PRELIMINARY BUSINESS STUDIES

Nature of Business

TOPIC

Stakeholders, legal structures, business environment and the business life cycle

Learning intention

We are learning what business is, why it matters to Australia, and how businesses are classified, structured and influenced by the world around them.

Success criteria - I can:

- **I can explain the role and importance of business in the economy and society.**
- **I can classify a business by industry, size, sector and legal structure.**
- **I can identify a business's stakeholders and describe its goals.**
- **I can explain how internal and external factors influence a business.**
- **I can describe the stages of the business life cycle and why businesses grow or decline.**

Part 1

What is business, and why does it matter?

What is business?

A business is any organisation that produces and sells goods or services to meet the needs and wants of the community.

1

BUY AND SELL

At its simplest, business is an exchange - a seller offers something, a buyer pays for it.

2

PRODUCTION

Businesses turn raw materials, labour and ideas into something people want to use or consume.

3

PURPOSE

Most businesses aim to make a profit, though some (like charities or co-operatives) exist for a social purpose instead.

4

EVERYDAY LIFE

From the corner cafe to a mining company, business touches almost everything we do.

The role and importance of business (1 of 2)

Business does far more than sell things – it shapes the economy and the community around it.

1

ENTERPRISE

People with an idea take a risk to turn it into a business, e.g. a founder launching a new product or service.

2

INNOVATION

Businesses compete by developing better products - Cochlear's bionic ear is a well-known Australian example.

3

EMPLOYMENT

Businesses of every size are major employers - from large firms to thousands of small local businesses.

4

PRODUCTS

Business supplies almost everything we buy and use, from groceries to healthcare to entertainment.

The role and importance of business (2 of 2)

Government, wealth and quality of life all depend heavily on a healthy business sector.

1

TAX REVENUE

Company tax, GST and payroll tax collected from businesses fund schools, hospitals and infrastructure.

2

WEALTH CREATION

Business activity generates income for owners, employees, shareholders and suppliers.

3

QUALITY OF LIFE

Products and services businesses create make daily life easier, healthier and more enjoyable.

4

CHOICE

Competition between businesses gives consumers a choice of price, quality and features.

Task: business roles close to home

Pick a local business you know well (a cafe, a surf shop, a tradie, a hairdresser, anything). For each of the 8 roles on the last two slides, write one sentence explaining how your business fulfils it. Not every business will fit every role strongly - that's fine, just explain your thinking.

Task: choose a local business and match it against the 8 roles. Next slide has some sample answers to compare against.

Sample answers – business roles

Entrepreneur

A local cafe owner who spotted a gap for good coffee in the area and took the financial risk to open up.

Innovation

A surf shop that started selling its own recycled-material boardshorts to stand out from bigger retailers.

Employment

A hairdresser employing three stylists and an apprentice, plus a bookkeeper on contract.

Choice

A tradie competing on price and turnaround time against three other local electricians.

Part 2

Stakeholders

Who are a business's stakeholders?

A stakeholder is any person or group with an interest in how a business performs – because its success or failure affects them too.

1

CUSTOMERS

Customers want quality and value; owners want a return on what they've invested too.

2

EMPLOYEES

Employees rely on the business for income; suppliers rely on it for orders and payment too.

3

CREDITORS

Creditors want loans repaid; government wants tax paid and laws followed too.

4

SOCIETY

The wider community feels the flow-on effects; competitors watch and react to what the business does too.

Internal vs external stakeholders

Internal stakeholders

- Owners / shareholders
- Managers
- Employees

External stakeholders

- Customers
- Suppliers
- Creditors (lenders)
- Government
- The wider community
- Competitors

Task: map the stakeholders

1. Choose a business you know (local or national).
2. List every stakeholder group you can think of for that business.
3. Sort your list into internal and external stakeholders.
4. For two of them, explain what they want from the business and why.

Part 3

Classifying business

How is a business classified?

Every business can be classified in four different ways at once – they're not alternatives, they all apply together.

1

INDUSTRY

What the business actually does - e.g. mining, retail, finance, construction.

2

SIZE

Micro, small, medium or large - usually measured by staff numbers or revenue.

3

INDUSTRY SECTOR

Primary, secondary, tertiary, quaternary or quinary.

4

LEGAL STRUCTURE

Sole trader, partnership, private company, public company or government business enterprise.

Classifying by reach: local, national or global

Every business also operates at one of three different scales – and that shapes how much outside events affect it.

1

LOCAL

Serves a single suburb, town or region, e.g. a corner cafe or local tradie.

2

NATIONAL

Operates across Australia, e.g. Woolworths or Telstra.

3

GLOBAL

Operates in multiple countries, e.g. Apple or BHP.

Task: going global

Research two real businesses: (1) one Australian business that has expanded overseas - outline how and why it went global. (2) one global business that has expanded into Australia - outline how and why it entered the Australian market.

Task: research one example of each, then present your findings as a short written summary or a one-minute pair share.

Task: industry sectors – your best guess

Before we define them: primary, secondary, tertiary, quaternary and quinary industries. In pairs, guess what each sector actually covers, and try to think of one Australian example for each.

Task: write your five guesses down. Next slide has the real definitions to check yourself against.

Industry sectors – the definitions

Primary

Extracting or growing raw materials. Farming, mining, fishing, forestry.

Secondary

Processing raw materials into finished goods. Manufacturing cars, food processing, clothing production.

Tertiary

Distributing goods and providing services. Retail, hairdressing, travel agents, supermarkets.

Industry sectors – the definitions (cont.)

Quaternary

Information-based services. Teaching, journalism, banking, IT and research.

Quinary

Household and personal services. Child care, aged care, cleaning services, hospitality.

Why the tertiary, quaternary and quinary sectors have grown

- **Australia's economy has shifted heavily toward services over the past few decades.**
- **Technology has created entirely new information-based industries that didn't exist a generation ago.**
- **Rising incomes mean more households pay for services they once did themselves, like child care or cleaning.**
- **Government policy - deregulation, trade agreements, education and training investment - has supported this shift.**

Discuss: What might this mean for the kinds of jobs available when you leave school?

Part 4

Legal structures

Legal structures – the options

Choosing a legal structure affects how much control an owner has, how the business is taxed, and how much personal risk the owner carries.

1

SOLE TRADER

One person owns and runs the business - the simplest structure.

2

PARTNERSHIP

Two or more people share ownership, profit and responsibility.

3

PRIVATE COMPANY

Shares held privately, limited liability, up to 50 shareholders.

4

PUBLIC COMPANY

Shares can be bought by anyone, usually listed on the ASX.

Sole trader

ADVANTAGES

Easy and cheap to set up. Owner keeps all profit. Full control over decisions.

DISADVANTAGES

Unlimited liability - personally responsible for all business debts. Hard to raise finance.

Partnership

ADVANTAGES

More skills, ideas and capital than a sole trader. Shared workload and shared risk.

DISADVANTAGES

Partners still usually have unlimited liability, and disagreements between partners can be costly.

Private and public companies

PRIVATE COMPANY (PTY LTD)

Limited liability protects owners. Shares stay private - up to 50 shareholders.

PUBLIC COMPANY (LTD)

Can raise large amounts of capital on the ASX, but must meet strict reporting rules.

Government business enterprises

- A government business enterprise (GBE) is owned and run by government, but operates like a business.

- GBEs still aim to be efficient and often need to cover their own costs, even though government owns them.

- Examples in Australia include Australia Post and state-owned utilities such as water and electricity network businesses.

- Some former GBEs have been fully or partly privatised over the years, such as Telstra and the Commonwealth Bank.

Debate: is privatisation a good idea?

Privatisation is when a government-owned business is sold into private ownership. Supporters argue it improves efficiency and reduces the cost to taxpayers. Critics argue essential services should stay in public hands so profit doesn't come before the public interest.

Task: split into two teams. One argues for privatisation, one against. Use a real or recent Australian example to support your case.

Choosing a legal structure

There's no single 'best' structure – the right choice depends on the business's circumstances.

1

SIZE

A larger operation with bigger risks usually needs the liability protection a company structure gives.

2

OWNERSHIP

How many people want to own and control the business, and how much say each of them wants.

3

FINANCE

How much capital the business needs, and whether it needs to raise money from outside investors.

Task: pick a structure and justify it

1. In pairs, invent a simple business idea (a food truck, a tutoring service, a landscaping business).
2. Decide which legal structure suits it best.
3. Justify your choice using size, ownership and finance.
4. Be ready to defend your choice if the class challenges it.

Part 5

Influences in the business environment

External influences on business (1 of 2)

External influences come from outside the business, and it usually has little or no control over them.

1

ECONOMIC

Interest rates, inflation and economic growth affect what customers can spend and what things cost to make.

2

FINANCIAL

The cost and availability of finance shapes what a business can afford to do.

3

GEOGRAPHIC

Location, demographics, and changing customer attitudes and lifestyles.

4

SOCIAL

Changing community values, trends and expectations shape what customers want and how a business should behave.

External influences on business (2 of 2)

The rest of the external influences a business has to work within or respond to.

1

LEGAL & POLITICAL

Laws, regulations and government policy the business must comply with.

2

INSTITUTIONAL

Rules set by regulators and industry bodies, e.g. ASIC or the ASX for companies.

3

TECHNOLOGICAL

New technology reshaping how business is done - new equipment, systems and ways of reaching customers.

4

MARKETS

The competitive situation - rival businesses, and shifts in the markets a business sells into.

Internal influences on business

Internal influences come from within the business, so it generally has more direct control over them.

1

PRODUCTS

What the business makes or offers, and how it is designed and priced.

2

LOCATION

Where the business operates from, and the staff, equipment and funds it has to work with.

3

MANAGEMENT

How decisions get made, and the values and working style of the business.

4

STAKEHOLDERS

The expectations of owners, staff and other groups the business has to balance internally.

Writing task: internal or external - which matters more?

1. You have 10 minutes.
2. Answer: are internal or external factors more influential on a business's success?
3. Give reasons for your answer.
4. Support your argument with at least one real business example.

Task: influences on a real local business

Select a small business you know. List the internal and external factors that affect how it operates day to day - think about its location, its competitors, the laws it has to follow, and the way it's managed.

Task: sort your list into internal and external factors, then note which ones the business could actually change.

Part 6

Business growth and decline

The business life cycle

Most businesses move through four broad phases of development, each with its own challenges.

1

ESTABLISHMENT

The business launches. Costs are high, revenue is uncertain, and profits are often negative.

2

GROWTH

Sales rise quickly. Cash flow and capacity come under pressure, and competitors start to react.

3

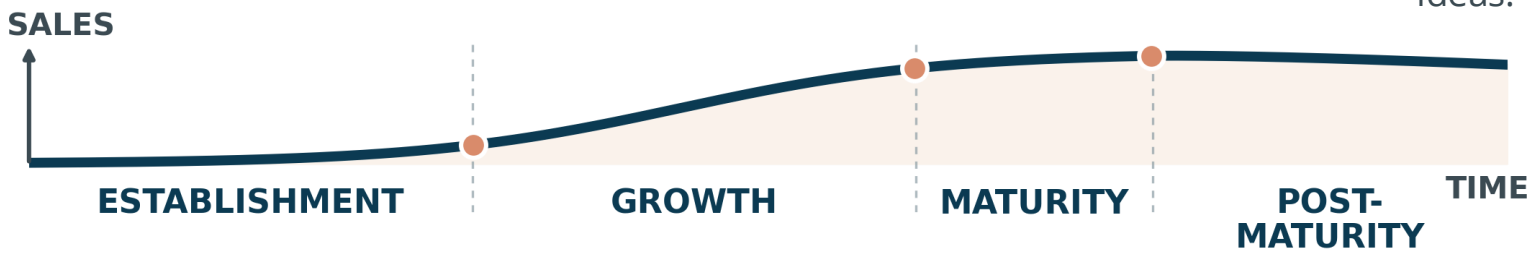
MATURITY

Sales growth levels off as the market becomes saturated. Managing costs and staying competitive matters most.

4

POST-MATURITY

Sales and market share may fall. The business must either cut costs and hold its position, or renew itself with new products or ideas.



1. Establishment phase

- Key decisions have to be made early: location, staffing, management structure, suppliers.
- Retailers and lenders are often cautious about a business with no track record yet.
- Expenses are typically higher than revenue in this phase, so profits are often negative at first.
- The idea behind the business needs to be realistic and sustainable, not just original.

2. Growth phase

- Sales increase rapidly, which puts pressure on staff, stock and systems.

- Cash flow problems can develop even while sales are growing, because expansion costs money upfront.

- Competitors take notice of the growing business and react - often by cutting prices or improving their own offer.

- Good businesses plan ahead for growth rather than being caught out by it.

3. Maturity phase

- Sales growth levels off as the market for the product becomes saturated.
- Professional managers are often brought in for the skills needed to keep a mature business competitive.
- Cost control becomes a bigger focus, since rapid growth is no longer the main game.
- Businesses may look for new markets or product improvements to avoid stalling completely.

4. Post-maturity phase

- Sales and market share start falling, often because the business hasn't kept up with competitors or changing customer needs.

- Cash flow problems can return, making it harder to pay bills on time.

- One option is cost cutting, to protect what market position remains.

- The other option is renewal - developing new products or a more competitive way of delivering value to customers.

Task: graph the business life cycle

1. Sketch or build a graph of sales over time showing all four phases.
2. Label the key challenge at each stage.
3. Plot two or three real businesses you know onto the graph, at the stage you think they're at.
4. Justify your placement for at least one of them.

Case study: why businesses decline

Business failure is rarely one single cause - it's usually a combination of factors: poor cash flow management, too much debt, losing touch with what customers want, or a failure to respond to new competition. Large Australian company collapses from the past give real examples of these factors combining.

Task: research one well-known Australian business collapse and identify at least three factors that contributed to its failure.

Voluntary vs involuntary cessation

VOLUNTARY CESSATION

The owner chooses to close - for example retirement, selling up, or a new venture.

INVOLUNTARY CESSATION

The business is forced to close - it becomes insolvent and creditors force liquidation.

Debate: is liquidation an easy way out?

Some argue liquidation lets owners walk away from their debts too easily. Others argue liquidation is a heavily regulated last resort, not an easy option, and it protects creditors and employees by winding things up fairly.

Task: split into for and against teams.

Use what you know about limited liability and creditor rights to build your case.