there is a movement along the demand curve. Remember Ceteris Paribus – when everything else is held constant!
- But in the real world there are some other factors that will change and will cause a shit in demand curves.

**Shift in demand curves to the left (a decrease in demand)**

- Any changes other than price will cause a shift in demand curves. E.g. health concerns decreased demand for chocolate.




**Sources of shifts in demand curve**

Economic factors are:

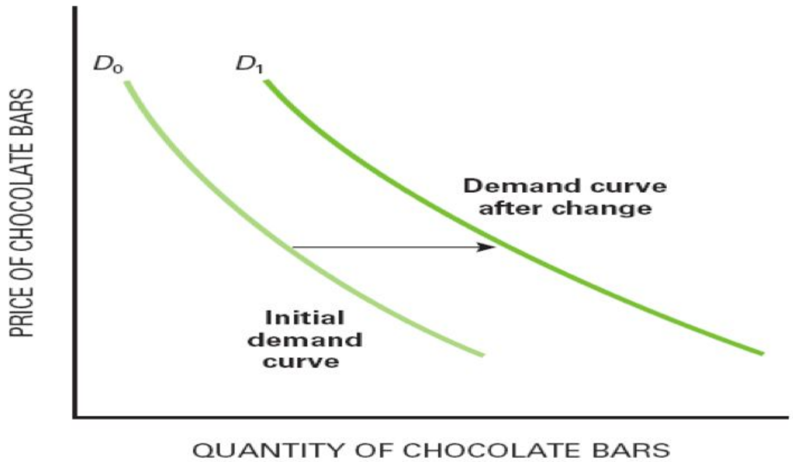
- Changes in buyers income
- Changes in price of substitute goods e.g. butter vs margarine
- Changes in price of complement goods e.g. if price of sugar up – demand for coffee down.

Non-economic factors:

- Demographic effect: e.g. health and obesity, population changes, women in workforce…. Etc.

- These sources will change the quantity demanded at each given price and hence a shift.

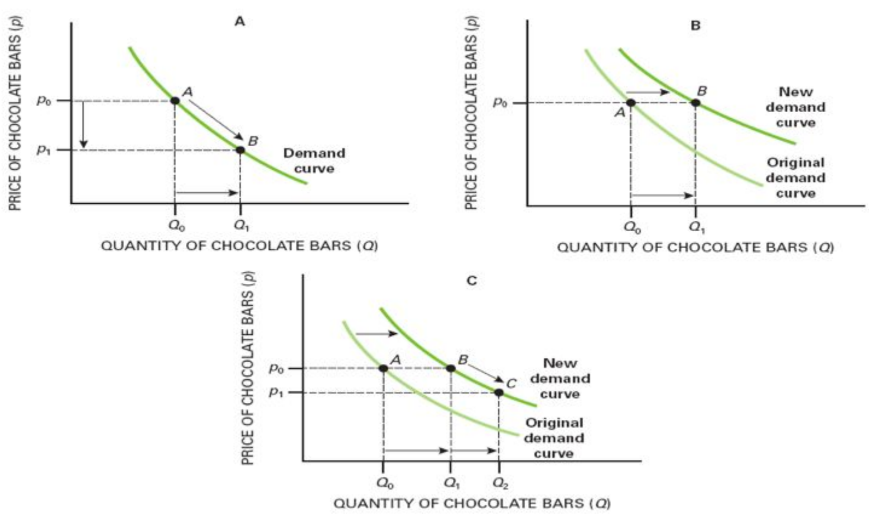
**Shifts in demand curve to the right (an increase in demand)**




**Shifts versus movements along the curve**

- A movement along the demand curve is simply the change in quantity demanded as the price changes (see figure 6.7A)
- A shift in demand curve is the change in quantity demanded caused by a shift in the entire demand curve at every given price (See figure 6.7B & C)

**Movement along the demand curve versus a shift in the demand curve**

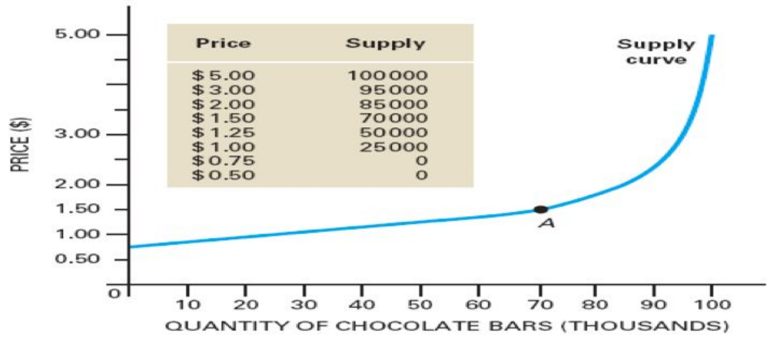



## 6.4 Supply

- **Supply:** An economic concept that describes the quantity of a good or service that a household or firm chooses to sell at a given price.
- Supply in economics can refer to such seemingly disparate choices, i.e. number of chocolate bars the factors decides to sell or the number of hours a labourer is willing to work.

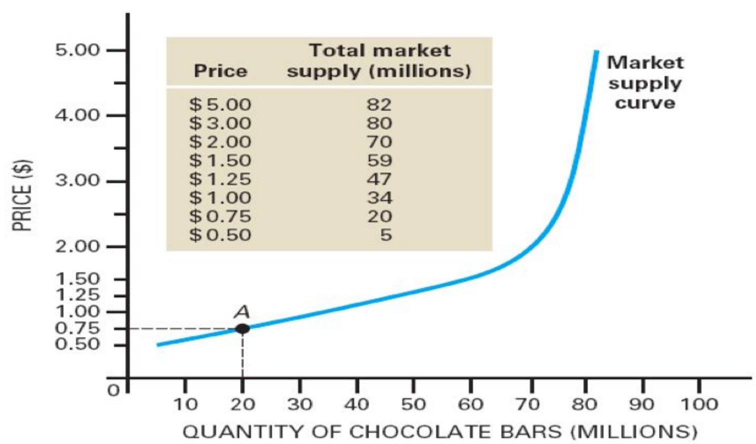
**Supply schedule and supply curve an individual seller example**

The supply curve shows that quantity of a good a firm is willing to produce at each price. Firm willing to produce more as price increase, hence supply curve slopes upwards.




**Market supply curve**

- Now assume that there are several firms in the market which produce chocolate bars, each of whom have their own specific supply schedule (hence supply curve).
- If the quantity supplied by each producer s added horizontally at each given price and the points are connected then the market supply curve is obtained.




**Shifts in supply curves**

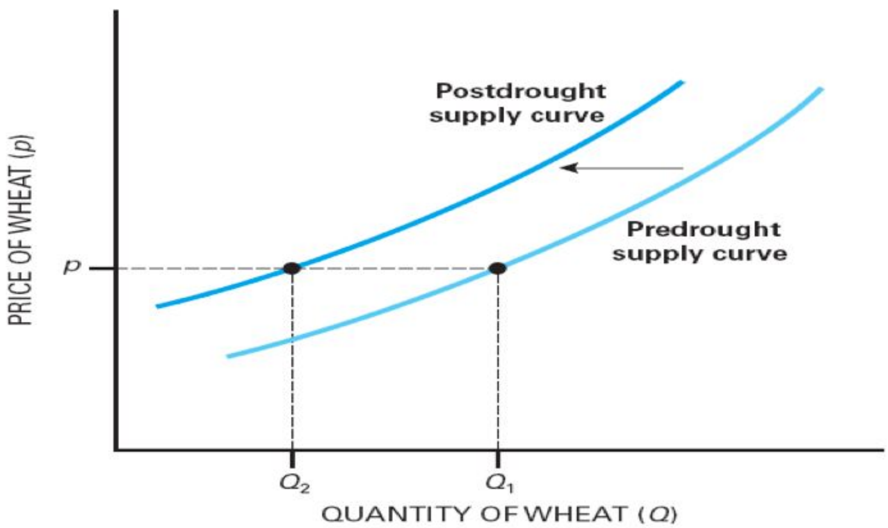
- Just as the demand curve can shift, supply curves to shift.
- We saw that at different price, quantities supplied by producers change and so there is a movement along the supply curve.
- But in the real world there are factors that will cause a shift in supply curves, meaning that they will change a quantity supplied for all price levels.

- Examples: cyclones that ruin agricultural products, floods that destroy factories, global financial crisis.

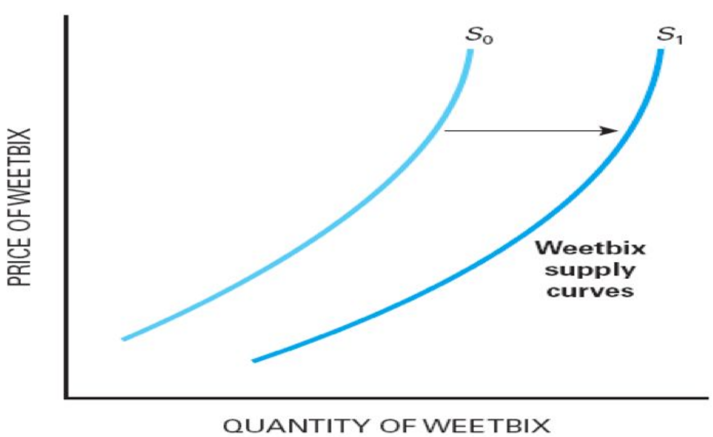
**Sources of shifts in supply curves**

- Changing prices of the inputs used to produce goods.
- Technological improvement shifts supply curve to right.
- Natural environment – weather conditions may shift supply curve to left or right
- Availability of credit – firms often borrow to obtain inputs needed for production. Lower interest rate will reduce cost of borrowing, leading to rightward shift in supply curve
- Changed expectation – if firms believe that new technology for making cars will become available in 2 years, they will discourage investment today, leading to a temporary leftward shift in the supply curve.

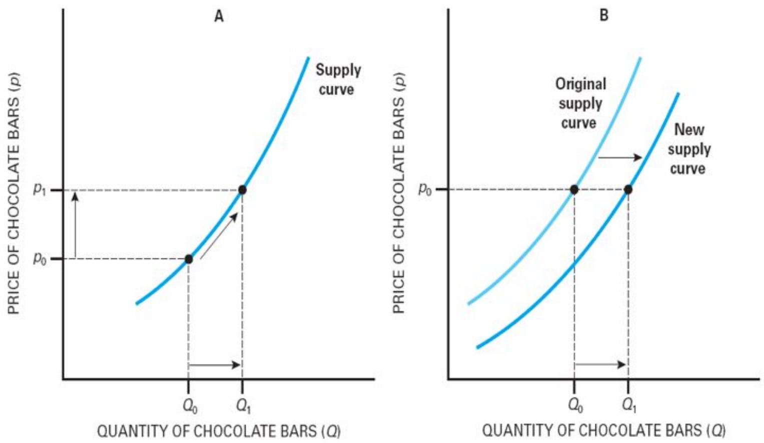
**Shift in supply curve to the left as a result of drought**




**Shift in supply curve to the right better wheat production technology**

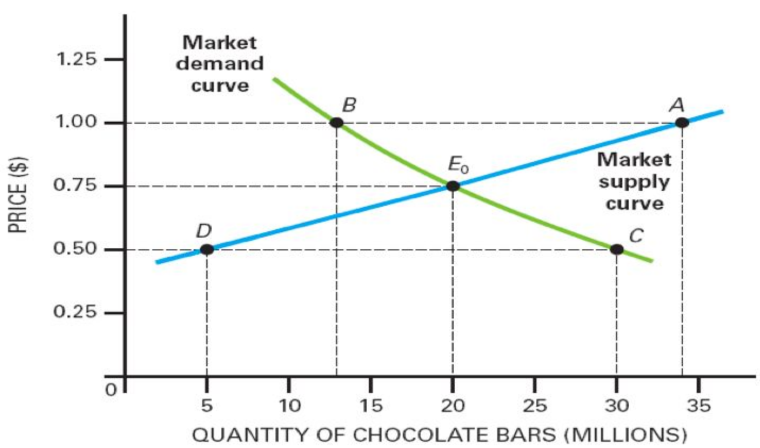


**Shifts versus movements along the curve**




## 6.5 Market Equilibrium

- Bring together the market demand curve and the market supply curve onto a same graph and there will a point at which the two curves intersect. This point is called market equilibrium.
- The intersection is called equilibrium since there is no force in action to change the market condition.
- Market equilibrium determines equilibrium price (or market clearing price) and equilibrium quantity.

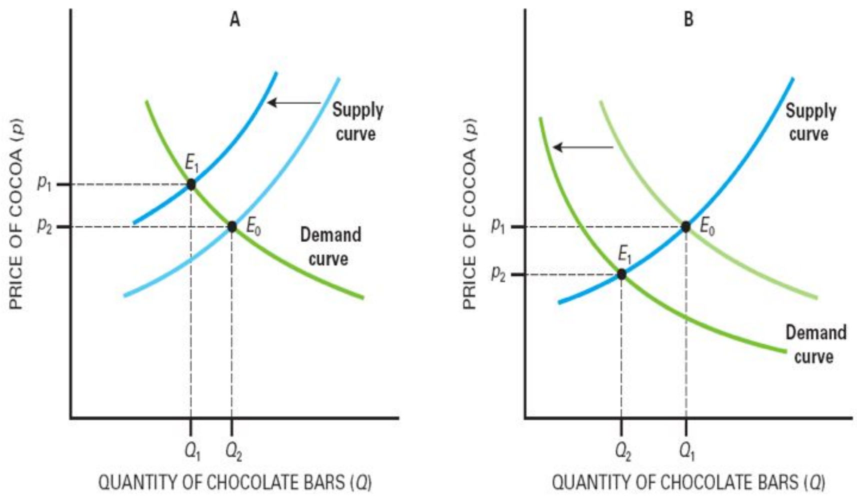



**Excess supply and excess demand**

- Excess supply: the situation in which the quantity supplied at a given price exceeds the quantity demanded.
- Excess demand: the situation in which the quantity demanded at a given price exceeds the quantity supplied.

**Using demand and supply curves**

- Helped economists to explain why the price of a commodity is high, while other commodities are low.
- Help us to predict the consequences of certain changes (in price or non-price determinants) and how these changes will affect markets in action.
- For instance recall our chocolate market. Now assume that the cost of cocoa (as an input) has increased. In the next slide see how the market responds to this change input price.




- Initially the market for chocolate bars is in equilibrium at E0.
- An increase in cost of Cocoa shifts the supply curve to the left, as shown in panel A.
- A new equilibrium E1  represent a higher price and a lower quantity demand Q1.
- Panel B shows a shift in taste away from chocolate, creates a leftward shift in demand curve, and a new equilibrium E2, the price and quantity are lower**.**

## Chapter 8

### 8.1 understand what economist means by 'competition' and 'market structures' and the relationship between them.

### 8.5 understand imperfect competition and explain the mode of monopolistic competition

### 8.6 understand the model of oligopoly and how it helps to explain the operation of imperfectly competitive markets where there are only a few firms.

### 8.1 Competition and market structures

- For most economists competition is about how many rivals there are in the market and how evenly matched they are.
- The principle criteria according to which the structure of a market can be defined:
    1. Number of buyers and sellers in the market
    2. Degree of differentiation (homogeneity)
    3. Degree of knowledge possessed by buyers and sellers
    4. The extent of barriers to entry

Four market structures

TABLE 8.1

Four market structures

| NAME OF STRUCTURE | NUMBER OF FIRMS | FREEDOM OF ENTRY | KNOWLEDGE | RIVALS' PRODUCT | EXAMPLE |
|---|---|---|---|---|---|
| *Perfect competition* | Many | Unrestricted | Complete | Identical | International rice market |
| *Monopolistic competition* | Many/ several | Unrestricted | Complete | Slightly different | Local restaurant industry |
| *Oligopoly* | Few | Restricted | Complete or imperfect | Identical or different | Australia's national supermarket industry |
| *Monopoly* | One | Blocked | Complete | — | NSW Railway market |

### 8.5 Monopolistic competition

- Relatively few industries in the Australian economy that conform to the model of monopoly previously outlined.
- Most industries lie somewhere between Perfect Competition and Monopoly, i.e. there is some competition but it is not 'perfect'.
- In reality, very often, attempts to erect barriers to entry are unsuccessful.

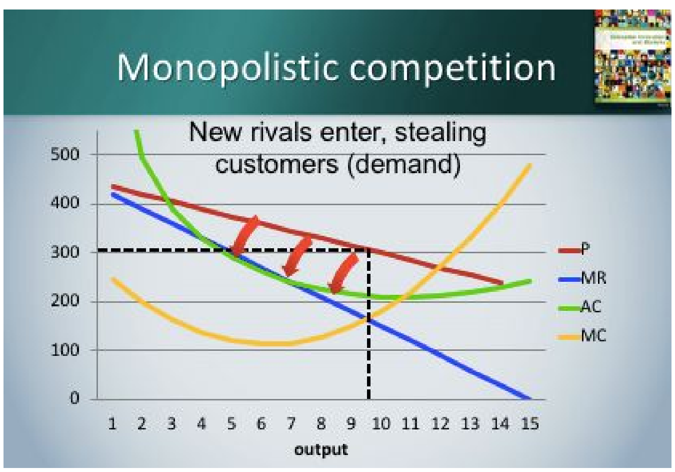
- A business can **differentiate** its product from potential rivals and so have its "own" downward-sloping demand curve (like a monopolist)….
- **But** is still faces many competitors producing **similar** products because there is **freedom of entry** into the market (like perfect competition).
- This is called monopolistic competition

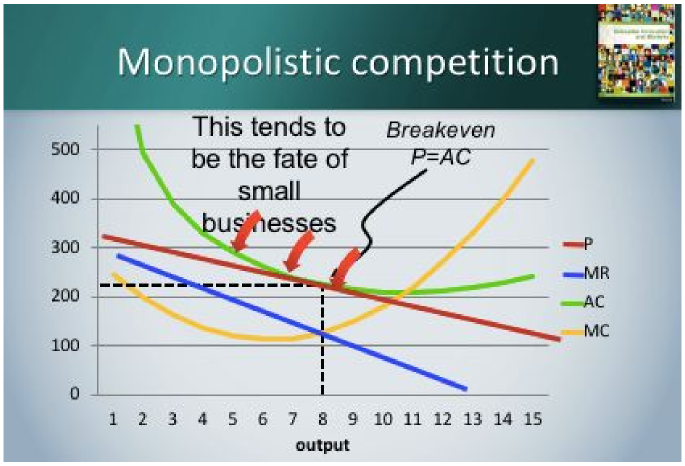
Examples of monopolistic competition include: restaurants, cafes, hotel, pubs, hairdressers *in a city.*

Note: if we were examining a small country town, these might be a natural monopolies.

**Monopolistic competition in the long run**

- Also, because there are no barriers to entry, a business cannot protect itself from new rivals who "steal" some of its customers.
- So, in the long-run, the business's demand will fall, "squeezing" profits until it breaks-even:
  - where average revenue (price) = average cost
- This is just like the long-run outcome for perfect competition. The difference is that the firm's demand curve is still slightly downward -sloping.  Graphically…..






### 8.6 Oligopoly

- What about a situation *where barriers to entry are moderately successful* or *where there is only enough consumer demand to sustain a few businesses?*
- This is called an oligopolistic market.
  - A few businesses dominate the market.
  - E.g. 10 or fewer firms supply 50% or more of a national market.
- Australia has *more* oligopolistic markets than most developed countries because of our relatively small population.

Australian examples:

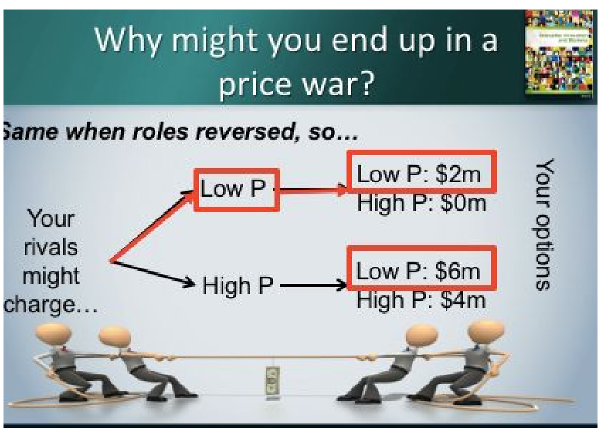
| Industry | Number | Market share |
|---|---|---|
| Cars | top 5 | 53% |
| Banks | top 4 | 80% |
| Life insurance | top 4 | 70% |
| Instant coffee | top 3 | 88% |
| Supermarkets | top 5 | 99% |
| Cola | top 2 | 99% |

**Oligopoly**

- Because there are only a few rivals, the behaviour of rivals can have a big effect on demand (and thus revenue) for a particular business's product.
- E.g. if your rivals decrease their prices, or launch big advertising campaigns, you might lose many, many customers and thus lots of revenue.

**Collusion and reaction**

- Collusion: when firms act jointly (more nearly as they would if they were a monopolist) to increase overall profits.
- Cartel: a group of producers with an agreement to collude in setting prices and output.
- Game theory (to model collusion): theory designed to understand strategic choices, that is, to understand how people or organisations behave when they expect their actions to influence the behaviour of others.
- Thus, each business has to pay close attention to how rivals behave, and then **react in a rational way** to maximise profits (or minimise losses). Like playing checkers or chess.
- **Game theory** is about such strategic decision-making.





**Paradox of these games**

Price war example

- If everyone has agreed to change "High P", *then all would have made $4m profit each* (instead of only $2m).

Advertising war example

- If Cornetto & drumstick had agreed to "Not advertise", *then both would have made $5m profit* (instead of only $4m).

This makes for a perverse incentive against competing…..

**Restrictive practices**

- The ongoing pursuit of restrictive and entry deterrence practices are also a typical characteristic of the behaviour of firms in an oligopolistic market.
- Firms engage in a number of restrictive practices to limit competition
- Many restrictive practices are aimed at the wholesalers and retailers who sell a producer's goods – called 'Vertical restrictions', where are price fixing is called ' Horizontal restriction'.

**Entry deterrence**

- Another way to reduce competition – to prevent other firms from entering the market.
- Intended to limit the number of firms – the fewer the firms, presumably the weaker the competitive pressure.
- E.g. natural barriers to entry, predatory pricing, building more production facilities than needed i.e. 'excess capacity'

**Collusion, cartel, restrictive practices and entry deterrence**

- Big rigging: rivals communicate before lodging their bids and agree among themselves who will win and at what price.
- Market sharing: rivals agree to divide customers between them.
- Price fixing: rivals agree on a pricing structure rather than competing against each other.
- Price signaling: rivals disclose future price changes to each other for the purpose of lessening competition
- Collective bargaining & boycott: rivals act as a block to "blackmail" lower prices from suppliers.

**"As if" a monopoly**

- When business collude, they ideally seek to maximise the **group's** profits – not any single **individual** firm's profits.
- When this occurs, the legally spate businesses, economically speaking, resemble a single firm.
- In that case, one can tread the industry **as if** it were a **monopoly**.
- But does collusion happy in real life? Yes.

Thus, as Adam Smith said way back in 1776….

“People of the same trade seldom meet together, even for merriment and diversion, but (when they do,) the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.”

## Chapter 9 – Entrepreneurs and opportunities

**9.1 define business and the private enterprise system**

**9.3 list the roles and characteristics of entrepreneurs**

**9.4 explain how entrepreneurial opportunities are formed**

### 9.1 What is business?

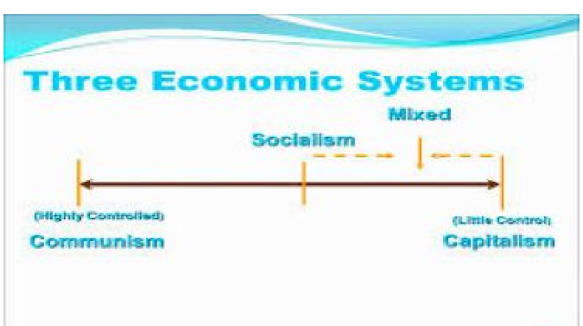
- Business consists of all profit-seeking activities and enterprises that provide goods and services necessary to an economic system
- Business drives the economic pulse of a nation. It provides the means through which its citizens standards of living improves.

**Profit vs Not-profit organisations**

- Profits represent rewards earned by organisation and business people who take risks. Profits serves as incentives for people to start businesses and expand them.
- Not-for-profit organisations such as the Australian Red Cross Blood service, your local library, Surf Life Saving primary objectives other than profits returning profits to their owners.

**The private enterprise system**

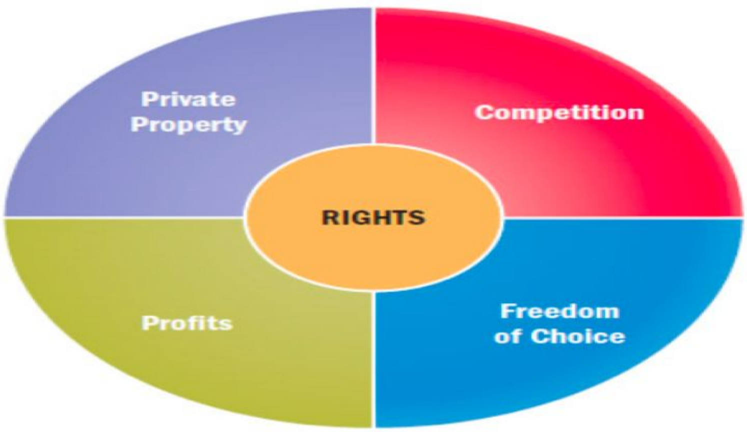
- Also known as Capitalism – an economic system that rewards firms for their ability to identify and serve the needs and demands of customers.
- Minimize government interference in economic activity.




**Basic rights of Capitalism**

- The right to private property is the most basic freedom under the private enterprise system.
- Also guarantees business owners the right to all profits – after taxes – they earn through their activities
- Relies on the potential for citizens to choose their own employment, purchases and investments.
- Permits fair competition by allowing the public to set rules for competitive activity.

**Four basic rights in the private enterprise system**




For capitalism to operate effectively, people living in a private enterprise economy must have certain rights. These include the rights to private property, profits, freedom of choice and competition.

**The entrepreneurship alternative**

- The entrepreneur is a risk taker in the private enterprises system
- New venture drives economic growth and keeps pressure on existing companies to continue to satisfy customers.
- Without people being willing to take economic risks, the private enterprise system wouldn't exist.

## 9.3 List the roles, characteristics of entrepreneurs

Two basic schools of thought shape the profile of the entrepreneur:

- Economists who consider the entrepreneur as an agent who specialises in certain roles, such as risk-bearing, arbitrage, coordination of scarce resources….

- Behaviourists who concentrate on the creative and intuitive character, the need for achievement.

**The roles of entrepreneur: an economic perspective**

- The status of the entrepreneur can be analysed in terms of labour division which explains this function based on *certain roles:*
- Risk bearer
- Arbitrageur
- Innovator
- Coordinator of scarce resources

**The roles of entrepreneur: a behaviourist approach**

Most common characteristics of entrepreneurs were identified in early studies on entrepreneur:

| | |
|---|---|
| Self-confidence | Tolerance of ambiguity |
| Risk-taking propensity | Responsiveness to suggestions |
| Flexibility | Dynamic leadership qualities |
| Independence of mind | Initiative |
| Energy and diligence | Resourcefulness |
| Hard-work ethic | Good communication skills |
| Creativity | Perseverance |
| The need for achievement | Profit-orientation |
| Internal locus of control | Perception with foresight |

Only three of these characteristics have shown a high level of validity:

- Need for achievement
- Internal locus of control (results happens due to own behaviour and actions)
- Risk-taking propensity - calculated risks

## 9.4 Entrepreneurs and opportunities

Do entrepreneurial opportunities happen regardless of the insight of entrepreneurs?

OR

Do entrepreneurs create opportunities by their actions?

**The discovery perspective**

- Successful entrepreneurs perceive opportunities which exist as a result of inefficiencies in the allocation of resources or competitive imperfections in a market or industry.
- This perspective follows a casual approach to entrepreneurship.

**The role of the entrepreneur in the Discovery perspective**

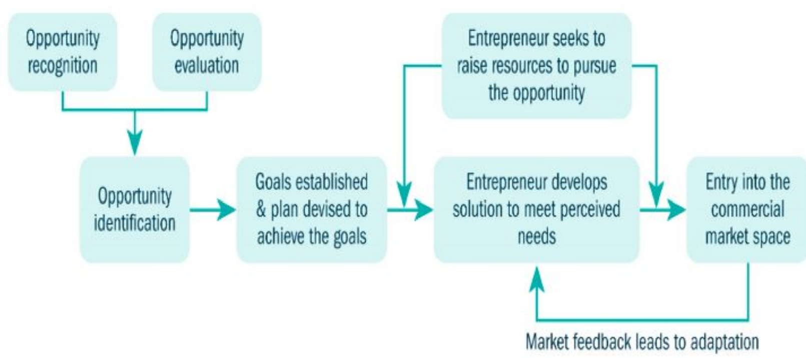



FIGURE 9.3 The role of the entrepreneur in the discovery (or causal) perspective

*Source:* G. Fisher, 'Effectuation, causation, and bricolage: A behavioral comparison of emerging theories in entrepreneurship research', *Entrepreneurship Theory & Practice*, vol. 36, no. 5, 2012, p. 1024.

**The creation perspective**

- Opportunities are created by the actions, reactions and enactment of entrepreneurs, who proactively consider innovative ways of producing new products or services.
- As new stakeholders become involved with the venture brings on board new menas and new goals.

**Key differences between discovery and creation theory**

| TABLE 9.1 Key differences between discovery and creation theory | | |
|---|---|---|
| ASSUMPTION FOCUS | DISCOVERY THEORY | CREATION THEORY |
| Opportunities | Opportunities exist, independent of entrepreneurial actions, just waiting to be discovered and exploited. | Opportunities do not exist until entrepreneurs engage in an iterative process of action and reaction to create them. |
| Entrepreneurs | Discovery of new means-ends relationship. Entrepreneurs actively look for opportunities and they are particularly adept at recognising opportunities (alertness). | Creation of new means-ends relationships. Entrepreneurs may or may not be different than non-entrepreneurs and may be changed by the opportunity formation process. |
| Information conditions | The possession of information that is appropriate to a particular opportunity leads to opportunity discovery. | Opportunities may be unrelated to currently available information. Extensive new knowledge may have to be created from scratch. |
| Entrepreneurial process | Causation: outcome is given. The entrepreneur selects between means to achieve that outcome by starting with ends, analysing expected returns, doing competitive analysis, and controlling the future. | Effectuation: sets of means are given. The entrepreneur selects between possible effects that can be created with those means by starting with means, analysing affordable loss, establishing and leveraging strategic relationships, and leveraging contingencies. |

**The decision to exploit entrepreneurial opportunities**

- The decision to exploit an opportunity depends upon the joint characteristics of the individual and the nature of the opportunity.
- Opportunity cost: the cost of passing up one investment in favour of another.
- A number of techniques are available to assist decisions relating to pursue opportunities:

1. Risk return analysis
2. Real options
3. Affordable loss

**Chapter 11 - Starting an enterprise: the entrepreneurship alternatives**

**11.1 explain the three major issues to consider before going into business**

**11.3 use the ‘6 step’ process to organise your strategy for going into business**

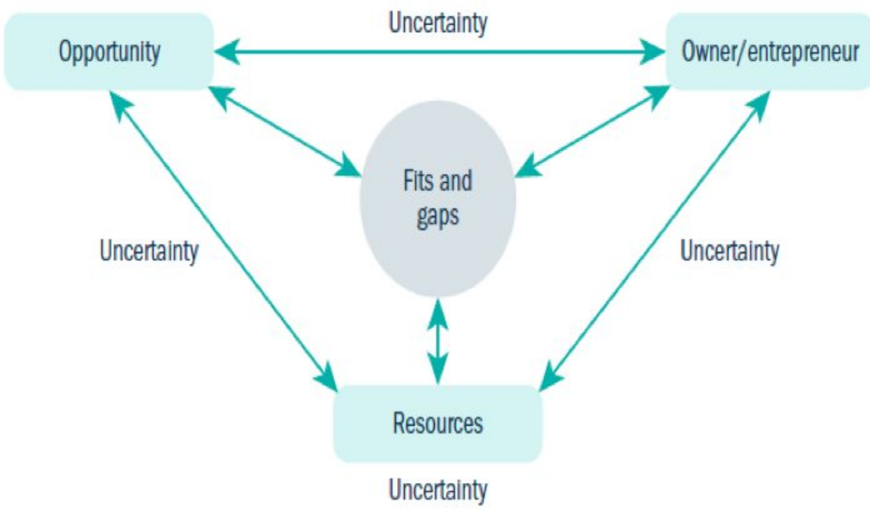
**11.1 issues to consider before going into business**

Three major factors:

1. What are the personal goals and abilities of the owner/ entrepreneur?
   Industry knowledge, enthusiasm, personal freedom, provides job opportunities, make business gross,....
2. What resources are available to the business owner (money, staff, times)?
   Entry cost, exist cost, staff, time,....

3. What is the nature of the business opportunity?
   Different opportunities impose certain constraints - partnership, family business, franchise….

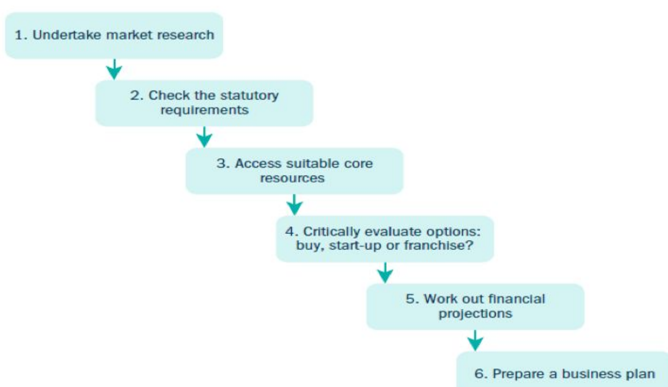
**Three issues to consider before going into business**




## 11.3 Procedural steps when starting a business venture

- The framework provides a structure for evaluating and acting upon an intended project
- Designed to be conducted in a sequential 'lock-step' manner.
- Idea can be aborted before too many resources have been committed to the project

**The process of going into business**




1. Undertake market research
   - determine if the idea is viable

2. Check statutory requirements:
   - can you meet all the regulatory requirements to proceed?
3. Access resources:
   - can you obtain all needed for example: facilities, equipment, insurance?
4. Buy, start or franchise:
   - which will best help you succeed in business?
5. Perform financial projections?
   - is it viable?
6. Prepare a business plan:
   - put your ideas on paper