

# Business Growth and Decline



You know about these ideas already! Try this introductory activity!



### Activities

Work with a partner to show your understanding of the human life cycle. What are the stages in the cycle? What are the characteristics and features of each stage? What are the challenges that have to be overcome or learned in each stage?

4.1

An example of a cycle:

Life Cycle of a

Caterpillar

1 Egg

2 Caterpillar

3 Pupa

4 Butterfly

One of the most important influences on the success or failure of a business is the way it is managed through its life cycle. The **business life cycle** refers to the series of predictable phases businesses experience as they develop. Each phase presents a number of management challenges that must be overcome before the business proceeds to the next phase.

## Stages of the business life cycle

Typically a business evolves through four major stages of development. The four stages are establishment, growth, maturity and post-maturity. Each phase, or stage of development, is characterised by a number of features that seem to be common to most businesses and need to be carefully managed.

### Establishment

The **establishment stage** is when a business is launched. Before we give you any detail on establishing a business, work in small groups to find out how much you already know about the difficulties associated with launching a business.

Most people establishing manufacturing businesses (such as the computer games business) will put in a lot of effort convincing retailers to try their product.



**Establishment stage is when the business is launched**

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### Activities

Imagine you have developed a new computer game. You have discussed it with your friends and they all agree that it is exciting and addictive and that the graphics are fantastic. They all say they would buy the product if it were available in shops.

You have a choice. You could possibly sell it to a games manufacturer such as Sony. Sony would manufacture the game and distribute it to computer games retailers throughout the world. Sony would pay you a small royalty (about 5 – 10% of the recommended retail price) for each game sold. The other alternative is to establish your own business to produce and distribute the game. You will need to buy equipment, such as commercial disc-copying machines, and premises to take phone calls, keep records and stock and manufacture the games discs. The major problem, of course, is that the only potential customers who know about the game are your friends.

Nevertheless you decide to establish your own business and give up school to work full time on establishing the business.

**Group responses**

Think about your responses to the following questions. Jot down your ideas and discuss them with the other people in the group.

1. Where will you get the money for things like machinery, telephone, premises and living expenses until the business takes off?
2. How will you let customers know that you have this product and how great the product is? Remember you will need to sell thousands of discs, not just a few to your friends.
3. How will you distribute the product to the final customer?
4. How long do you think it will be before potential customers know about the product and you start to sell enough games discs to cover your expenses?

The establishment stage can be very difficult. Even though the owner has tremendous faith in the product, potential customers are not familiar with it and will be reluctant to purchase it. Retailers will also be reluctant to put it on their shelves, because it has no track record. The retailer expects a return from each metre of shelf space and would much prefer products on the shelves that have a track record of a certain value of sales. It will take time to establish the product.

During this time when it is hard to sell products, costs, or expenses, will be high. It is not just the costs of the machinery and the premises. One of the most important expenses will be the promotion that is needed to tell both final customers and retailers that your business exists and that you have products that will meet their needs.

4.2


It might be possible, for example, to convince a retail chain such as EBE Games to try some free samples (free to the store) and display some posters called 'point of sale advertising'. It might be possible to send free samples to industry magazines to assess the product and write about it. When Krispy Kreme Donuts established their business at Penrith a few years ago, they offered free samples to all customers for a couple of days. Cars were lined up along several streets.

One of the most important features of the establishment phase is that it is typically a stage when expenses are higher than sales revenue. Sales revenue is the total amount of money received from selling products. It is calculated by multiplying the price by the quantity sold. The establishment phase is characterised by negative profits. In other words, the typical business loses money in the establishment stage.

**Think, Pair, Share**

In the light of this information would you make changes to your ideas on establishing the computer games business? Would it be better to stay at school? Jot down your ideas and discuss them with a friend.

4.3

 **Establishment stage typically involves expenses higher than revenue**



## Growth

The **growth stage** is characterised by a rapid increase in sales. This is because customers are more aware of the business and now know it has products that meet their needs. The growth stage requires careful management to meet a number of challenges.

The rapid increase in sales puts pressure on resources. The phone is constantly ringing. Customers are placing orders for stock. Stock is being packed for distribution to customers. There can be communication breakdowns as several people sometimes try to solve the same problem.

Cash problems often develop. This is because of the rapid expansion. Suppliers are reluctant to advance too much credit because they do not have a track record with the business. More people are needed to do the work and this means a higher wages bill. Often the result is a cash flow crisis where money has to be paid out as wages and payments to suppliers before it comes into the business as payments for sales to customers. There is a time lag because customers, who are usually retailers, will take full advantage of the credit terms offered to them.

Another important feature of the growth stage is that competitors will be attracted by the rapid increase in sales. The most effective way of dealing with competitors is by building a brand and promoting the brand, rather than just the products.



**Growth is**  
characterised by a rapid  
increase in sales

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**Think, Pair, Share**

Do you have an iPhone? Do you think Apple Inc. would face the same growth problems as a business just established? Jot down your ideas and discuss them with a friend.

4.4



Case Study

*Using Australian business to illustrate the concept of the growth stage*

Preshafood Limited introduced its products in 2007. Using the technology it has picked and our juice claim 'Preshafood retains nutrients like fruit and juices'.

The initial product was a commercial product. Food Science Australia and the Food Science Centre. Food Australia is a joint venture between the CSIRO and the Victorian government. They were able to find a way of processing fruit using pressurised cold rather than cooking, heating or other techniques. This technique is called High Pressure Processing (HPP).

In the establishment phase of the business life cycle, Preshafood used High Pressure Processing (HPP) for food processing facilities in Derrimut in Melbourne.

The first commercial products were apricot, peach and apple. A range of fruit juices was developed. The fruit juice business grew rapidly. In 2009 Preshafood was acquired by International Beverage Group in Germany. Preshafood is now 'Preshafood or Juice Drink' and 'Concept'.



The Beverage Innovation Awards are the Oscars equivalent for the beverage industry, and Preshafood beat many of the global giants such as Pepsi and Coca-Cola. It was a remarkable achievement for a small start-up Australian company and indicates the

Image: Courtesy of Preshafood Ltd.

Preshafruit® juice contains 100% fruit with no added sugar, sweeteners or colours. The juice contains twice the antioxidants of regular juice and comes in an innovative triangle shaped bottle.

business is a 'significant player' in a very competitive market. Preshafruit® juices are mainly distributed through Woolworths and Safeway stores. Already the business is in global markets, with exports to Singapore and Hong Kong. Preshafruit is currently making arrangements to export to Japan, the United States, Canada and Europe.

The rapid growth is putting enormous pressure on a small staff, cash flow and equipment. For this reason the business is raising additional capital on the Australian Small Scale Offerings Board (ASSOB) to cover the cost of the additional equipment and particularly to get more working capital to deal with potential cash flow difficulties. You may recall, from an earlier case study, the ASSOB showcases investment opportunities in early stage, high growth unlisted companies. It brings together people with surplus money who want to invest and businesses growing rapidly that need additional funds to grow further. In this sense it is similar to the Australian Stock Exchange (ASX) but is focused on a different type of investor and business.

Working capital is always a problem in the growth stage. **Working capital** is the money needed for the day-to-day operation of the business. When Preshafood Limited sell the product to Woolworths, an invoice is sent with the goods. The invoice sets out the conditions of the sale, the price and quantity of stock and when the bill is to be paid. Working capital is the buffer between the need to pay suppliers and wages and the time when customers such as Woolworths pay the bill.



Image: Courtesy of Preshafood Ltd.

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4.5

## Maturity

In the maturity stage the growth in sales levels off. The business is selling the same value of products year after year. The reason for this is simply that the market for the product is saturated. After a time, for example, everyone who wants a plasma television set has one. The only sales will be made to people who are replacing sets that are worn out. Businesses that rely on products in the maturity stage must develop new ways to grow the value of their business. An example of a business in the maturity stage is Sanitarium, which relies on the product Weetbix.



Sales level off in the maturity stage



Think, Pair, Share

Jot down the advice you would give to Sanitarium management to increase sales. Suggest 4 other businesses you think are in the maturity stage.

4.6



The maturity stage is the time to employ professional managers. This is because professional managers have the skills to grow the value of the business by making the business more competitive. A more competitive business will attract customers from other businesses because it is offering cheaper products or providing customers with additional benefits. The result is increased share of the market and this grows the value of the business. Where managers are successful in this, as, for example, Roger Corbett with Woolworths, the business's share price increases. The increased share price reflects the growth in the value of the business.

One of the most effective ways to increase the competitive position of a business in the maturity stage is to cut costs. Professional managers will carefully examine every aspect of the value chain, seeking to cut costs. The value chain is a central idea in business that every single activity in a business should add value to the final good or service that the business produces. Woolworths achieved most of their cost cutting in the warehouse and distribution aspects of their business. It made them very competitive compared to Coles and Coles' customers started to shop at Woolworths.

Other businesses have successfully grown the value of the business while in the maturity phase by diversifying. **Diversifying** means to develop new products. Fosters, for example, moved into wine when the beer market matured. Again, this strategy needs professional managers, because there are risks associated with the markets in which these new products will be sold. This is mainly because the managers are not experienced in these markets. The markets for beer and wine, for example, are very different, and Fosters was forced to separate the beer and wine units in 2010.



### Think, Pair, Share

In what ways are the beer and wine markets different? Jot down your ideas and share them with a friend.

4.7



### Case Study

*Using an Australian business to illustrate the concept of the maturity stage*

When the Coles Group managed the Coles' supermarkets, the business was in the maturity stage of the business life cycle. Sales had not only levelled out but were beginning to fall. There was very little innovation and customers started to shop at Woolworths, where the focus was on providing the products and service they expected, but were not getting, at Coles.



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**Diversifying**  
means to develop new  
products



**Cost-cutting** is  
often used to improve the  
competitive position of the  
business

Wesfarmers Limited purchased the business in 2007 and put into operation the classic strategies to manage a business in the maturity stage. The managers immediately implemented a 5-year business turnaround program to grow the value of the business. It was not easy. In 2010 Coles had 763 supermarket stores, 775 liquor outlets, 95 hotels and was the operator of a national chain of fuel and convenience outlets. The business employed 113 000 people whom they call 'team members'.

The first thing the managers did in this turnaround program was to improve the in-store offerings – products that better met the needs of customers, such as dairy, delicatessen, bakery and fresh produce - and improve on-shelf availability. The second focus was on improving, or enhancing, the value customers receive. During the year 2009/2010 prices decreased, overall, by 2% in Coles' supermarkets.

The second major component of a successful turnaround is improved service. In the past Woolworths were much better at customer service, but Wesfarmers had a solid reputation for high levels of customer service in some of their other businesses such as Bunnings Hardware.

The strategies needed to improve customer service focus on training. The managers applied the same techniques that were working so well in K-Mart: on-line instruction, supported by certificates of achievement, video instruction to demonstrate the standards of customer service the managers wanted and, finally, the mentoring of staff from department managers. Rewards to reinforce high standards are also important. The rewards range from merit certificates and vouchers to store performance-based bonuses.

In the first phase of the turnaround strategy, senior management focused on building a strong leadership team, changing the culture of the business, improving the standards of things like product availability and a store renewal program.

The next phase of the turnaround program will be to 'embed the new store-focused culture, drive further business efficiencies, improve in-store customer service, move to a scale roll-out of new store formats, and enhance Coles' fresh offering and in-store value'.

Some of the language the senior management is using in this quote is difficult and it is worth doing some vocabulary work here.

1. 'embed the new store-focused culture'. This phrase stresses the importance of building attitudes and values in employees that will ensure the store they work in is successful. One of those attitudes, for example, is a high level of customer service. The attitudes and values or 'way things are done in the store' is referred to as the business culture.
2. 'drive further business efficiencies'. This phrase refers to cost savings that result from things like highly trained and productive employees, cost effective distribution systems and so on.



**Note taking**  
Note taking is an important skill needed for success in the HSC. Summarise this Coles' case study in one page using your favoured style – mind map, dot points, key concepts.

3. 'improve in-store customer service'. This phrase is more obvious. The success of the business will relate to the level of customer service in each individual store.
4. 'a scale roll-out of new store formats'. A number of different store formats are being trialled and customers are being asked about how they like a particular format. As soon as the managers are satisfied that they have the best format, it will be put into all the 700 or so stores.
5. 'enhance Coles' fresh offering and in-store value'. Woolworths picked up the trend to the healthy lifestyle early and responded with the 'Woolworths the fresh food people' slogan. Coles is playing catch-up but recognises the importance of effectively responding.

The results of the turnaround program are quite remarkable. In 2008 Coles' revenue from sales was just over \$16.5 billion. In 2009 it was just over \$28.5 billion. In 2008 EBIT (earnings before interest and tax is paid) was \$475 million. In 2009 EBIT was \$831 million. Obviously the managers were succeeding in their turnaround strategy and had taken a business in the maturity stage of the cycle and were now growing the business.

It is really important to understand that there is not a natural progression between the stages of the business life cycle. Businesses in the maturity stage do not face an inevitable progression to post-maturity. If the managers are good enough they can, as the Coles' managers have demonstrated, return to growth. When managers are able to again grow the value of the business, it is called renewal.

4.8



### HomeThink

What stage of the business life cycle do you think your school is currently in? What evidence is your decision based on? Select a business you are familiar with in your local area. What stage of the business life cycle is it in? Why do you think this?

4.9

## Evaluate scaffold

### Literacy development: learning to evaluate

Difficulty:	High
Mark Range:	6 -10
Definition:	Make a judgement based on criteria; determine the value of
Comments:	This verb is often used in the second part of the extended response in the HSC

#### Example

*Evaluate the effectiveness of your Business Studies teacher*

### Scaffold

1. Begin with an introductory sentence that sets out the main idea of what you are writing about.

The introductory sentence here is a judgement.

2. Provides criteria on which the judgement is made.

Provides criteria on which the judgement is made.

Provides criteria on which the judgement is made.

3. Sometimes a concluding sentence might be helpful.

#### Example

My Business Studies teacher is highly effective. My Business Studies teacher is female, in her 30s, and has a delightful personality. She works very hard but this is not the reason that I think she is highly effective.

The main reason I think she is highly effective is that her results have been well above state averages for a number of years. I think this is because she motivates her students to want to learn.

Another reason is that she helps her students to learn how to do the really important things, such as how to describe, analyse and evaluate, rather than just teach content. The ability to evaluate effectively leads to higher marks in the HSC.

My Business Studies teacher has a pastoral interest in her students that goes well beyond the course outcomes. She is interested in her students' learning problems and offers advice.

My Business Studies teacher is highly effective. The criteria I have used to make this judgement include: results in the HSC, competent lessons and the interest she shows in her students.

**Example**

*with reference to a business you have studied, evaluate the performance of its managers in achieving the goals of the business.*

**Model**

- 1. Begin with an introductory sentence, setting out the main idea.**  
The introductory sentence here is a judgement.
- 2. Provide criteria on which the judgement is made.**  
  
Provide criteria on which the judgement is made.  
  
Provide criteria on which the judgement is made.
- 3. Provide a concluding sentence if it seems helpful.**

Woolworths' managers have been highly effective in achieving the business's goals. Woolworths is a large Australian retailing company with interests in groceries, petrol and liquor.

Woolworths' managers have achieved a highly competitive business and this is the most important goal. In 2006 the increase in Woolworths' market share was 20% compared to 5% for the Coles Group.

Woolworths' managers were also able to achieve a highly flexible business that is able to respond quickly to changes in the external environment such as, for example, the trend to the healthy lifestyle.

Woolworths' managers were highly effective in achieving the goals of the business. Their success was evident in the increased value of the business, where the share price rose from \$11 to nearly \$30 in seven years.

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**writing task**

**Write 200 words to:**

evaluate the effectiveness of managers in meeting the challenges of a phase in the business life cycle.

\* Check the evaluate scaffold.

**Task rubric**

In your answer you will be assessed on how well you:

- \* demonstrate knowledge and understanding relevant to the question
- \* use relevant business case study/studies
- \* communicate using relevant business terminology and concepts
- \* present a sustained, logical and cohesive response

Think about possible topic sentences you might use. Write down a possible topic sentence.

Jot down your ideas and share them with a friend.

List 3 – 5 points that will provide detail to the topic sentence.

Now write 200 to 300 words of sustained writing. Ensure you underline and explain business terminology.

Remember that it is through your writing skills that you will gain marks in the HSC. You will gain more marks if you know how to evaluate, rather than writing everything you know about the content. The evaluate scaffold is very important.



## Activity

Swap your writing with a friend. Use the following marking criteria to assess each other's work. Give the work a mark. Write a comment to justify the mark.

	Mark
<ul style="list-style-type: none"> <li>* has a well-constructed topic sentence that relates directly to the question and makes a judgement</li> <li>* provides detailed criteria that the judgement is based on</li> <li>* presents a comprehensive, well-structured, logical response which incorporates appropriate business terminology and concepts that are illustrated with appropriate case study/studies.</li> </ul>	7-10
<ul style="list-style-type: none"> <li>* provides a general introductory sentence</li> <li>* provides some criteria that the judgement is based on</li> <li>* incorporates into the extended response business terminology and concepts.</li> </ul>	4-6
<ul style="list-style-type: none"> <li>* may identify some components of the value chain</li> <li>* incorporates some business terminology and includes some case study/studies.</li> </ul>	0-3

## Short answer

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a) **Explain** the meaning of the term 'business life cycle'.

3 marks

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b) **Describe** the characteristics of the establishment phase of the business life cycle.

4 marks

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c) **Explain** the process of cessation.

3 marks

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## Post-maturity

The **post-maturity phase** is the final stage of the business life cycle. Typically, the business has failed to respond to increased competition and is haemorrhaging market share. This phase is characterised by falling sales and loss of market share. The business soon becomes unprofitable and cash flow problems emerge. Often there is difficulty in paying bills on time. The business starts to decline. Unless something is done the business will fail.

And something can be done. The competitive position of the business can be improved by cost cutting. It may then be possible for the business to maintain its position in the marketplace. This type of post-maturity position is called **steady state**.

Another possibility is **renewal**. If the managers are able to develop new products or more competitive ways of providing customer benefits, then it may be possible to again grow the value of the business. However, this type of change is very rare and usually needs new managers with new ideas.



### Literacy Development

As you know, the word *haemorrhaging* usually means 'rapidly losing blood'. In this context 'haemorrhaging' refers to the damaging loss of customers suffered by the business. A word like 'haemorrhaging' is only used when you want to stress the damaging nature of the loss.

4.10



### Activities

Decide what phase each of the cartoons below is showing, and write a description of what the challenges of managing that phase would be.

4.11



A



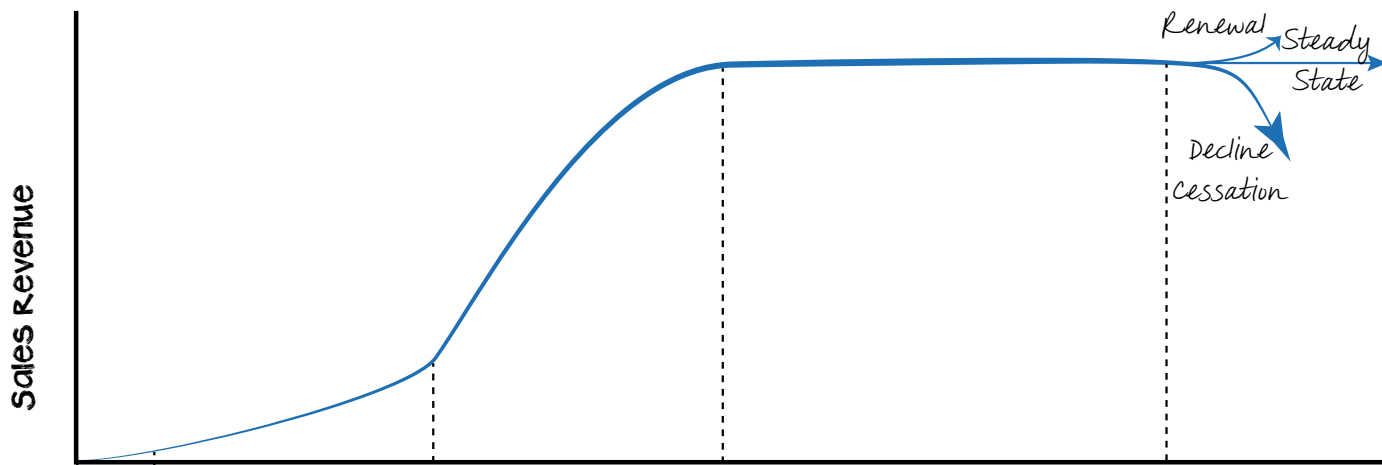
B



C



D



### Establishment characteristics

- \* customers not familiar with product
- \* retailers reluctant to put on shelves
- \* takes time to establish product
- \* expenses higher than sales revenue
- \* typically characterised by negative profits
- \* Businesses lose money in the establishment stage

### Strategies to meet the challenges

- \* prepare for the cash problem with adequate savings
- \* develop effective marketing strategies to price and promote products
- \* do Business courses to develop the management skills needed
- \* research government regulations

### Growth characteristics

- \* rapid increase in sales
- \* pressure on resources, particularly cash and labour
- \* cash problems develop
- \* competitors attracted by increasing sales

### Strategies to meet the challenges

- \* prepare to work even harder
- \* develop an effective credit policy to collect debts efficiently
- \* consider factoring
- \* carefully pick the time when professional managers are needed

### Maturity characteristics

- \* sales level off
- \* market for product is saturated
- \* time to employ professional managers
- \* focus on remaining competitive

### Strategies to meet the challenges

- \* focus on cutting costs
- \* examine every aspect of value chain to cut costs
- \* diversify into new products
- \* find ways to grow the value of the business

### Post-maturity characteristics

- \* final stage of life cycle
- \* falling sales and loss of market share
- \* cash flow problems emerge
- \* business starts to decline

### Strategies to meet the challenges

- \* improve the competitive position of the business through cost cutting
- \* renewal may be a possibility with new products
- \* new managers with new ideas
- \* manage the closure effectively and ethically



# Responding to challenges at each stage of the business life cycle

Challenges are simply obstacles that have to be overcome. Each phase of the business life cycle presents challenges that will test the manager's abilities and skills. The challenges need to be met if the business is to progress to the next phase, or, indeed, prevent the movement to the final phase. The business life cycle is unlike the human life cycle in one important aspect: there are no time limits for any phase.



## Literacy Development

The word *challenge* in the business context usually means 'a task or situation that tests someone's abilities and is something that needs to be overcome'.

4.12

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The most important challenges in the establishment phase are getting the finance and market share needed to grow

## challenges in the establishment phase

Challenges associated with finance and market share are most important in the establishment phase. There will be a period of time where profits are negative. In other words, business costs are greater than business revenues. This is because it will take time to establish the business. It will take time for customers to get to know about the products the business has for sale and to make judgements on the benefits those products offer them. However, costs pile up from day one. Rent on premises must be met. Often suppliers are reluctant to supply until they have been paid, because there is no track record to indicate that the customer is reliable. It will take time to establish a track record.

There is only one way to meet the finance challenge, and that is to prepare for it. There needs to be sufficient cash to run the business in its establishment stage. Running out of cash is a major cause of business failure. Indeed, there needs to be sufficient cash to meet the owner's personal needs during this phase. When the owner takes money out of the business for personal needs, such as paying school fees or for entertainment, it is called **drawings**.

Ways of getting customers to know about the business's products can often be the biggest challenge in the establishment phase. These are called **marketing strategies**. If the business is a manufacturing business, it is likely that other businesses, retail businesses, will need to be persuaded to buy the products before they can get to the final customer. Retailers will be reluctant to put on the shelves products that have no sales record. The challenge is to get them to try the product. This may be achieved by showing the retailer the benefits their customers will get from the products. This is called **personal selling** and it is a most important promotional strategy.

Managing the business will also be a major challenge in the establishment phase. The workload is typically enormous because there is simply not the cash needed to employ people to do all the things that need to be done. Even knowing what needs to be done is a challenge. Government

regulations, for example, relating to such things as registering the business name and keeping appropriate records, will require a great deal of research (unless, of course, you have done a business course like this!).



### Think, Pair, Share

Jot down all the tasks required if you and your partner were to establish a small business selling potted plants at local weekend markets.

4.13

## challenges in the growth phase

There is not a lot of difference in the challenges in the establishment and growth phases. They still focus on finance, marketing and the workload. It simply becomes more frenetic. Customers want products quickly, but the finance is not available to provide enough stock and customer orders have, in turn, to be ordered from suppliers. Suppliers must be paid on time, but customers often do not pay on time.

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### Literacy Development

*Frenetic* in this context means 'fast and energetic, in a rather wild and uncontrolled way'. Are there times when you could describe the behaviour of one of your friends as 'frenetic'?

4.14

The challenge is to provide organisation in what could easily become chaos. Customer debts must be efficiently collected to avoid a cash crisis. This can be achieved by either a credit policy or by factoring. A **credit policy** sets out the terms and conditions of supplying goods to customers on credit. Generally, the terms and conditions are determined by the industry in which the business operates. Careful consideration needs to be given as to what to do if customers do not pay on time. The money from customers will be needed to pay suppliers on time.

Factoring may be a way out of the finance crisis. **Factoring** is the sale of customer debts to financiers. The customer debt is sold to a financier such as a bank. The financier collects the customer debt when it falls due. The business gets the cash immediately. Typically, the financier will charge about 3 per cent of the debt, so it is not cheap. But it can be very helpful for rapidly growing businesses, where the cash flow crisis is the major danger.

The workload remains enormous during the growth phase. The hours are long and there is little specialisation of tasks. Everyone in the business knows how to do all the tasks that need to be done, and they do them. The most important challenge in the growth phase is to pick the time



A credit policy can help deal with financial stress in this phase



Factoring is the sale of customer debts to financiers

when the business needs professional managers to take over from the entrepreneurial people who started and grew the business.



## Case Study

*Using Australian businesses to illustrate the business life cycle concept*

When Stephane and Laurence Bourrigaud moved to Bowral, about an hour from Sydney, Laurence began making pots of chocolate mousse, using his grandmother's recipe. Stephane cracked about 200 eggs each day and then delivered the product, by motorbike, to small retailers in Sydney. For the first five years the business remained quite small, but the couple worked hard to promote their product. At weekends they would visit shops and offer tastings. Before long, they were selling out every weekend.

Stephane now cracks and separates 1 000 eggs a day and delivers the mousse once a week to Harris Farm and David Jones' stores around NSW. Stephane and Laurence are having difficulty meeting the demand. All production takes place in the large kitchen of their country home. The business has almost taken over the house, with bags of chocolate in the hall, tubs of organic sugar in the dining room, and an office in a closed-in front veranda.



There are plans to build a chocolate factory at the back of the home, but Stephane is aware that growth can be difficult for small business owners. 'I don't have any experience in running a business,' he says. 'But I understand there are a few key things to know. At the beginning cash flow was a problem, but now we are on top of that. As a small business person you have to be super sharp. You can't let your accounts go to whack, you can't let people owe you too much money.'

Stephane and Laurence are negotiating with someone who might help them expand – not only by helping them with finance, but also with business knowledge and experience. Stephane explains that 'these guys have a big business with about 3 500 people working for them. We are talking pretty much weekly, it's all about having a feel for each other. They've been eating my mousse for about 10 years. They know the quality is always the same.'

Adapted from an article by Perrie Croshaw in the *Sun Herald* 16 September 2007





## Activities

1. What stage of the business life cycle is the business currently in?
2. What are the financial challenges they face in this stage of the cycle? How well are they managing this challenge?
3. The owners stress the importance of collecting debts efficiently. Imagine you were in charge of this aspect and David Jones had not paid an account that was due a month ago. What would you do?
4. How did they market the product in the establishment stage? Was it successful? How did they minimise costs during the establishment stage?
5. What are the marketing challenges they are now facing?

4.16

## challenges in the maturity stage

There are many challenges associated with the maturity stage of a business. The most important is to find ways of growing the value of the business. Businesses, like Woolworths, for example, are typically mature businesses. But their managers have continually found ways to grow the value of the business. The growth in value is represented in the share price. During the early 2000s the Woolworths' share price grew from just on \$10 to \$30 a share.

Businesses in the mature phase of the business life cycle operate in a market that is highly competitive. We can learn a great deal from Roger Corbett (CEO of Woolworths during the early 2000s) on how to grow the value of the business in a highly competitive market. Cost cutting is a central idea. Corbett cut costs in every area of the Woolworths' value chain, but particularly in the warehousing and distribution areas. The lower costs enabled the business to offer additional benefits to their customers and the business attracted additional customers. The business became more competitive and its market share increased.

Corbett was also able to develop in the business's employees a culture of service, where employees understood the importance of gaining customer loyalty and repeat business. This is essential in a mature business. Woolworths achieved this by effective staff training and rewards. Developing new, more profitable, ways of doing things is also important. One way Woolworths is doing this is through the *Select* brand. The *Select* brand is a Woolworths' brand. Woolworths establish the design criteria and the quality standards and have the products manufactured to meet those standards. The *Select* brand gives the business bigger margins and more bargaining power with traditional suppliers.

## challenges of the post maturity stage

Renewal is very rare. Sometimes entrepreneurs with flair are able to take a declining business and get it to grow again. In the past, this was usually done through acquisitions - that is, buying new businesses that offer growth prospects. But it does not often happen.

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**Corbett**  
developed a culture of  
service with the business's  
employees

The major challenge for the managers of declining businesses is an ethical challenge. The challenge is to ensure that the business is closed down in a manner that considers the needs of all the stakeholders. The employees should receive their entitlements, such as long service leave, and be helped to find new jobs. Creditors, such as suppliers, must be paid money owed to them. It is important that managers do the right thing, because their decisions will impact on other people.

The challenge is not easy, because the managers of declining businesses often leave it too late to plan for the closure, and by the time it is forced to close, there is insufficient money.



Activities

The NSW Department of State and Regional Development ([www.smallbiz.nsw.gov.au](http://www.smallbiz.nsw.gov.au)) published a list of warning signs that a business was under stress and heading for trouble. Your task is to rank these warning signs in terms of the importance they play in alerting the business manager to potential problems in the business. Circle number 1 as the most important warning sign, number 2 as the second most important and so on to number 10, as the least important.

- Step 1** You do your own ranking, without discussing it with anyone else at this stage. Make your judgement based on the big (macro) picture rather than on your personal or immediate needs and experiences.
- Step 2** In teams of four, discuss your ranking of each role and your reasons for making that decision. Your team then needs to reach a consensus , to produce a ranking that reflects the team’s opinion.
- Step 3** Each team reports to the whole class on their three most important and their three least important criteria. All students discuss the findings.

Regular customers stop coming	1 2 3 4 5 6 7 8 9 10
Sales are down on last year	1 2 3 4 5 6 7 8 9 10
The average sale per customer has decreased	1 2 3 4 5 6 7 8 9 10
The storeroom is full of slow-moving stock	1 2 3 4 5 6 7 8 9 10
Invoices and receipts are very disorganised	1 2 3 4 5 6 7 8 9 10
Competitors have lower prices	1 2 3 4 5 6 7 8 9 10
Staff are unable to answer customer enquiries	1 2 3 4 5 6 7 8 9 10
Profit margins compare badly with industry averages	1 2 3 4 5 6 7 8 9 10
Window display is dated and dusty	1 2 3 4 5 6 7 8 9 10
Customers are returning more purchases than previously	1 2 3 4 5 6 7 8 9 10

# Factors that can contribute to business decline

There is a number of factors that contribute to business decline. The most important is the failure to embrace change. Businesses that do not develop the products to meet the changing needs of customers start to gradually lose their customers as the customers find competitors who better meet their needs. And it is not just products. The failure to embrace change in such matters as adopting new technology and new production techniques may well result in the ability of competitors to produce goods more cheaply, which, in turn, enables the competitor to increase their share of the market.



Lack of finance is a critical reason businesses fail

Lack of finance is another important reason why some businesses decline. Businesses must pay their bills as those bills fall due. Wages must be paid on time. Suppliers must be paid on time. The money needed to pay bills like this is called working capital and a key aspect is the efficient collection of customer debts. Small suppliers of, say, vegetables to Woolworths rely on the money owed to them to be paid on time. The supplier will send the goods to Woolworths with an invoice. The invoice sets out the conditions of the sale, the quantity of goods supplied, the price at which they were sold and, most importantly, when the money is to be paid. Many small businesses have poorly developed collection policies and don't know what to do when customers don't pay on time.

Business culture can make a critical contribution to the decline of a business. Often managers fail to deliberately establish a business culture through things like induction programs and training programs. Induction refers to the way a new employee is introduced to the business. It is important the new employee understands expectations about things like quality. Failure to establish a business culture often leads to a 'she'll be right' attitude and this is very dangerous.

Of course environmental influences can also contribute to the decline of a business. Economic recessions, for example, can lead to a rapid fall in sales and, if the business has too much stock in these circumstances, it can lead to difficulties in paying suppliers.

## voluntary cessation

'Cessation' is not a word you hear every day. Indeed when you consider the alternatives that could have been used (see literacy development), it is hard to understand why this word is used to signal the end of a business. However, many businesses come to an end. Sometimes the end is forced – the managers have no choice but to close the business. In other cases, the owners voluntarily close the business.



### Literacy Development

Words that have a similar meaning to *cessation* include 'ending', 'termination', 'stopping', 'halting', 'ceasing', 'finish', 'finishing', 'stoppage', 'conclusion', 'winding up', 'discontinuation', 'abandonment', 'suspension', 'breaking off', 'cutting short'.

4.18



When the owner of a business decides to end the operation of a business by his or her own free will, it is called **voluntary cessation**. There is a number of reasons why the owner may take this step. One common reason is that the owner wants to retire and there is no one who wants to continue the business. Another possible reason is where another business purchases the business and incorporates its customers, employees and so on into the purchasing business. Voluntary cessation is rarely a problem because the cessation is planned and all the stakeholder interests are considered.



### Case Study

#### Voluntary

cessation is when the owner closes the business by free will

#### *Krispy Kreme Falls in a Hole*

Vernon Rudolph opened the first Krispy Kreme store in North Carolina in 1937 but it wasn't until 2003 that Krispy Kreme opened in Australia.

In seven years, 50 stores, employing 660 people, opened in Brisbane, Canberra, the Central and Gold Coasts, Melbourne and Sydney.

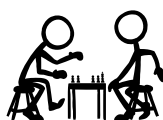
Sadly for some, the chief executive announced on November 1, 2010, that Krispy Kreme Australia had gone into voluntary administration. He explained that this decision resulted from a combination of factors: falling sales, high distribution costs, unsustainable rents and poor store locations.

As recent accounts show, Krispy Kreme Australia was in a weak financial position well before administrators moved in. A \$12 million loss in 2008 had become a slim profit of \$62,400 in 2009.

Voluntary administration gives Krispy Kreme Australia a chance to restructure and close the unprofitable stores while allowing the profitable stores to continue to operate.

Adapted from an article by Michael Evans, *Sydney Morning Herald* 2 November 2010

4.19



### Activities

1. Draw the life-cycle of Krispy Kreme Australia and label the features and challenges of each stage.
2. Focus on the post-maturity stage. Can KKA 'reinvent' itself as a profitable business?
3. What factors in the external business environment would have reduced the demand for doughnuts?

4.20

# Involuntary cessation

**Involuntary cessation** refers to the forced ending of a business. This usually happens because the business is simply unable to pay its debts and a creditor takes legal action to wind the business up, or, in other words, end it. A creditor is a person who is owed money by the business, and if the business is not able to pay that creditor what it owes within the agreed period, that person has the right to ask a court to end the business and make the payment out of the assets of the business.

## Liquidation

The legal process of winding up a business is called liquidation. **Liquidation** means turning assets such as land, equipment and so on into cash. The cash will then be distributed to the creditors. Some of the creditors may have secured loans. A bank, for example, may have a mortgage over land. A mortgage is a secured loan where the asset being purchased is used to guarantee the repayment of the loan. Secured lenders are paid first. Any cash left over is then distributed to the unsecured creditors. If there is not enough money, these creditors may, for example, receive 50 cents for every dollar they are owed by the business.

While businesses are liquidated, a sole trader running a business may be made bankrupt. Debtors become bankrupt when a creditor (or even the debtor themselves) asks a court to declare the debtor bankrupt. The court will then decide how the debtor's assets are to be distributed.

It is not just the shareholders of the business who experience problems when a company is liquidated. The shareholders lose the money they invested in purchasing the shares. Limited liability means their loss is limited to this. But other stakeholders also experience problems. Suppliers, for example, may not be paid in full for inventory or stock they have supplied to the company. Even if some portion of the debt is eventually paid, the supplier will have to wait a long time and this may put pressure on the supplier's cash flow. Employees and managers, of course, will also experience problems. First, they will lose their jobs, and employees with very specialised skills may find it difficult to get another job without training courses. Second, it is possible they may not get all their entitlements such as holiday pay and long service leave.

Customers of the liquidated company may also experience problems. If the company is a manufacturer supplying component parts to other businesses, there will be a disruption in supply and the need to find new sources. The owners of land or premises leased by the company will also experience not only loss of payment by the liquidated company but also loss from the delay in re-leasing the premises. Investors who have financed the lease of equipment to the company may also experience loss due to non-payment of the lease payments in the last months of the liquidated company but also potentially by having to sell the leased equipment with loss of value.

When a company is liquidated all the stakeholders in that business experience problems.



### Liquidation

means turning assets such as land and equipment into cash



### Customers of

liquidated businesses can experience problems



## Case Study

*Using Australian business to illustrate the concept of liquidation*

Austech Institute for Further Education was a cookery school. It went into voluntary liquidation in March 2010. The College was founded in Blacktown with 10 students in 2002. It had a history of rapid growth and by 2007-2008 the business had sales of over \$30 million and nearly 1 400 students. At the time, education was one of Australia's major export industries.

At that time a qualification in hairdressing or cookery almost guaranteed permanent residency status in Australia and many students were more concerned with gaining residency than cookery qualifications. When the Labor government was elected in 2007, it started to tighten up the regulations, and this put many businesses such as Austech Institute for Further Education under a great deal of pressure.

The pressure on Austech became more severe following a 2008 audit by state regulators who found that the business did not have enough kitchens for its 1 700 students and that some students were enrolled for more than a year before they had any experience in a kitchen.

The regulator, the Vocational Education Training Accreditation Board, found Austech was in breach of state and federal standards and ordered the business to refund \$2 million in fees to some 350 students, but the NSW Administrative Decisions Tribunal gave Austech a second chance.

Austech's chief executive Kharak Bajwa blamed bad publicity about attacks on Indian students and changes to migration rules for the failure of the business.

The students were found placement in similar courses under the Tuition Assistance Scheme, or refunded their unused course fees through the Education Services for Overseas Students Assurance Fund.

Adapted from an article in the *Australian* of March 23, 2010 by James Robertson and Bernard Lane

4.21



## Debate

Research the current Australian regulations about bankruptcy and debate the following:  
That bankrupts get it too easy.

4.22

# Worksheet 4.1

## Business Growth and Decline

1. Simplify the business life-cycle diagram by selecting the 2 main challenges of each stage and the strategies needed to keep businesses competitive in each stage.

2. Design 4 advertisements, in random order, for a business at each stage of the business life cycle. Do not label the stages and then see if your learning partner can identify the stages correctly.


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3. Funeral directors advise families who are experiencing the death of a loved one. Imagine you are a Business Cessation Counsellor. What advice would you include on your website?

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## Literacy development: learning to analyse

You will maximise your marks in the HSC if you can effectively respond to the specific instructions to 'outline', or 'describe', or 'evaluate' and so on. 'Analyse' and 'evaluate' are higher order skills. Not everyone can do them well. You need to learn how to do them well. In this activity you will develop skills in 'analysing'.

There are two key aspects to analysing. The first part is to identify the parts of whatever it is you are analysing. The parts of the value chain are things like inbound logistics, operations, service and so on. Whenever you use a specialist term such as 'operations', you need to underline the term and explain its meaning in the sentence that follows.

The second part is the hard bit. Analysing is concerned with showing the relationships between the parts and the goals that the business activity, or strategy, was designed to achieve. Why, for example, did Woolworths focus on cost-cutting in the part of the value chain concerned with inbound logistics? Cost cutting improved the competitive position of Woolworths compared to Coles.

## Analyse scaffold

**Difficulty:** High

**Mark Range:** 4-10

**Definition:** Identify components and the relationship between them; draw out and relate the implications.

**98 Comments:** There are four stages in this verb form:

1. Defining each component by naming it
2. Identifying the relationships between each component
3. Explaining how each component is related to another
4. Stating the implications or consequences of these relationships.

### Example

*Analyse the factors that influence Business Studies marks in the HSC*

### Scaffold

#### Format

1. Begin with an introductory sentence. This sentence sets out the main idea of what you are writing about.
2. Identify components and the relationship between them.
3. Sometimes a concluding sentence might be helpful.

#### Example

Several factors influence the marks a student of Business Studies might receive in the HSC. Some of the most important are the amount of study the student does, the quality of the teaching and the availability of appropriate resources.

There is a very strong relationship between the amount of study time and the final HSC marks. The simple fact is that students need to be well-organised and to regularly revisit material if they want to achieve high marks.

There is also a significant relationship between quality teaching and higher marks. There is significant research that supports this relationship.

However, it is very difficult for students to receive high marks without the assistance of appropriate resources.

A number of factors contribute to higher marks in Business Studies.

**Example**

*Analyse the factors that determine the interdependence between a business and its environment*

**Model**

**1. Begin with an introductory sentence, setting out the main idea.**

A number of factors determine the interdependence between a business and its environment. These include government, competitors and employees. The business environment refers to all the factors that influence the operation of a business.

**2. Identify components and the relationship between them.**

The relationship between a business and government is particularly significant. Governments supply the infrastructure businesses need to conduct their operations. Businesses provide taxes that contribute to the government's capacity to provide infrastructure.

Competitors are each trying to better meet the needs of a similar group of customers. The types of benefits a competitor offers their customers strongly influences other competitors, because they will lose customers if they cannot offer equal or better benefits. There is an equally strong relationship in the pricing policies of competitors. The price charged by one influences the others.

Another factor is the interdependence between a business and its employees. The employees rely on the business for challenging work and rewards. The business relies on the employees to operate the business.

**3. Provide a concluding sentence if it seems helpful.**

Factors such as government, competitors and employees influence the interdependence of a business with its environment.

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**writing task**

Analyse the factors that contribute to business decline.  
(200 - 300 words)

**Task rubric**

In your answer you will be assessed on how well you:

- \* demonstrate knowledge and understanding relevant to the question
- \* use relevant business case study/studies
- \* communicate using relevant business terminology and concepts
- \* present a sustained, logical and cohesive response

Think about possible introductory sentences you might use. Write down three possible sentences.

*Scaffold and verb unpacking have been adapted from work done by the Science Teachers' Association of NSW.*

# Topic 1 Revision

## Multiple choice

1. 'Cullen and Baker' is a solicitors' partnership.

This business provides clients with:

- (a) advice
- (b) service
- (c) goods
- (d) help

2. Richard Branson is a well-known entrepreneur.

Entrepreneurship is related to:

- (a) risk
- (b) innovation
- (c) choice
- (d) profit

3. Spanline Pty Ltd is a well-known home extension company.

From its name we know it is:

- (a) a sole trader
- (b) a public company
- (c) a SME
- (d) a private company

4. Rob and Lynne Hain produce fine wool and fat lambs on their Cooma property.

This partnership belongs to which industry sector?

- (a) Primary
- (b) Secondary
- (c) Tertiary
- (d) Quaternary

5. Qantas is Australia's major airline.

It could be classified as:

- (a) government enterprise, large and national
- (b) global, large and public
- (c) SME, secondary and private
- (d) public, quinary and national

6. Which is not a characteristic of a business in the growth phase of the lifecycle?

- (a) Rapid increase in sales
- (b) Increasing competition
- (c) Cash problems develop
- (d) Market for product is saturated

7. The strategy of introducing a new idea that relates to a product or service or way of doing something is

- (a) change
- (b) innovation
- (c) a brain-wave
- (d) entrepreneurship

8. Jim's Lawnmowing franchise specialises in home garden maintenance.

This business belongs to which industry sector?

- (a) Secondary
- (b) Tertiary
- (c) Quaternary
- (d) Quinary

9. Jessica is 18 and very conscious of a healthy lifestyle. There is a range of businesses responding to her needs.

Which of the following environmental influences is impacting on these businesses?

- (a) Social
- (b) Legal
- (c) Cultural
- (d) Consumer tastes

10. The introduction of an Emissions Trading Scheme (ETS) would have a significant impact on Australian mining companies.

This is an example of which external environmental influence?

- (a) Economic
- (b) Geographic
- (c) Political
- (d) Technological

*Short Answers*

1a. **outline** one economic and one social role of businesses.

Economic

Social

1b. **DISCUSS** two factors that influence a business owner's choice of legal structure.

1c. **EXPLAIN** how changes in the external business environment have contributed to the growth of the quaternary and quinary industries in Australia.

2a. **EXPLAIN** the meaning of the term 'business life cycle'.

2b. A retail business has moved into the maturity stage of the business life cycle. **ANALYSE** two strategies that management could use to meet the challenges of remaining competitive.

2c. **Describe** two problems that arise for stakeholders when companies go into liquidation.

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3a. **outline** the life cycle of Austech I.F.E (page 100).

3b. **Describe** how stakeholders have been affected by the voluntary liquidation of Austech I.F.E.

3c. **EXPLAIN** why Austech I.F.E went into voluntary liquidation.

*Extended Response*

1. Using specific examples, **discuss** the nature of business and its role in society in a changing business environment.

2. Using specific examples, **discuss** two ethical issues raised in the case study on Austech I.F.E (page 100).

*Syllabus questions*

1. Go to page 13 of the syllabus. Under *Nature of Business* there are two main sections, *Outcome* and *Content*. *Content* is divided into two sections - *Students learn to* and *Students learn about*. You will notice that under *Outcome* and *Students learn to* the requirements are structured as questions. Have a go at answering them.

You can access the Stage 6 Business Studies syllabus from the Board of Studies NSW website:

[http://www.boardofstudies.nsw.edu.au/syllabus\\_hsc/pdf\\_doc/business-studies-st6-syl-from2012.pdf](http://www.boardofstudies.nsw.edu.au/syllabus_hsc/pdf_doc/business-studies-st6-syl-from2012.pdf)