

PRELIMINARY TOPIC 1: NATURE OF BUSINESS

Role of Business

SUMMARY

- Determine standard of living
- Produce a product - good or service
- Affect economy

IMPORTANCE OF BUSINESS TO AUSTRALIAN ECONOMY

- Export products (generate income, reduce trade deficit)
- Taxes to government (company + payroll tax)
- Improve quality of life

DIFFERENT ROLES OF BUSINESS

- **Profit**
 - Businesses (sales revenue) from customers (exchange for products)
 - $\text{Revenue} > \text{Operating Expenses} = \text{Profit}$
 - $\text{Revenue} < \text{Operating Expenses} = \text{Loss}$
- **Employment**
 - 80% of private sector jobs
- **Incomes**
 - Business owners
 - Shareholders (dividends)
 - Employees
 - Wage: money received on a weekly basis for services
 - Salary: fixed amount paid on regular basis to permanent employee
- **Choice**
 - Consumers → freedom of choice, opportunity, range of products
- **Innovation**
 - Improve existing + develop new products/new technology
- **Entrepreneurship**
 - Opportunities, ideas + passions → livelihood (take risks)
 - Idea → development of product → business formed → market + sell product
 - Grounds for training
- **Wealth Creation**
 - Higher levels of economic growth and wealth
 - Value added (difference of sales revenue - operating expenses)
 - Redistributed to employees, government, lenders, shareholders, businesses

Types of Businesses

CLASSIFICATION OF BUSINESS

- Size
- Industry Sector
- Legal Structure

SIZE

- Large
 - 200 or more employees (manufacturing)
 - 20 or more employees (non-manufacturing)
- Small
 - Less than 100 employees (manufacturing)
 - Less than 20 employees (non-manufacturing)
- Micro
 - Less than 5 people

Local Business: Produces/trades in specific area

National Business: Trades around nation

International Business: Produce in one country, trade global

Transnational Business: Operate in more than one country

INDUSTRY SECTOR

An industry is the groups of businesses performing similar functions.

- Retailing or manufacturing

Primary Industry: Raw materials/agriculture.

- E.g. wheat, rice, vegetables, wood, minerals etc.

Secondary Industry: Raw materials → finished products.

- E.g. any manufacturing business

Tertiary Industry: Provides a service.

- *Quaternary Sector:* information based
- *Quinary Sector:* replace duties

LEGAL STRUCTURE

How the ownership of the business is registered.

Incorporation: Process to become separate legal entity from owners.

- Can exist in own right
- Pays tax
- Owns property + liable for debts
- Can sue + be sued
- Employ people
- Make contracts

- Private Companies

- Between 1-50 owners (shareholders)
- Unlisted
- At least 1 director
- More owners = more funds + decision making
- Shared responsibility
- Limited liability (shareholders not personally liable for financial obligations)
- Shareholders only lose portion they invested
- Proprietary Limited (Pty Ltd.) after name
 - Pty: (private company + ownership from shareholders)
 - Ltd: (limited liability)
- *Advantages:* limited liability, more funds (more owners), shared responsibility, cheaper tax alternative, simple structure
- *Disadvantages:* registration process, compliance formalities, division of ownership

- Public Companies

- Incorporated + separate legal entities
- Listed
- Shares listed on stock exchange (general public can buy and sell)
- Publicly traded company
- Ownership dispersed among general public
- Owner receives dividends → payment for holding shares
- Minimum shareholders = 5 → no maximum
- Must release detailed annual report (public can access)
- *Advantages:* limited liability, experienced management, greater spread of risk
- *Disadvantages:* Stringent regulations, yearly audits, public disclosure, director culpability

Unincorporation: Did not go through legal process.

- Owner pays taxes, signs contracts, owns property, liable for debt
- Unlimited liability

<u>Sole Trader</u>	<u>Partnership</u>
<ul style="list-style-type: none"> - Owned and operated by 1 person. - Can employ other people - Provide all finances - Make all decisions, have complete responsibility - <i>Advantages</i>: establishment → cheap + easy, keep all profits, make decisions, flexible working hours, direct contact with customers - <i>Disadvantages</i>: unlimited liability, use own money to fund + run, work longer + over holidays, high stresses + dependence on owner 	<ul style="list-style-type: none"> - Owned and operated between 2-20 people. - Partners can have different levels of employment - Unlimited liability - <i>Advantages</i>: no legal formalities, split workload + expenses, not relying on 1 - <i>Disadvantages</i>: unlimited liability, disagreements + conflicts, shared profits

COOPERATIVES

- *Consumer*: Provide retail service to members + discounted goods. E.g. USYD Food Corp
- *Producer*: Group of similar small businesses sells goods to cooperative → cooperative finishes product → sells to others. E.g. Organic Valley
- *Financial*: Union formed to provide financial services to members. E.g. Teacher's Mutual Bank

Trust: Manages the assets of an individual or group in their behalf

<u>Public Sector</u> :	<ul style="list-style-type: none"> - All departments + agencies of government (incl. government business enterprises) - Government owned (can be run independently) - Australian GBEs: mining, public transport, aviation, agriculture, water, telecommunications, banking, insurance, electricity - Many have been privatised
<u>Private Sector</u> :	<ul style="list-style-type: none"> - Part of economy - Not under state control - Run by private individuals/groups

INFLUENCES ON CHOICE OF LEGAL STRUCTURE

- *Size*: capital (finance) required (e.g. sole trader may become partnership/company)
- *Ownership Structure*: person with power
- *Finances Needed*: to expand, (e.g. business reluctant to lend to small businesses, funding can come from partnerships or shareholders)

Influences in the Business Environment

EXTERNAL INFLUENCES

<i>Economic</i>	<ul style="list-style-type: none"> - Economy: flow of money through country, interest, inflation, wage rates etc.) - Goes down → prices of goods + services decrease, employees let go, production slows, business make less profit etc. - Determines confidence of consumers in businesses + the market
<i>Geographic</i>	<ul style="list-style-type: none"> - Global region of business + general location/placement - Demographic: country + people in it - Constant monitor of market + demographic to appeal to customers
<i>Social</i>	<ul style="list-style-type: none"> - Societal factors alter consumer trends + spending habits - How they advertise + adjust produce - Influences: age, gender, cultural values, lifestyle
<i>Technological</i>	<ul style="list-style-type: none"> - Increased innovation in businesses - Increase efficiency + productivity, improve quality of and create new products - Manufacturing → reduce operating costs + eliminate boring/repetitive tasks
<i>Legal</i>	<ul style="list-style-type: none"> - Abiding by laws of a country - Must have working knowledge of laws affecting operations - Understand + accept legal responsibilities owed to stakeholders
<i>Political</i>	<ul style="list-style-type: none"> - Government monitoring economy (businesses, banks, postal service, education system, roads + public utilities) - International business → where/how can sell by foreign political affairs - Trade policies + regulations
<i>Competitive Situation</i>	<ul style="list-style-type: none"> - Involves 2+ companies directly competing - Good for customer → businesses compete to make best quality + cheapest product - Inspires innovation in industry
<i>Institutional</i>	<ul style="list-style-type: none"> - Government - Regulatory bodies (ACCC, Office of Fair Trading) - Trade Unions (employee trade associations)