Charlotte Pysden – Trial Section 3 Report

**To:** Lubin Educational Toys (LET)
**From:** Band 6 Consultants
**Re:** Business expansion

**Executive Summary**

Lubin Educational Toys (LET) is an Australian toy manufacturer currently located in Sydney. Having gained profits and market share, the business wishes to expand into other areas of Australia. To do this, it requires investment in market research and product development to remain competitive. This report outlines the interdependence between finance and marketing for LET. It discusses using retained profits and debentures as sources of finance for marketing and business expansion. Additionally, it explains the impact of marketing legislation on the ways that LET promotes its products.

**Interdependence of finance and marketing**

Finance and marketing are closely linked - that is; they cannot operate without one another. Marketing is the business function that generates income, as without brand awareness or a customer-suitable product developed by market research, consumers will not purchase the product, thus no finance from sales is gained. However, marketing relies on a financial budget for promotional activities e.g. advertising, so it cannot operate without some initial finance. In this way, they are heavily interdependent.

**Sources of finance**

To finance expansion, LET should consider sourcing finance both internally and externally.

**Equity finance**

Equity regards finance already owned by the business - it is internal. LET should consider the use of retained profits; i.e. the funds remaining after expenses and dividends are deducted, to finance expansion as profit levels are high. This type of finance is advantageous as there is no interest charged, it is already owned by LET. Additionally the business retains ownership and control, and is not liable to an external source if it fails. However, using equity finance can dilute the earnings for owners, and LET may be limited by the amount they have available to use. Thus, LET may wish to consider using equity finance in combination with debt finance to maximise the success of the expansion.

**Debt finance**

Debt finance is borrowed funds from an external source. LET may consider the long-term finance option of debentures, which is a loan from a lender at a set rate of interest. This would benefit LET to compliment the funds used from retained profits. Using debentures, LET still retains ownership and control of the business, and since the interest rate is fixed LET will not be negatively affected by fluctuations in the economy that increase the cost of borrowing. However, using debt finance, the lender that LET borrows from will have first claim on the money owed and/or assets if bankruptcy occurs. This is unlikely as LET is performing well but the risks of depending on an external source must still be considered.

Overall, by using a combination of debt finance and retained profits, LET will be able to invest in the research and development necessary for expansion, maximising the chances of growth and profitability.

**Consumer laws**
There are several consumer laws that will impact upon the nature of marketing at LET, including controls around misleading advertising, implied conditions and warranties. Non-compliance may result in fines and a damaged reputation for LET.

**Misleading advertising**
The ACCC regulates advertising of products so that businesses cannot deceive consumers to purchase their product. This prevents LET from advertising untruthfully e.g. using ambiguous language to lead customers to believe the product does something it cannot do in reality, such as making the user more intelligent. As such, LET must advertise according to the Competition and Consumer Act (2010) and promote the product's competitive advantages truthfully, even with increased competition, as misleading advertising attracts heavy fines.

**Implied conditions**
Implied conditions are unwritten rules stating merchantable and acceptable quality of goods, i.e. if they are fit for purpose. LET should not have many issues with this law, as its products are of high quality, but should ensure that their products comply with safety standards e.g. no choking hazards for children.

**Warranties**
Under Australian consumer laws, customers are entitled to a refund, repair or replacement if the product is faulty, unfit for purpose or does not match the description. LET should ensure that all descriptions of marketed products are accurate and use testing/quality control measures to ensure products do not have defects and are also fit for purpose. LET must also comply with reasonable requests for refunds e.g. if a product did not work the way it should and should not market a "no-refund" policy as this is illegal and will attract negative publicity and fines.

Overall consumer laws will control how LET markets their products. LET should check laws that vary across states as well as federal laws when expanding to ensure compliance and avoid fines.

**Recommendations**
Finance and marketing are interlinked for LET, both being dependent on one another. For marketing and expansion, Band 6 Consultants recommends that LET use a combination of equity and debt finance to cover expenses and grow the business. Finally Band 6 Consultants also recommends that LET checks and complies with all Australian consumer laws, as they affect the marketing methods and non-compliance results in financial costs.

**MARK: 19/20**