

# The Importance of Business



## **1. Define the term value chain.**

Value chain is the concept that value is added at each stage of production, that is, as the raw materials are transformed into the finished product.

## **2. Identify the main benefits that business generates in Australia.**

In Australia, businesses are a major source of technological change and innovation. They provide employment for many Australians and are the basis of the nation's economic success. Furthermore, businesses provide the opportunity for individuals to become entrepreneurs and foster their own business success.

## **3. Outline how the Australian Bureau of Statistics (ABS) distinguishes between large, medium and small businesses.**

Those businesses with the following characteristics are classified as small businesses:

Less than 20 employees for non-manufacturing business.

Less than 100 employees for a manufacturing business.

Most of the capital is contributed by the owners who are largely responsible in the decision making process.

Where a business employs between 20 and 99 employees, the business is classified as a medium-sized business.

Any business with 100 or more employees is a large business.

## **4. Discuss the importance of small business to the Australian economy and society.**

Small businesses have a dominant influence on the Australian economy and society. While many people only think of large businesses as contributing to the Australian economy, it is the small business sector that is the backbone of the Australian economy and society. With just over a million small private sector businesses currently operating in Australia, they are responsible for the employment of approximately 3.5 million people. Aside from creating jobs, small businesses help to increase the national income, living standards, increase exports, contribute to the growth of specific regions and strengthen local communities. Small businesses also promote innovation and entrepreneurship in society.

## **5. Explain why increasing market share would be an important goal for most businesses.**

Market share refers to the percentage of total sales of a product sold by a business, in a given market, during a set period of time. For many businesses, increasing market share is an important goal and is typically associated with an increase in long term profitability. Price cuts and increased advertising costs necessary to gain a larger market share may affect the short term profits of the business.

**6. Describe some of the main benefits that flow from business growth.**

Growth involves expanding market share and increasing profits. As they increase output, businesses are often able to become more efficient in their production and reduce costs for each unit of output. Initially, businesses are required a large capital outlay to cover fixed costs such as premises, equipment, insurance, fit out and furnishings. By increasing the number of units produced, businesses are capable of spreading costs across its production. As a result, the cost of increasing production lowers and thus each unit will cost less. This increase in production can allow businesses to acquire raw materials in bulk and hence at a reduced cost. It allows the business to become more specialised in its production process, and invest in research and development. This can lead to innovation, improved quality, further cost reductions and, in the long run, improved profitability. If a business has a goal of growth, it can focus on increasing market share in its current line of business, or it can diversify into other areas of business.

**7. Outline what is meant by the stakeholders of a business. Explain how a business takes the interests of its stakeholders into account in decision making.**

An individual or group of people affected by the activities of a business are known as the stakeholders. The stakeholders of a business include the owners (investors), customers, employees and managers, community (including the environment) and suppliers, as all of these groups are affected by decisions made by the business. To have continued success, a business must take into account the interests of its stakeholders. For example, changing production techniques might increase profits for owners but cause tension amongst employees and management, and even create issues within the community. By failing to consider all of the reactions of stakeholders to this decision, a business may find that it loses valuable employees and the goodwill of the community, ultimately leading to a fall in profits.

**8. 'Business decisions can impact on stakeholders.' Discuss the likely effects on four stakeholders of a merger between two major airlines.**

A merger can affect shareholders (owners), managers, employees and customers. A merger will often see more efficient work practices and thus greater returns to investors; however, if customers are concerned about the merger they might not fly with the airline anymore and that will see a fall in profits. Managers will be affected by possible duplication of managerial positions. Inevitably, some managers will be made redundant, whilst remaining managers will have increased roles and responsibilities. Duplication of jobs will also see the need to retrench some employees. Employees and managers will be subject to a clash of business cultures. The values, beliefs and attitudes of the two merging businesses may cause tension. Customers will also be affected by the availability of services offered by the merged business. Consumer choices may be limited, due to a contraction of airline services and economies of scale. Suppliers may find that orders from the new business are less than those received from when there were two businesses. The community might suffer from the loss of jobs and employment opportunities caused by the merger.