Industry Study - Structural Factors

Organisation

Businesses fall into either the Public Sector or the Private Sector. Public sector companies are those owned by the government. Private sector businesses are owned by a number of people depending on the type of business entity.

The main types of business entities include: Public Companies,
Private Companies,
Partnerships,
Sole traders, and
Co-operatives.

Public companies usually have 'Ltd.' following the business name. Ltd. means Limited.

- These are companies that are listed on the stock exchange.
- Including Ltd. after the company name shows that shareholders have limited liability.
- A large amount of money can be generated by selling shares.

Private companies have 'Pty. Ltd.' following the business name. These companies are owned by people that have been invited to buy shares in the business. Pty. stands for Proprietary. This shows that the company is private. The Ltd. shows that the company has limited liability.

- This is the most common form of company in Australia.
- These companies may have between 2 and 50 employees.
- People are invited to buy shares by the people that already own the business.
- These companies are not listed on the stock exchange.

Partnerships are generally two to twenty people owning a business together.

- Partnerships allow people with diverse skills to come together and put their area of expertise into the business. This helps to ensure the success of the business.
- Partnership agreements vary depending on the finance put in by each member and/or the participation by each member.

- It is not uncommon for partners to make only a financial contribution and leave the operation of the business to other partners.
- The agreement states how profits will be divided up among the partners.
- All partners are jointly liable if the business fails.

A sole trader is a single person that owns and operates a business.

- This type of business is found in all types of industries.
- The owner is responsible for all aspects of the business, including financing the business.
- The owner may finance the business by borrowing money from a financial institution or by investing their own money.
- If the business fails the owner can lose everything and they are fully liable for any debts incurred by the business. The owner also keeps all of the profits from the business.

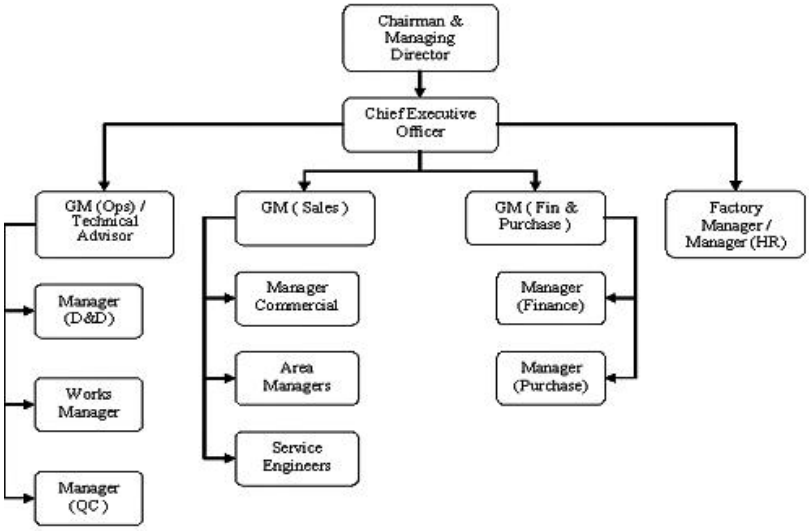
Co-operatives are formed by people with a common interest. For example, dairy farmers joining to form their own distribution chain.

- There must be at least 7 members in the co-operative.

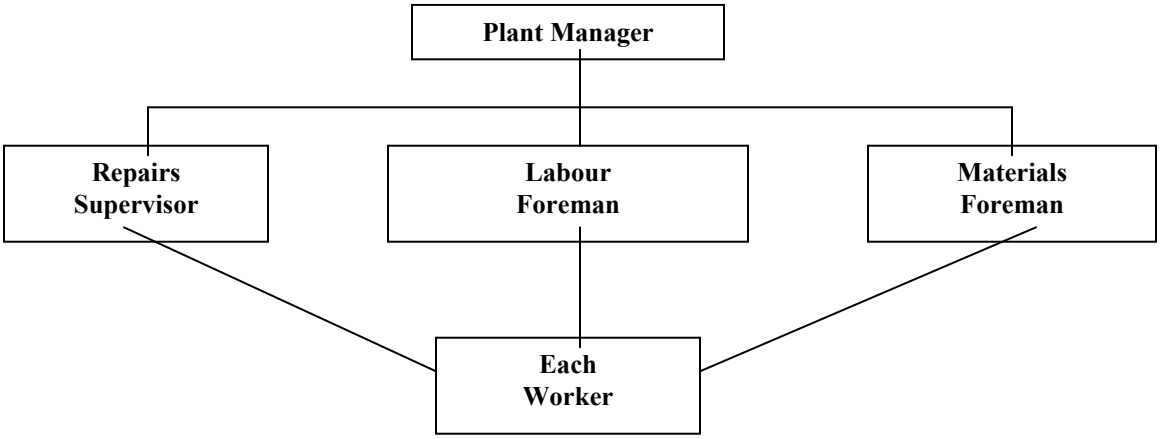
Management Roles & Levels

Management is an important aspect of operating a business. It can be done in a number of ways using a variety of management styles. The more common management structures seen in Australia are described below.

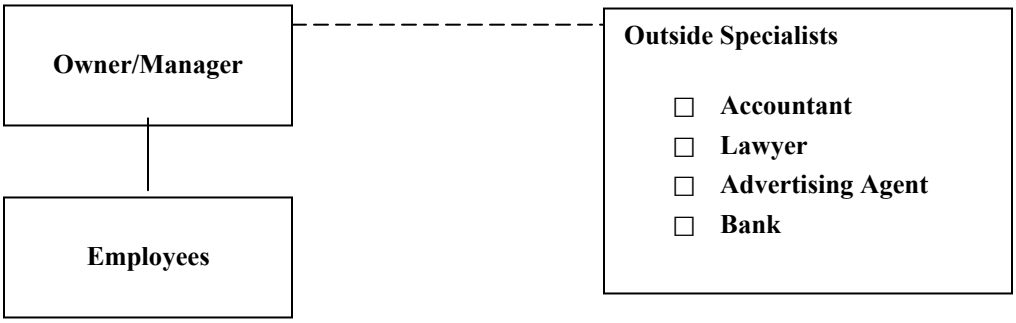
The following diagram would be a typical management structure for a large company. Private companies and public companies may be large enough to a number of departments. Under each department are the individual employees and possibly more levels of management.



This management structure would mostly be used by medium sized (30 –100 employees) businesses, typically in the manufacturing and construction industries.



This is the typical management structure for sole traders, partnerships and some private companies, depending on their size.



Marketing, Advertising & Sales

What is Marketing?

In a business sense, marketing is a total system of business activities designed to plan, price, package, promote and distribute goods and/or services that satisfy the wants and needs of present and potential customers.

A significant portion of the civilian labour force is employed in an area of marketing activities. This includes employees in retailing, wholesaling, transportation, warehousing and the communication industries, as well as people employed in marketing departments of companies.

What is a Market?
A market is a place where buyers and sellers meet, goods or services are offered for sale, and transfer of ownership occurs.

Factors determining the characteristics of a market include:

- Demography – the statistical study of the human population and its distribution.
- Geographic conditions – the physical attributes of the land on which the population lives.
- Economic conditions – people on their own do not make a market. They must have money to spend and be prepared to spend it. The economy of a country or area affects business and non-business organisations alike.
- Social and cultural forces – people and their socio-cultural beliefs are basically what shape the economy, the political and legal systems, and technology.
- Political and legal forces – legislation has a significant affect on the marketing aspect of a business.
- Technology – major technological breakthroughs usually cause one of three dramatic impacts on a market.
    - They can start entirely new industries. E.g. The IT industry.
    - They can radically alter or destroy existing industries. E.g. The impact of television on the radio industry.
    - Stimulate other markets and industries not related to the new technology. E.g. Home appliances and frozen foods give people more spare time away from preparing meals.
- Competition – what is already available and how does it compare to what you are going to offer?

Businesses need to reach the target market and serve it efficiently, profitably and in a socially responsible manner.

What is a Target Market?
A target market is a specific group that an organisation intends to aim its products or services towards as the end users.

When defining the target market a company may take one of two approaches. It may decide that the entire market is going to be the target, and

therefore considered the same over the whole spectrum of the market. This is called 'Market Aggregation'. Or it may segment the market and only aim at certain areas of the market. This is called 'Market Segmentation'. A company will attempt market aggregation when the market is seen to share a similar perception of how a product meets their needs. Market segmentation is the more common practice and may be further broken down into 'Niche Markets'. Niche markets are specialised markets, typically low volume – high profit markets.

'Strategic Marketing Planning' consists of at least four steps.

- Conduct a situational analysis that describes the organisation's existing situation in terms of current products or services offered, target markets, competition, distribution system, promotional methods. It also includes future marketing opportunities.
- Set the marketing objectives.
- Select and analyse the target market.
- Develop a marketing mix that will enable the organisation to satisfy its target markets and achieve it's marketing goals

'Market Research' needs to be carried out to determine the needs of the target market. It can be done in many ways, such as:

- Media research – looking at what people watch, read and listen to determine the best way to reach the target market.
- Short range forecasting – planning the expected outcomes for a product or service over a one-year period.
- Long range forecasting – planning the expected outcomes for a product or service over a period longer than one year. This would usually include a full analysis of the expected product life cycle.
- Study of market trends – to decide what should be offered, how it should be offered, and its expected life span in the market.
- Break even analysis.
- Location studies – showing where costs are incurred, how areas work together and where products or services may be sold.
- Export potential – what is available overseas? Patents, copyrights and trademarks. Feasibility of a product being exported for a profit.
- Environmental impact of the product or service.
- Social and cultural values concerning the product or service.
- Competition – what is already there? Can the competition be overcome and how?

- Testing of existing products – either your own or those by another company.
- Packaging concerns.
- Measuring the market potential – how big is it? How big can it get? How long will it last?
- Market share analysis – how much do we need? How much is easily available? Competition?

Suppliers and Intermediaries are vital parts of the marketing sector. The product or service cannot be offered without the appropriate materials required for the manufacture of a product or the items required to follow through on a service. Intermediaries are people and organisations outside of the business that directly aid in the flow of goods and services from the manufacturer to the consumer. This includes wholesalers and facilitating organisations. The facilitating organisations include transportation, warehousing, financing and other support services.

The Marketing Mix
The Marketing Mix consists of the five Ps.

Product – the product or service being offered. How does it satisfy the needs of the target market? What are the features of this product or service? Can it be improved? What stage of the product life cycle is this product at?

Price – is determined by an analysis of the total costs involved in the production of a product or service, including: manufacturing, materials, advertising, labour costs, distribution costs, etc. External factors such as demand for the product, competitor reactions and target share of the market also affect the price. The easiest way to determine the selling price is to conduct a break-even analysis.

Place – is where the product or service is to be sold. This will be a reflection of the target market. Selling places may include: supermarkets, convenience stores, superstores, door-to-door selling, mail order selling, automatic vending machines, etc.

Packaging – how will the product be contained? Packaging must be done very carefully because of environmental concerns. It can also be used to distinguish between other products or even inspire people to buy the product just for the packaging.

Promotion – how the product is advertised. It can be done in print media, television, radio, the Internet, displays, etc.

The 'Product Life Cycle' consists of:

- Introduction - the initial introduction of the product to the market.
- Growth - sales and market share grow over a period of time.
- Maturity - sales and market share plateau and stabilise.
- Decline - sales fall and profits are no longer being produced. From this step the product may be refined and reintroduced to the market or production of the product will stop.

Brand names help the consumer to identify a product and the manufacturer to advertise their product. Brand names, over time will develop goodwill if they consistently produce good quality products. This goodwill means that the company can increase the selling price because people are prepared to pay for a brand name. This increases the company's profits because the input costs of the product are not increasing.

A Break-even Analysis helps to show graphically at what stage a company will begin to make a profit. It takes into account the fixed costs of production, variable costs, and the number of items being produced to determine the number of items that need to be made to break even. Hopefully, any quantity of products over this amount will result in a profit.

Production & Efficiency

Production is the creation or manufacture a man-made product. This may include furniture, motor vehicles, electronic devices, house plans. The production process for each item will be different depending on factors such as the materials available, technology availability, knowledge of the manufacturer, time and finances available.

Efficiency within a business is generally an area that is continually being improved upon, not necessarily by introducing new pieces of equipment, but also by introducing new processes such as Key Performance Indicators, Process Mapping and staff training.

Workplace Environment
The workplace environment is a significant factor in determining the level of productivity displayed by an employee. It affects their safety, their motivation to work and the quality and accuracy of work they can produce. An employee's level of innovation, group work performance, absenteeism and, ultimately, how long they stay in the job.

Restructuring
Restructuring involves making a significant modification to the debt, operations or structure of a company. This is usually done when there are significant problems in a company, usually financial, which are damaging the business and putting the overall business in jeopardy. The idea behind restructuring is that by going through this process, a business can eliminate financial harm and improve.

Quality Control
Quality control is carried out because consumers do not want a product that is not of suitable quality and to save a business money. A product that is reliable, durable and works properly is usually of good quality. Having a product that is consistently the same high quality will make customers want to keep on buying that product.

Having a high quality product allows the manufacturer to charge the consumer a premium price for the product. If the product is of high quality then the manufacturer has less to worry about in terms of recalls and failures of the products, thereby saving money. The term 'kaizen' is used to refer to the processes of continuous improvement in all aspects of production.

Manufacturing quality can be checked during the manufacturing process by taking a batch (batch checking) or even just one product (spot checking) and making sure that the quality is up to the standards that the company expects at this stage of production. Quality can also be checked at the end of the manufacturing process by testing the finished product.

Quality control is not just about checking the manufacturing process. The quality of materials needs to be high as well, or a high quality finished product cannot be obtained.

All equipment and tools need to be in good working order or they may not make the product to the desired outcomes. Tool and equipment maintenance is very important in quality control.

The skills of staff must also be taken into account. If they are not trained properly then they cannot ensure that the product will be of the highest standard.

All of these checks are usually done against standards called ‘benchmarks’.

Review Questions – Industry Study – Structural Factors

1. Name five business types or entities.

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2. What type of business is the company studied for the Industry Study?

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3. Think of two examples for each type of business and write down the business name.

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4. What is a Benchmark?

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