

# BUSINESS: THE BIG PICTURE



## Multiple choice

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|------|-------|-------|-------|
| 1. C | 6. B  | 11. A | 16. B |
| 2. B | 7. A  | 12. A | 17. D |
| 3. D | 8. D  | 13. D | 18. B |
| 4. C | 9. B  | 14. A | 19. C |
| 5. B | 10. C | 15. A | 20. D |

## Matching terms

The process whereby value is added to products as raw materials are transformed into finished items	<b>Value chain</b>
A business employing less than 20 people, where the principal decision making is vested with the independent owners	<b>Small business</b>
Non-financial goals of a business that are often of benefit to employees or the wider community	<b>Social goals</b>
The percentage of total sales of a product sold by a business, in a given market, during a set period of time	<b>Market share</b>
The process of coordinating all of the aspects of planning and organising in a business	<b>Business management</b>
The four distinct stages experienced by a business: establishment, growth, maturity and post maturity	<b>Business life cycle</b>
The community of people affected by the activities of a business	<b>Stakeholders</b>
The values underlying decisions and actions of a business, which affect the choices that businesses make	<b>Business ethics</b>
The cessation of a business resulting from the free decision of its owner	<b>Voluntary closure</b>
The cessation of a business that occurs when the failure of a business forces the owner to cease trading	<b>Involuntary closure</b>

# Short answers

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## Question 1

- (a) Dick Smith Foods' mission statement suggests its main goal may be a social goal, rather than profit maximisation. The mission statement shows the company's commitment to producing their goods in Australia and maintaining their Australian ownership. These social goals could be in conflict with a profit maximisation goal as it could be cheaper to produce overseas and the company could raise further capital for investment by selling shares to overseas investors.
- (b) Financial goals such as profit maximisation are often in conflict with social goals such as maximising employee welfare. Although a business may wish to maintain high wages and generous additional benefits for its staff, the high cost of this strategy conflicts with the profit maximisation goal. The business must balance its social goals with the knowledge that profit could be maximised by minimising staff wages and benefits.

## Question 2

- (a) Stakeholders are the community of people affected by the activities of the business. They include such people as management, customers and employees.
- (b) Stakeholder 1: Employees - The closure of the NSW operations would adversely affect Greedy Mines' staff as workers will lose their jobs. Many will suffer lower living standards as their incomes fall and the community will also suffer from lost business associated with the company's operations in the region.

Stakeholder 2: Management: Company management may have performance bonuses built into their remuneration packages, based on company profit levels. The move to the international mining venture could mean increased profits for the company and thus increased wealth for management.

- (c) The environmental degradation caused by many mining companies can be quite severe. If the company is trying to maximise profits it could be tempted to close its NSW operations at the lowest cost possible. The ethical dilemma faced by the company would be whether to spend extra funds to rejuvenate the surrounding environment of closed mines (possibly at a high cost), thereby minimising the long-term environmental impact of its operations.

## Question 3

- (a) Budgeting: Without experience in running a business, Jacob and Yoshi will have to be careful not to over-extend the business's finances. Budgeting would allow the pair to estimate future income from their production work. This would tell them how much they could spend on production equipment and ensure they leave adequate cash in the business accounts to cover upcoming expenses.
- (b) Problem 1: High set-up costs - Film production equipment is not cheap. The equipment needed to run the production company may extend their finances beyond what they can afford.

Problem 2: Obtaining finance - Without an established business reputation, the pair might find it difficult to obtain the necessary funds to establish the business. They may have to use personal assets such as their homes as collateral for a loan.

- (c) Solution 1: As the business grows, cost saving advantages will be gained from the business size. The cost of the equipment and premises etc. can be spread across a greater number of customers and projects, thereby increasing profits. The business should try to expand into areas where the existing equipment can be used, rather than having to invest in new equipment all the time.

Solution 2: As the business grows it will establish a better reputation and find it far easier to obtain debt finance, as well as increasing the chances of attracting an investor to inject funds into the business. Also, as the business grows and makes a profit, remaining funds can be used for new investments rather than having to borrow the full amount needed for new ventures.