# OPERATIONS

**role of operations management**

- strategic role of operations management
  – cost leadership, good/service differentiation

**Operations** → business processes that involve transformation/production

- Production = conversion of inputs into outputs

**Customer focus** → minimising waste, fair value for labour, low cost, reflect changes in consumerism

**Profit centres** → aspects of the business that derive revenue and profits
**Cost centres** → areas which cost is attributed
**Cost Leadership** → aiming to have the lowest cost & be most price-competitive

> **CASE STUDY: McDonald's**
> → Mcdonald's invested in a global training program (Hamburger University) to ensure efficiency and reduce overall costs

- goods and/or services in different industries

*Goods/Services Differentiation*
**Standardisation** → making products that are all the same
**Product Differentiation** → distinguishing products

| ***Differentiating Goods*** | ***Differentiating Services*** |
|---|---|
| - Product features<br>- Product quality<br>- Augmented features (add-ons or benefits) | - Time spent on a service<br>- Level of expertise<br>- Qualifications and expertise of the service provider<br>- Quality of the materials/technology used in service delivery |

*Goods Differentiation*
**Perishable goods** → short lead times, distributed fast
**Non-perishable goods** → operations similar in all industries, more durable goods
**Self-service** → encouraging customers to take initiative

- interdependence with other key business functions

**Interdependence** → mutual dependency on one another

*Interdependence with...*
Marketing → producing goods based on market needs, marketing based on cost, product design affects transformation
Finance → cost of production, labour costs
Human Resources → staff needed for production, technology changing operations, outsourcing specialists

**influences**

- globalisation, technology, quality expectations, cost-based competition, government policies, legal regulation, environmental sustainability

**Globalisation** → removal of trade barriers between nations, operating on an international scale & develop international influence

> **CASE STUDY: McDonald's**
> → McDonalds has 37,000 restaurants in 120 countries
> → in 2018, McDonald's ranked 11th on Forbes list of most valuable brands

→ 2017 report showed US$91billion in sales, showing success in maintaining competitive advantage by adapting to global conditions

Supply chain management → managing the flows of goods and services, including transformation.

- Businesses need a reliable supply chain that is responsive to changes

**Technology** → the design, construction and application of innovation devices, methods and machinery in the operations process.

- Administrative level → organisation, planning, decision making
- Processing level → manufacturing, logistics, quality management, inventory management

**CASE STUDY: McDonald's**
→ digital menu boards, automatic drink dispensers, online ordering apps

**Quality** → how well designed, made and functionable goods are.

- Expectations that people have of business determines the way products are designed, created and delivered.

**CASE STUDY: McDonald's**
→ after complaints of coffee quality, McDonalds made a promise in 2011 that coffee would be barista made.
→ in 2018, Mcdonalds started using fresh (not frozen) beef patties, despite taking longer to cook, quality was improved

**Cost-based Competition** → derived from the breakeven point
Fixed costs = costs that do not change regardless of business activity
Variable costs = costs that vary in relation to business activity/level of production

**CASE STUDY: McDonald's**
→ in 2015, Mcdonalds dominated western Europe, other businesses attempted to compete by lowering their prices
→ close focus on cost, helps them to maximise profits

**Government policies & Legal Regulation** → Work Health and Safety Act 2011, Fair Work Act 2009, Superannuation Guarantee Act 1992, Racial Discrimination Act 1975, Taxation Act 1953 → influence business operations

**CASE STUDY: McDonald's**
→ McDonalds is bound by obligations in relation to marketing, advertising, product safety and quality guarantees (Australian Consumer Law 2010)
→ they must ensure conscionable conduct at a local, state and federal level

**Environmental Sustainability** → business operations shaped around sustainable practices

**CASE STUDY: McDonald's**
→ in 2012, McDonalds opened the Australia's first Green star accredited restaurant in VIC

- corporate social responsibility

**CSR** → doing more than just complying with the law, but having higher respect for people, community and environment

**Triple Bottom Line** → financial profitability, social impact and environmental impact of a business.

**CASE STUDY: McDonald's**
→ McDonalds uses Australian suppliers when appropriate, helping domestic economy

- the difference between legal compliance and ethical responsibility

**Legal compliance** → abiding by local and international laws (eg. wages, content, leave, equal employment)
**Ethical Responsibilities** → operations meeting community and moral standards (eg. not exploiting workers, use of natural resources)

- environmental sustainability and social responsibility

→ Businesses practices doing no harm to the environment as well as upholding moral and ethical standards. Eg. recycling, sustainable development

**operations processes**

- inputs

→ transformed and transforming resources used in the transformation process in order to produce goods and services

- transformed resources (materials, information, customers)

→ inputs that are changed and converted in the operations process

**Materials** → basic element of production: raw materials (essential substances in their unprocessed form), intermediate goods (manufactured and used in further manufacturing)

**Information** → the knowledge gained from research, investigation and instruction
- External information = information from markets, reports, statistics
- Internal information = information from businesses financial reports, quality reports & KPI's
- KPI = key performance indicators, criteria used to measure effectiveness/efficiency

**Customers** → their desires and preferences are the starting point of production
- Customer relationship status (CRS) = the systems that businesses use to maintain customer contac

**CASE STUDY: McDonald's**
→ Materials - 430 million hamburger buns, 90 million english muffins, 25 million kilos of beef etc.
→ Information - noticing a shift in preference towards healthier choices introduced grilled chicken, salads and healthier combos

- transforming resources (human resources, facilities)

→ inputs that carry out the transformation process

**Human Resources** → co-ordinate and combine other resources to produce goods and services
- The way people work impacts how inputs are converted
- Employees are the single most important input into businesses

**Facilities** → the plant/office/factory/machinery used in the operations process.
- Help to create quality work environment

**CASE STUDY: McDonald's**
→ HR - has over 106,000 staff, front counter (greet customers & take orders), host (assisting customers using the touch-screen machines), kitchen crew (prepare orders)
→ Facilities - grills, fridges, fryers, drink dispensers, coffee machines, bathrooms (quality facilities impact their efficiency)

- transformation processes

Transformation = the conversion of inputs into outputs

- the influence of volume, variety, variation in demand and visibility (customer contact)

→ **volume** = how much product is made, volume flexibility is essential to responding to changes
→ **variety** = the mix of products made & services delivered
→ **variation in demand** = businesses aim to forecast demand to that adjustments can be made accordingly
→ **visibility (customer contact)** = contact through surveys, interviews, warranty claims and letters (customer feedback shape what the businesses produce)

**CASE STUDY: McDonald's**
→ volume = changing volume of seasonal products (eg. frozen drinks and ice cream) to maintain short lead times
→ variety = having breakfast, beef and chicken burgers, 16 drinks, 7 wraps and salads, 50 mccafe items
→ variation in demand = having contact to fast produce when fluctuations occur
→ visibility = customers can give online feedback using an online form or customer service line

- sequencing and scheduling

→ help to structure the transformation process
→ sequencing = the order in which activities i the operations process occur
→ scheduling = the length of time activities in  the operations process take

**CASE STUDY: McDonald's**
→ McDonald's sequences its process so that assembly of a burger can be managed in a way that is efficiency and consistent
→ Manages timing of making friends, beef patties, nuggets, dispensing drinks

- gantt charts
- critical path analysis

→ gantt charts and CPA are scheduling tools.

**Gantt charts** = outlines activities that need to be performed, the order in which they need to be performed and their duration

- Used for processes that have several steps
- Advantages: forces managers to take appropriate steps, makes it easier to monitor progress

**Critical path analysis** = scheduling method that shows what takes need to be done, duration  and what is required to do the tasks

- The <u>critical path</u> is the shortest length of time it takes to complete all tasks necessary

- technology, task design and process layout

**Technology** = application of science or knowledge that enables people to do new things

- Office technologies → mobile phones, computers, personal digital assistants, EFTPOS machines
- Manufacturing  technology → robotics, computer-aided design & computer-aided manufacturing

**Task Design** = planning the flow of activities

- Define what needs to be done, identify who needs to do it, breakdown takes int specific skills, allocated time and difficulty elements

Skills audit → formal process used to determine the present level or skill or skill shortfalls
Workplace layout → the way in which machinery and technology is orientated in the operations plant

**Process Layout** = arrangement of machinery so that they are grouped together by the function they perform

**CASE STUDY: McDonald's**
→ technology - online ordering on the 'mymaccas' app
→ task design - greet the customer, take their order, repeat order back, state the total
→ process layout - kitchen layout is based on appliances used to make a specific product

- monitoring, control and improvement

Monitoring → measuring actual performance against planned performance (typically measuring KPIs)
Control → when KPI's are assessed and corrective action is taken if required (comparing what was intended to what actually happened)
Improvement → systematic reduction of inefficiency, wastage, poor work processes and bottle necks
- Bottlenecks is a process which slows down the overall processing speed

- outputs

→ the end result of business efforts - the good/service provided or delivered to the customer
→ must be responsive to customer demands

- customer service

→ how well the business meets and exceeds the expectations of the customer
→ if not satisfied, processes need to be reviewed

**CASE STUDY: McDonald's**
→ seeks customer feedback thorough in-store questionnaire
→ recruiting staff that are customer-centred and friendly

- warranties

→ a promise made by the business that they will correct any defects in the goods/services

- **operations strategies**
- quality, speed, dependability, customisation, cost

**Quality** → the quality of a good or service determined by customer expectations
- Quality design (high grade materials, functionable), quality of conformance (meeting standard of prescribed design), quality of service (reliability of service, time efficiency)

**Speed** → the speed of response (time between product request and getting it)
- Aiming to satisfy customer demands as fast as possible
- Goals = reduced wait times, shorter lead times, faster processing

**Dependability** → how reliable products are
- How long they can be used before they fail
- Eg. warranty claims

**Flexibility** → how quickly operations processes adjust to changes in the market
**Customisation** → creating individualised products
**Cost** → the minimisation of expenses so operations is cheap as possible
Eg. through new technology

**CASE STUDY: McDonald's**
→ quality - fresh meat and vegetables
→ speed - 11 seconds to toast a bun, 20 seconds to assemble burger, 14 seconds to wrap burger
→ customisation - create your taste menu
→ cost - changes in minimum wage in the US caused Big Mac's to go from $3.99 to $4.67 (17% increase)

- new product or service design and development

Design → new products, innovations and ideas
Development → implementing and testing ideas

Approaching design and development:
- Responding to consumer preferences
- Changes in technology innovations

A service can be:
1. Explicit - the application of time, expertise, skill & effort.
2. Implicit - the feeling of being looked after.

**CASE STUDY: McDonald's**
→ products = create your taste menu, gourmet creations
→ services = children's birthday party packages, play areas, meeting rooms, free wifi, newspapers

- supply chain management

→ integrating and managing the flow of supplies throughout inputs, transformation and outputs to meet customer needs
→ factors impacting supply choice: consumer demand, quality of inputs needed, timeliness of supply, cost of supplier

- global sourcing, e-commerce, logistics

→ **global sourcing** = businesses purchasing supplies or services without being constrained by location
- Buying supplies from where the suppliers best meet needs (even if its overseas)

→ **e-commerce** = buying and selling via the internet
- e-procurement = using online systems to manage supply
- B2B = selling from business to supplier
- B2C = selling to a customer online, usually using credit card

→ **logistics** = refers to distribution, including transportations, storage, warehousing & distribution centres
- Distribution = getting goods/services to the customer
- Storage = a secure place to hold stock until it is required
- Warehousing = the use of a warehouse for the storage, protection and distribution of stock

→ distribution centre: strategically located to minimise time takes to supply stock to retail outlets
→ materials handling: the movement and storage of goods

**CASE STUDY: McDonald's**
→ logistics - McDonalds has established, owned and operated distribution centres to ensure reliable supply to its restaurants
→ eg. Australia uses Australian beef, UK uses British beef

- outsourcing
- advantages & disadvantages

**Outsourcing** → the use of external providers to perform business activities
Eg. manufacturing, merchandising, logistics
*Advantages* = simplification, cost savings, efficiency
*Disadvantages* = communication issues, uncertainty, loss of control

**CASE STUDY: McDonald's**
→ outsourcing management IT services and point of sale software

- technology
  - leading edge, established

**Technology** → helps gain competitive advantage by gaining efficiencies to improve operations

- Leading edge = the most advanced technology (helps faster products, reduce waste, efficiency)
- Established = technology that is developed and widespread  (eg. barcodes, computers)

> **CASE STUDY: McDonald's**
> → drink-dispensing machines to improve HR costs and efficiency

- inventory management
  - advantages and disadvantages of holding stock, LIFO, FIFO, JIT

→ monitoring and controlling all the stock and when it comes in and when it goes out

**Holding stock** = just in case stock, held as reserve in case of interruptions or unexpected increase in demand

- *Advantages*: reduce lead time, shown as an asset on the balance sheet
- *Disadvantages*: costs of storage, cost if stock never sells

**LIFO** = last in first out, stock purchased most recently and used first

- *Advantages*: matching revenue to costs, simple to operate, suitable  for when prices are rising
- *Disadvantages*: inventory valuation does not reflect current prices

**FIFO** = first stock purchased, the oldest and will be used first

- *Advantages*: the freshest stock is being sold
- *Disadvantages*: never shown as an asset

**JIT** = ensures that the exact amount of inputs will arrive as they are needed

- *Advantages*: saves money, shrinkage costs
- *Disadvantages*: allows responsiveness to changes in demand

> **CASE STUDY: McDonald's**
> → throw out unsold chips after 7 minutes and burgers after 20 minutes
> → using stock control system called *manugistics*

- quality management
  - control, assurance, improvement

→ the degree of excellence of a product/service

**Management** = processes  undertaken to ensure consistency, reliability, safety and fitness
**Control** = refuses problems and defects in the product by using inspections
**Assurance** = use of a system to ensure that standards are achieved
**Improvement** = focus on continuous improvement and total quality management

**Total quality management (TQM):** managing the entire business to deliver quality to customers

- Commitment and responsibility from employees
- Achieved through benchmarking, employee empowerment, customer focus

> **CASE STUDY: McDonald's**
> → control: testing sample of outputs to predetermined standards
> → assurance: McDonald's Supplier  Quality Management (SQMS)

- overcoming resistance to change
  - financial costs, purchasing new equipment, redundancy payments, retraining, reorganizing plant layout, inertia

→ changes in the external environment (legislative, regulatory, economic conditions, technological)
→ internal environment = staff & technology

**Financial cost** → organising change impacting profits, dividends, share profits
**Purchasing new equipment** → necessary to keep up with technological advancements. Helps to imptorb flexibility, speed, consistency, quality and reduce waste  - financial cost
**Redundancy payments** → paying workers who are no longer required after a change is made - financial cost
**Retraining** → on or off the job, gaining new skills (eg. software operation)  - is time and cost inefficient
**Reorganizing plant layout** → is a resistance factor because of the cost or transporting, powering and placing
**Inertia** → psychological resistance to change (fear of uncertainty)

*Kurt Lewin's freeze/change/unfreeze model*

1. Freeze - breaking down the forces supporting existing technology, preparing for change
2. Change - new prodoceedsures communicated and implemented
3. Refreeze - managers offer positive view on changes

*John Kotter's eight-step model*

| | |
|---|---|
| 1. Establish sense of necessity | 5. Empower people to fulfill vision |
| 2. Form a guiding group | 6. Recognise and reward achievements |
| 3. Create a vision | 7. Consolidate improvements |
| 4. Communicate vision | 8. Institutionalise the changes |

- global factors
  - global sourcing, economies of scale, scanning and learning, research and development

→ broad reference to coursing business supplies or services without being constrained by location
→ *advantages*: cost advantage, access to new technologies, access  to other resource
→ *challenges*: possible relocation of aspects of operations, storage and distribution

**Economies of scale** → cost advantages that can be gained by producing on a larger scale

**Scanning and learning** → scanning the global environment and learning from the best practices of businesses around the world

**Research and development** → helps create leading edge technologies and create innovative product and solutions

**CASE STUDY: McDonald's**
→ R&D for McDonalds is a constant process focusing on the external environment
→ they engage with suppliers, customers & franchisees to ensure product satisfy stakeholders

# MARKETING

## role of marketing

- strategic role of marketing goods and services

→ the process of creating a product then developing and implementing strategies that aim to promote, price and distribute the product to the market

**Profit maximisation** → a maximum difference between total revenue coming into the business and total costs

- interdependence with other key business functions

Marketing concept → a business philosophy that states that all sections of a business to satisfy customers
Marketing plan → a document that lists activities aimed at echoing marketing outcomes

- production, selling, marketing approaches

**Production approach (1820's-1920's)**
- Focused on the production of goods and services, 'if we make it, they will buy it"
- Focused everything into production with no consideration of marketing

**Selling approach - stage one (1920's-1960's)**
- Focused on competition, increasing spending on advertising and sales representatives

**Marketing Approach - stage two (1980's to present)**
- Customer oriented, marketing strategies, business plan in order to achieve business goals

- types of markets
  – resource, industrial, intermediate, consumer, mass, niche

**Market** = a group of individuals, organisations or both that need/want products, have the money, are willing to spend their money, are socially and legally authorised to purchase the product.
**Resource Market** → consists of those individuals or groups that are engaged in all forms of primary production, including mining, agriculture, forestry and fishing.
**Industrial Market** → industries and businesses that purchase products to use in the production of other products or in their daily operations.
**Intermediate Market** → consists of wholesalers and retailers who purchased finished products and resell them to make a profit.
**Consumer Market** → consists of individuals - this is, members of a household who plan to use or consume the products they buy.
**Mass Market** → the seller mass-produces , mass-distributes and mass-promotes one product to all buyers.
**Niche Market** → also known as a concentrated or micro market, is a narrowly selected target market segment.

**CASE STUDY: McDonald's**
→ retailing goods to individual consumers, therefore, a consumer market

## influences on marketing

- factors influencing customer choice – psychological, sociocultural, economic, government

→ **customer choice** = decisions and actions of customers when they search for and purchase goods and services

**Physiological influences**
- Factors within an individual influencing buying choice
- Perception (view), motives (reasoning for doing something), attitudes (feeling about a product), personality (characteristics), learning (information) and self-image

**Sociocultural influences**
- Forces exerted by other people/groups
- Social class, culture and subculture (beliefs), family roles, peer groups

**Economic influence**
- Economy movement influencing consumer spending, in relation to (un)employment.

**Government influence**
- Policies directly influencing spending habits
- Eg. Competition and Consumer Act 2010, Sale of Goods Act 1923 (NSW), Fair Trading Act 1987 (NSW)

**CASE STUDY: McDonald's**
→ a growing 'foodie' mentality has forced McDonalds to offer more healthier options (salads, wraps)
→ legal regulations mean the publishing of calories on foods

- consumer laws

→ in 2011, a single national consumer law was introduced (Australian Consumer Law → ACL)
→ covers: product safety, labelling, market prices, price monitoring, industry codes, mergers & acquisitions
→ breaches of the act result in the ACCC issuing on the spot fines of thousands of dollars

– deceptive and misleading advertising

**Bait & switch advertising** → advertising a product cheap to entice customers, and when they run out customers have to buy a more expensive product.
**Dishonest advertising** → using deceptive words saying that a product has a quality that it does not

– price discrimination

→ setting of different prices in separate markets (eg. different geographical location)

– implied conditions

→ unspoken and unwritten words of a contract
→ eg. the product must be of acceptable quality, match the description, care in delivering service

– warranties

→ designed to offer a degree of protection to the customer if the good is faulty or the service is not carried out with care.

- ethical – truth, accuracy and good taste in advertising, products that may damage health, engaging in fair competition, sugging

→ conduct that goes above legal requirements

**Truth & accuracy in advertising**
→ advertising - a paid, non-personal message communicated through a mass medium
→ advertising should be as truthful as they are held morally responsible
→ shouldn't have: untruths in concealed facts, exaggerated claims (puffery), vague statements

**Good taste in advertising**
→ what is acceptable and not offensive to people
→ being aware of a younger audience

**Products that may damage health**
→ federal codes restrict the advertising of junk foods on channels for kids

**Engaging in fair competition**
→ Competition & Consumer ACt 2010 (prohibits: cartel conduct, misuse of power, exclusive dealing, resale)

**Sugging**
→ selling under the disguise of a survey (market research)

**CASE STUDY: McDonald's**
→ in 2012, McDonalds was found to have breached Spam Act 2003 by sending text messages regarding happy meal deals, with no opt out option
→ in 2015, they were accused of not good taste in advertising by focusing on the toy in the happy meal rather than the food itself

**marketing process**

- situational analysis – SWOT, product life cycle

**SWOT**

- The identification and analysis of the internal strengths and weaknesses of the business and the opportunities and threats from the external environment.
- A business must constantly monitor changes, looking for opportunities to exploit and threats to avoid

**Product Life Cycle**

- Stages that a product passes through: introduction, growth, maturity and decline

**TABLE 7.1** Marketing strategies relevant to different stages of the product life cycle

| | Introduction stage | Growth stage | Maturity stage | Decline stage |
|---|---|---|---|---|
| **Description** | The business tries to increase consumer awareness and build a market share for the new product. | Brand acceptance and market share are actively pursued by the producers of the product. | Sales plateau as the market becomes saturated. | Sales begin to decline as the business faces several options. |
| **Product** | Brand and reliability are established. | Quality is maintained and improved and support services may be added. | Features and packaging try to differentiate the product from those of competitors. | Product is maintained with some improvements or rejuvenation. Cut the losses by selling it to another business. |
| **Price** | Price is often noticeably lower than competitors' prices in order to gain a market foothold. | Price per unit of production is maintained as the firm enjoys increased consumer demand and a growing market share. | Price may need to be adjusted downwards to hold off competitors and maintain market share. | Price is reduced to sell the remaining stock. |
| **Promotion** | Directed at early buyers and users. Communications seek to educate potential customers about the merits of the new product. | Promotion now seeks a wider audience. | Continues to suggest the product is tried and true — it's still the best. | Promotion is discontinued. |
| **Distribution** | Distribution is selective, which enables consumers to gradually form an acceptance of the product. | Distribution channels are increased as the product becomes more popular. | Incentives may need to be offered to encourage preference over rival products. | Distribution channels are reduced and product is offered to a loyal segment of the market only. |

**CASE STUDY: McDonald's**
→ strengths = goodwill, global brand, market share
→ weaknesses = poor operating performance, protecting intellectual property
→ opportunities = expansion into countries, reinvesting in restaurant, SMA
→ threats = negative publicity, commodity price increase, interruptions to supply chain

- market research
  - The process of systematically collecting, recording and analysing information concerning marketing problems
  - 3 step process → 1. Determining information needed, 2. collecting data from primary(eg. surveys) and secondary (eg. industry reports) sources, 3. Data analysis & interpretation

**CASE STUDY: McDonald's**
→ in 2005, asked 2602 people in Australia what they hope to see in McDonalds products
→ found more people wanted healthier options
→ as a result they improved use of vegetable oil, salt reduction, seared chicken

- establishing market objectives

1. **Increasing market share** → gaining share in the total industry sales for a particular product
2. **Expanding the product mix** → expanding product range to better understand customers' needs
3. **Maximising customer service** → meeting and exceeding the expectations of customers in all aspects
   - Can be done through asking customers what they want, anticipating market trends, R&D.

**CASE STUDY: McDonald's**
→ 3 pillar approach = 1. Retaining existing customers, 2. Regaining lost customers, 3. Converting casual customers

- identifying target markets

**Target market** → a group of present and potential customer to which a business intends to sell its products to
- Customers in target market share certain characteristics

**Mass marketing** → seeking a large range of customers, developing a single marketing mix, one distribution channel to reach all customers
**Market segmentation** → total market is subdivided into groups (demographic, geographic, psychographic)
**Nicha market** → narrowly selected, needs often neglected by large businesses

**CASE STUDY: McDonald's**
→ UK target market = families and busy workers

- developing marketing strategies

Marketing strategies are actions taken to achieve the business' marketing objectives through the marketing mix.

**Product** → good or service exchanged for money
- Determining features of the product (quality, packaging, design, brand name & guarantee)

**Price** → the 'correct' price is the amount of money a customer is prepared to offer for a product
- The method that the business uses to price a product

**Promotion** → methods used by a business to inform, persuade and remind customers about its products
- Forms of advertising, personal selling, relationship marketing, publicity, public relations

**Place/Distribution** → channels of distribution - getting the product to the customers

**CASE STUDY: McDonald's**
→ enhancing digital capabilities to elevate customer experience
→ redefining customer convenience (delivery)
→ creating a more personalised & enjoyable experience

- implementation, monitoring and controlling

**Implementation** is the process of putting the marketing strategies into operations
**Monitoring** is the process of measuring actual performance against planned performance & report
**Controlling** involves the comparison of planned performance against actual performance & make changes

**CASE STUDY: McDonald's**
→ mymaccas app used to increase sales as a result of loss of sales between 2015 & 2016

– developing a financial forecast; comparing actual and planned results, revising the marketing strategy

**Financial forecast** → the business's predictions about the future
- Measuring the sales potential and revenue forecasts and comparing these with the anticipated expenditures
- *Two steps: cost estimate & revenue estimate*

**Camping actual and planned results:**

1. Sales analysis
    - Comparison of actual sales with forecast sales to determine effectiveness of marketing strategies
2. Market share analysis
    - A businesses ability to evaluate its marketing strategies compared to those of its competitors
3. Marketing profitability analysis
    - The business breaks down the total marketing costs into specific activities

**Revising the marketing strategy:**
- Assessing which objectives are being met and which are not
- Can be revised by: changes in the marketing mix (changing the 4p's), new product development (intorudibew new products after 5-10yrs), product deletion (elimination of unsuccessful/outdated products)

**marketing strategies**

- market segmentation, product/service differentiation and positioning

Market segmentation occurs when the total market is subdivided into groups who share characteristics
- After being segmented, one market is chosen as the target market
- *Demographic*: age, gender, education, occupation, income, social status
- *Geographic*: region, urban, suburban, rural, city size, landforms, climate
- *Psychographic* : lifestyle, personality, motives, socioeconomic group
- *Behavioural*: purchase occasion, benefits sought, loyalty, usage ate, usage rate, price sensitivity

**Product/service differentiation** is the process of developing and promoting differences between business's products or services and those of its competitors
- *Points of differentiation:* quality of service, convenience, more features, value of money

**Product/Service positioning** refers to the technique which marketers try to create an image of identity for a product compared with the image of its competing product
- Done in relation to the chosen target market

**CASE STUDY: McDonald's**
→ demographic = happy meals having toys
→ psychographic = having healthier options
→ geographic = options based on location (eg. Japan has teriyaki mcburger, shrimp fried and chocolate fries)

- products – goods and/or services
  – branding
  – packaging

**Products** → goods and services that can be offered in exchange for the purpose satisfying a need or want
- A combination of tangible and intangible components
- *Total product concept:* the tangible and intangible benefits that a product possesses

**Branding** → a name, term, symbol or logo that identifies a specific product and distinguishes it from its competitors.
- Brand name is that part of the product that can spoken
- Powerful marketing tool
- Helps to identify specific product, evaluate product value, gain repeat sales, encourage customer loyalty

**Packaging** → involves the development of a container and the graphic design for a product
- Preserves the product, protects the product, attracts consumers attention

**Labelling** → presentation of information on a product or its packaging
- name , description, date mark, country of origin, warnings

**CASE STUDY: McDonald's**
→ people are able to recognise the golden arches
→ using package to make claims ('beef: great taste' , '100% beef')

- price including pricing methods
  – cost, market, competition-based
  – pricing strategies – skimming, penetration, loss leaders, price points
  – price and quality interaction

**Price** refers to the amount of money a customer is prepared to pay in exchange for a product.
- Price too high can mean loss of sales, price to low gives a bad quality impression
- Pricing methods are influenced by internal and external factors

**Cost-based** → derived from the cost of producing or purchasing a product then adding a mark-up
**Market-based** → setting prices according to the interaction between levels of supply and demand
**Competition-based** → the price covers costs and is comparable to the competitors price.
- Either below, equal to or above the competitors

Pricing strategies:
**Price skimming** → charging the highest possible price, during the introduction stage
- Used to recover costs of R&D

**Price penetration** → charging the lowest possible price
- Used to achieve large market share

**Loss leaders** → a product sold at or below cost price
- Used to gain customers willing to buy other products as well

**Price points** → selling products at predetermined prices
**Price bundling** → buying several products for a comprehensive package
Price & quality interaction → 'you get what you pay for' → products of high quality are sold for more due to higher manufacturing prices

**CASE STUDY: McDonald's**
→ 'loose change menu' (loss leader) - enticing customers to buy a cheap option as well as a more expensive
→ price bundling with family boxes, value meals
→ price points, higher quality burgers are more expensive

- promotion
  – elements of the promotion mix – advertising, personal selling and relationship marketing, sales promotions, publicity and public relations
  – the communication process
  – opinion leaders, word of mouth

**Promotion** is methods used to inform, persuade and remind the target market about its products
- Used to attract new customers, increase brand loyalty, encourage existing customer to return

**Advertising:** paid, non-personal message through a mass medium
- Mass, direct, telemarketing, e-marketing, social media, billboards

**Personal selling:** sales representatives directed to a customer in attempt to make a sale
- Can be modified, individualised, after-sales customer service

**Relationship marketing:** development of long-term and cost-effective relationships with customers
- Aim to create loyalty programs to encourage repeat sales

**Sales promotions:** the use of activities or materials as direct inducements to customers
- To entice new customers, encourage trial purchases (eg, coupons, refuneds, premiums)

**Publicity:** free news story about business's new products
**Public Relations:** aimed at creating and maintaining favourable relations between business and its customers
- Promoting positive image, effective communication, issues monitoring, crisis management

Communication process
- Used to communicate clearly, efficiently and succinctly to their target markets
- A channel is any method used for carrying a message

**Opinion leaders** → a person who influences others
**Word of mouth** → people influencing each other during conversations

**CASE STUDY: McDonald's**
→ TV commercials, radio ads, catch phrases
→ relationship marketing - exclusive offers, free wifi, online offer wallet, newsletter with offers and deals
→ publicity by sponsoring sporting event (including the olympics, FIFA, v8 supercars)

- place/distribution
  – distribution channels
  – channel choice
  – intensive, selective, exclusive
  – physical distribution issues
  – transport, warehousing, inventory

**Distribution channels** → roots taken to get the product from the factory to the customer, involving intermediaries.
- Procedure to customer
- Producer to retailer to customer
- Producer to wholesaler to retailer to customer (most common)
- Producer to agent to wholesaler to retailer to customer

Channel choice:
- Businesses channel of distribution best suited to the product

**Intensive distribution** → saturating the market with its products
**Selective distribution** → using a moderate proportion of all possible outlets
**Exclusive distribution** → only one retail outlet for a products in a large, geographic location

**Physical distribution** → activities concerned with the efficient movement of the products from the producer to the consumer.
- **Transport** → an intricate network of transportation required to deliver the vast array of products
- **Warehousing** → a set of activities involved in receiving, storing and dispatching goods
- **Inventory** → a system that maintains qualities and varieties or products appropriate for the target market

**CASE STUDY: McDonald's**
→ using a selective distribution channel
→ partnership with uber eats in 2017

- people, processes and physical evidence

**People** → quality interaction between the customer and those within the business who will deliver the service
  - Perceptions made on how employee treat them

**Processes** → the flow of activities that a business will follow in its delivery of a service
  - To achieve customer satisfaction

**Physical Evidence** → the environment in which the service will be delivered
  - Brochures, signage, calling cards, letterheads, business logo, high quality furniture

- E-marketing

The practice of using the internet to perform marketing strategies
  - Web marketing, internet marketing, online marketing
  - Used to creator a larger reach
  - Web pages, podcasts, SMS, blog, social media advertising

- global marketing
  – global branding
  – standardisation
  – customisation
  – global pricing
  – competitive positioning

→ adapting marketing plan to suit overseas markets
→ **transnational corporation (TNC)** - any business that has production facilities in two or more countries and that operate on a worldwide scale.
**Global branding** → worldwide use of a name, term, symbol or logo to identify the seller's product
**Standardisation** → a global marketing strategy that assumes the way the product is used is the same worldwide
**Customisation** → global marketing approach that assumes the way the product is used is different between countries
**Global Pricing** → how businesses coordinate their pricing policy across different countries
  - Customised pricing, market-customised, standard worldwide

**Competitive positioning** → how a business differentiates its products to maintain a competitive advantage

**CASE STUDY: McDonald's**
→ using the same logo worldwide (global branding)
→ offering the famous BigMac worldwide (standardisation)
→ having meals specific to location (customisation)

# FINANCE

**role of financial management**

- strategic role of financial management

→ planning and monitoring the business's financial resources to enable the business to achieve its financial objectives

→ setting financial objectives, sourcing finance, preparing budgets, financial statements, maintaining cash flow, distributing funds

- objectives of financial management

  – profitability, growth, efficiency, liquidity, solvency

**Profitability** → the excess of revenue over expenses

**Growth** → the ability of the business to increase its size in the longer term

**Efficiency** → the ability of a business to minimise its costs to manage assets and maximise profits

**Liquidity** → ability to meet financial commitments in the short-term

**Solvency** → ability to meet financial obligations in the long-term

**CASE STUDY: McDonald's**
Profitability - aims to grow operating margin between 20-40% annually
Growth - aims for 3-5% sales growth annually
Efficiency - aims to reduce administrative expenses by 1%
Liquidity - aims to increase on-hand cash from $12B to $2.5B (USD) from 2016-2017
Solvency - continue returning cash to shareholders

Short term financial objective are the tactical (one or two year) operational plans of the business
Long term financial objective are the strategic plans for the business set for over 5 years

– short-term and long-term interdependence with other key business functions

→ Operations department require funds to purchase inputs and carry out transformation

→ Marketing department requires funds to undertale various forms of promotion

→ HR department requires funds in order to pay staff

**influences on financial management**

→ business needs funds in order to establish itself and thrive

- internal sources of finance – retained profits

→ funds generated from inside the business

→ retained profits - international finance retained from earnings/profits when not all profits are distributed but kept in the business as a cheap and accessible source of finance.

**CASE STUDY: McDonald's**
→ 2017 annual report shows that the company has $48.3Billion (USD) in retained profits

- external sources of finance

→ funds provided by sources outside of the business

- – debt – short-term borrowing (overdraft, commercial bills, factoring), long-term borrowing (mortgage, debentures, unsecured notes, leasing)

→ short-term borrowing and long-term borrowing from external sources by a business.

**Short term**

- Overdraft: one of the most common types, a bank allows a business to overdraw on their account with minimal costs
- Commercial bills: short-term loans issued by financial institutions, for larger amounts over $100,000 for 30-180 days. They are usually secured against the business' assets

- Factoring: raising funds by selling accounts receivable

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| **CASE STUDY: McDonald's**<br>→ McDonalds has available $25Billion (USD) in overdraft |

**Long term**

- Mortgage: secured by the property of the borrower, repaid with interest
- Debentures: issued by a company for a fixed rate for a fixed period.
    - Raising funds from investors rather than institutions
- Unsecured notes: loans from investors for a set period of time, not secured against assets with a higher interest rate
- Leasing: the payment of money for the use of equipment
    - Operation leases = short periods
    - Financial leases = for the life of the asset

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| **CASE STUDY: McDonald's**<br>→ McDonalds leases 12,262 stores worldwide, paying around $16Billion (USD) annually |

- – equity – ordinary shares (new issues, rights issues, placements, share purchase plans), private equity

→ the finance raised by a company through inviting new owners

- Done through the Australian Securities Exchange (ASX)

**Ordinary shares**

- Most commonly traded shares in Australia
- Individuals become part-owners of a publicly listed company
- Dividend: distribution of company's profits to shareholders and is calculated as cents per share

**New issue** = a security that has been issued and sold for the first time to the public market
**Rights issue** = the privilege granted to shareholder to buy new shares in the same company
**Placements** = allotment of shares made directly from the company to investors
**Share purchase plans** = an offer to existing shareholder in a listed company to buy more shares with no brokerage fee
**Private Equity** → money invested in a private company, not listed on the ASX

- Used to raise capital to finance future expansion

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| **CASE STUDY: McDonald's**<br>→ McDonalds has issued 1,660 million shares |

- financial institutions – banks, investment banks, finance companies, superannuation funds, life insurance companies, unit trusts and the Australian Securities Exchange

**Financial institutions** collect funds and invest them in financial assets.
→ **banks** - major operators in financial markets, most important source of funds for businesses
→ **investment banks** - provides services in both borrowing and lending to the business sector

- Eg. trade in money, provide working capital, arrange project finance, advice on mergers and takeovers

→ **finance companies** - non-bank financial intermediaries that specialise in commercial finance

- Eg. short term loans, raise money through debentures

→ **superannuation** - requires all employers to make financial contribution to a fund which provides benefits when employee retires (federal government scheme)
→ **unit trust** - mutual funds - funds from smaller investors, invested in financial assets

Australian Securities Exchange (ASX)

- Created by a merger in 2006
- Australian stock exchange & sydney futures exchange
- Offers… shares, futures, warrants, contracts, real estate investment
- Primary & secondary market

- influence of government – Australian Securities and Investments Commission, company taxation

**Australian Securities and Investment Commission (ASIC)**

- Independent statutory commission accountable to the commonwealth parliament
- Corporations Act 2001
- Aims to reduce fraud and unfair practices

**Company Taxation**

- Company tax is paid before profits are distributed to shareholders and dividends
- Federal tax system it to improve Australia's international competitiveness

> **CASE STUDY: McDonald's**
> → in 2016, Mcdonalds paid AU$109million in tax on AU$374 million in profits

- global market influences – economic outlook, availability of funds, interest rates

**Global economic outlook** → the projected changes to the level of economic growth throughout the world

- Positive (increase demand, decrease in interest rates) or negative (increase consumer confidence or oil prices)

**Availability of funds** → the ease with which a business can access funds on international financial markets
**Interest rates** → the cost of borrowing money, Australian tends to be above others eg. US or Japan

**processes of financial management**

- planning and implementing – financial needs, budgets, record systems, financial risks, financial controls

**Financial needs** → determine where a business is headed and how it will get there, through balance sheet, income statement, cash flow statement, budgets, banks statements, weekly reports etc.
**Budgets** → information in quantitative terms about requirements to achieve a particular purpose.

- Operating expenses, project budgets, financial budgets

**Record systems** → mechanisms employed by a business to ensure that data is recorded and the information provided by record systems is accurate, reliable, efficient and accessible.
**Financial risks** → the risk to a business of being unable to cover its financial obligations

- Eg. theft, fraud, damage/loss of assets, errors in record systems

**Financial controls** → policies and procedures that ensure that the plans of the business will be achieved in the most efficient way

> **CASE STUDY: McDonald's**
> → in 2018, McDonalds planned to outlay US$2.5billion in capital expenditure to renovate and open new stores, recognising financial needs and budgeting for them

– debt and equity financing – advantages and disadvantages of each

**Debt finance** → short and long term borrowing from external sources

- *Advantages:* funds readily available, interest payments are tax deductible, flexible payment periods
- *Disadvantages:* increased fisk, security required, regular payments must be made, interest must be paid

**Equity finance** → internal sources of finance in the business

- *Advantages:* does not have to be repaid, cheaper, low gearing, less risk
- *Disadvantages:* lower profits & lower returns, long and expensive, ownership is diluted

> **CASE STUDY: McDonald's**
> → due to currency fluctuation risk in 2017, Mcdonalds heald approx. 41.5% of its debts in other currencies (not USD) - *advantage of debt financing*

– matching the terms and source of finance to business purpose

→ the terms of finance must be suitable for the purpose of the funds being used
→ financial managers should match the length/term of the loan with the economic lifetime of the asset

**CASE STUDY: McDonald's**
→ McDonalds lease most of the land and buildings in which they use, they use a 25 year lease contract matching the 25 year franchisee lease from the company

- monitoring and controlling – cash flow statement, income statement, balance sheet

**Cash flow statement** → financial statement which indicates the movement of cash receipts and cash payments resulting from transactions

- Shows ability to pay debts on time
- Potential shareholders check a business has positive cash flow
- Shows: operating activities, investing activities and financing activities (borrowing activities)

**Income statement** → summary of the income earned and the expenses incurred over a period of trading

- Record income, record COGS, work out gross profit, calculate net profit

**Balance sheet** → represents a business's assets and liabilities at a particular time, expressed in money terms

- Assets = items of value owned by the business
- Liabilities = claims by people other than wonders against assets, what is owed by the business
- Owner's equity = funds contributed by the owner - represents net worth of the business

Assets = Liabilities + Owners' equity
Owners' equity = Assets – Liabilities
Liabilities = Assets – Owners' equity

**CASE STUDY: McDonald's**
→ McDonalds compares its ratios with Yum1 Brands Inc (KFC, taco bell)
→ current ratio - Mcdonalds = 1.85:1, Yum! = 1.65:1 (2017)
→ debt to equity ratio - both Mcdonalds and Yum! Have negative equity in 2017 due to buying back stock from shareholders
→ gross profit ratio - McDonalds = 68%, Yum! = 69%

- financial ratios
  – liquidity – current ratio (current assets ÷ current liabilities)

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

- Goals is to be over 1:1 (eg. 2:1)

  – gearing – debt to equity ratio (total liabilities ÷ total equity)

$$\text{Debt to equity ratio} = \frac{\text{Total liabilities}}{\text{Total equity}}$$

- Goal is to be below 1, meaning they have more equity than debt
- Increase equity (retain more profits, sell shares), decrease debt (sell non-essential assets

  – profitability – gross profit ratio (gross profit ÷ sales); net profit ratio (net profit ÷ sales); return on equity ratio (net profit ÷ total equity)

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Sales}}$$

- Difference between sales and cost
- Goal is to have the highest ratio possible

$$\text{Net profit ratio} = \frac{\text{Net profit}}{\text{Sales}}$$

- Goal is to have the highest ratio possible

$$\text{Return on equity ratio} = \frac{\text{Net profit}}{\text{Total equity}}$$

- Goal is to have the highest ratio possible
- Higher the ratio = higher return to owners/shareholders

– efficiency – expense ratio (total expenses ÷ sales), accounts receivable turnover ratio (sales ÷ accounts receivable)

$$\text{Expense ratio} = \frac{\text{Total expenses}}{\text{Sales}}$$

- Goal is to have the lowest percentage

$$\text{Accounts receivable turnover ratio} = \frac{\text{Sales}}{\text{Accounts receivable}}$$

- Should be less than 30 days
- Shows how long it takes the firm to pay its debts

– comparative ratio analysis – over different time periods, against standards, with similar businesses

**Analysis** → working the financial information into significant and acceptable forms, making it meaningful

- *Vertical* = within one financial year
- *Horizontal* = different financial years
- *Trend* = 3-5 year period

- limitations of financial reports – normalised earnings, capitalising expenses, valuing assets, timing issues, debt repayments, notes to the financial statements

→ **normalised earnings** - earnings that have been adjusted to take into account changes in economic conditions.

- Gives a more accurate depiction of the true earnings, making it easy to compare years.

→ **capitalising expenses** → a business records as expense as an asset on the balance sheet rather than income statements

- Understates and overstates the profit of the business

→ **valuing assets** - estimating the value of assets when recording them on the balance sheet, some assets are also difficult to value

→ **timing issues** - expenses incurred by the business on the income statement of the period in which revenue related is earned (eg. real estate agent earns 2% commission in June but paid in July, cost of commission is in June)

→ **debt repayment** - financial reports do not show how long the business has to pay debts, methods of recovering debt, when debts are due

Notes to the financial statement

- Reports the details and additional information that are left out of the main reporting documents
- Information for stakeholders, explain financial statements, accounting methodologies

**CASE STUDY: McDonald's**
→ McDonalds have intangible assets such as goodwill which cannot be recorded on financial reports
→ McDonalds uses straight-line depreciation which can impact the statement of assets

- ethical issues related to financial reports

Audited accounts → check of the accuracy of the financial records and accounting procedures

- Used by financial institutions, owners, shareholders and potential investors
- Internal, management or external orders

**financial management strategies**

- cash flow management
  – cash flow statements
  – distribution of payments, discounts for early payment, factoring

**Cash flow** → the movement of cash in and out of a business, if more money is going out then in there is an issue.

- Cash flow statements are used to display the movement of cash, identifying trends

Management: banks allowing the business to overdraw on their accounts

Strategies…

**Distribution of payments** → distributing payments throughout the month/year, creating more even cash flow
**Discounts for early payment** → offering debtors a discount for early payments
**Factoring** → selling accounts receivable for a discounted price

- working capital management
  – control of current assets – cash, receivables, inventories
  – control of current liabilities – payables, loans, overdrafts
  – strategies – leasing, sale and lease back

**Working capital management** → determining the best mix of current assets and current liabilities to achieve the objectives of the business

- More efficient = more profitable
- Current ratio shows the working capital of the business

Control of current assets

**Cash:** critical for the business, ensures that the business can pay its debts. Cash shortages can be avoided through time planning or purchases and payments
**Receivables**: sums of money due to the business from customers whom it has supplied foods and services
**Inventories**: make up a significant portion of current assets, levels must be monitored for too much or too little.

Control of current liabilities

**Payables:** a business must monitor their accounts payable and censure their timing allows adequate cash resources
**Loans:** managing short-term loans is important to make sure not too much borrowed
**Overdraft**: cheap and convenient form of short-term borrowing to cover cash shortage

Strategies

**Leasing:** a contract between lessor and lessee that lets the lessee rent an asset for a period of time for money
**Sale and lease-back:** selling an asset and then leasing it back through payments over time

- profitability management
  – cost controls – fixed and variable, cost centres, expense minimisation
  – revenue controls – marketing objectives

**Profitability management** → the control of both the business's cost and its revenues

Cost controls

- Understanding costs before controlling costs & monitoring the levels of costs crucial to the business

*Fixed costs:* those that are not dependent on the level of operating activity (do not change)
*Variable costs*: those that vary in direct relationship to the operating activity/production
**Cost centres** → particular areas, departments or sections of a business to which costs can be directly attributed

- Eg. IT department, HR department, accounting department, maintenance staff

**Expensive minimisation** → profits can be weakened if the expenses of the business are too high

Revenue controls

- Revenue = the income earned from the main activities of the business
- Determining an acceptable level of revenue in order to maximise profits a business must have clear ideas of sale objectives, sales mix and pricing

*Marketing objectives:* marketing strategies should lead to an increase in sales and therefore an increase in revenue, changes in the sales mix and affect revenues.
<u>Factoring influencing pricing…</u> production, competition, short & long-term goals, government

**CASE STUDY: McDonald's**
→ fixed costs = council rates, insurance premiums
→ variable costs = royalty fees payable, foods, drinks, packaging
→ mixed = wages, electricity, water

**global financial management**

– exchange rates
– interest rates
– methods of international payment – payment in advance, letter of credit, clean payment, bill of exchange
– hedging
– derivatives

**Global financial management** → strategies that can be adopted to deal with the financial risks and influences on global businesses.

- Uncontrollable influences include currency fluctuations, interest rates and overseas borrowing.

**Exchange rates** → when transactions are conducted on a global scale, currencies must be converted to another.

- Foreign exchange market determines the price of one currency relative to another
- Foreign exchange rate is the ratio of one currency to another
- An appreciation of the Australian dollar means imports are cheaper and exports are more expensive, reducing international competitiveness

**Interest rates** → the repayment of debts must allow for fluctuations in currency , Australia typically has higher interest rates, meaning Australian businesses tend to use overseas borrowing.

**Methods of international payment**

- *Payment in advance* - allows the  exporter to receive the payment and then arrange for the goods too be sent
- *Letter of credit* - a document that a buyer can request from their bank that guarantees the payment of goods will be transferred to the letter
- Clean payment - the exporter ships the goods directly to the importer before payment is received
- Bill of exchange - a document drawn up by the exporter demanding payment from the importer as a specified time.

**Hedging** → the process of minimising the risk of currency fluctuations.

- *Natural hedging* - minimising the risk of foriegn exchange exposure
- *Financial instrument hedging* - using derivatives which can minimise or spread the risk of exchange rate fluctuations

**Derivatives** → simple financial instruments that may be used to lessen the exporting risks associated with currency fluctuations.

- Forward exchange contract → exchange one currency at an agree exchange rate on a future date
- Option contracts → gives the buyer the right to buy and sell foreign currency at sometime in the future
- Swap controls → an agreement to exchange currency in the market with an agreement to reverse the transaction in the future (popular for businesses wanting to hedge)

**CASE STUDY: McDonald's**
→ Mcdonalds holds $12.4Billion in debt in countries other than the US (42% of its long-term debt)
→ McDondalds uses natural hedging techniques such as: exchange rate contracts, options and currency swaps

# HUMAN RESOURCES

## role of human resource management
→ the management of the total relationship between an employer and employee in order to achieve the strategic goals of the business.
- Employer = exercises control over employees, has the responsibility for the payment of wages
- Employee = under the control of an employer (incl. Location, supervision & way work is performed)

- strategic role of human resources

→ businesses need to continually examine ways to improve competitiveness and profitability, an effective workforce adds value to the business.
→ challenges = developing & retaining staff, improving leadership, managing aging workforce, increased role of technology

**CASE STUDY: McDonald's**
→ they publish a 60-page document named 'business conduct - the promise of the golden arches' setting out the standards and expectations the business has of employees

- interdependence with other key business functions

→ finance… effectively managing the cost of employees
→ operations… better relationships with employees improve performance in operations
→ marketing… strong relationships with customers to build business

- outsourcing
  – human resource functions
  – using contractors – domestic, global

**Outsourcing (contracting)** → the use of third-party specialists businesses(eg. Recruiting firms)
- Human resource functions commonly outsourced include: recruitment, induction, training, mediation, payroll
- Commonly outsourced for review: management, compensation, succession planning, surveys, benchmarking

Forms of outsourcing
1. Process → most dominant → eg. recruitment, complaints, food preparation
2. Project → found in HR, marketing, design, IT and research

**CASE STUDY: McDonald's**
→ Mcdonalds outsources work health and safety requirements to a company called SafetyWorks to ensure all stores are best equipped to meet legal mandates

## key influences
- stakeholders – employers, employees, employer associations, unions, government organisations, society

**Stakeholders** are any individual or group that has a common interest or is affected by the actions of a business.
- Employers handle HRM on a daily basis, paying wages, managing staff, training
- Employees are critical stakeholders in a business & careful HRM is important to retain them
- Employer associations are organizations that represent and assist employer groups
  - They provide advice on matters such as awards, unfair dismissal and dicrimination
- Trade unions are organisations formed by employees in an industry, trade or occupation, coming about in 1904
- Government organisations provide the legal framework for industrial relations
  → eg. SafeWork NSW, Australian Human Rights Commission
- Society is important as it is the stakeholder proving the revenue for the business

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| **CASE STUDY: McDonald's**<br>→ McDonalds has 1.9million employees, meaning they are a stakeholder in the business and affect HRM<br>→ 4,000 of their employees are apart of Shop, Distributive & Allied Employees Association (SDA) - the party which negotiated enterprise agreements for workers Australia wide |

- legal – the current legal framework
  – the employment contract – common law (rights and obligations of employers and employees), minimum employment standards, minimum wage rates, awards, enterprise agreements, other employment contracts

→ the employment contract creates obligations for both employer and employee
→ changing community and worker expectations on social justice, safety and environmental issues are reflected in legislation and work practices.
→ businesses have shifted from a centralised industrial relations system to a decentralised system.
- *Centralised*: a collectivist approach in which disputes are referred to industrial tribals (eg. Fair Work Commission, for conciliation/arbitration
- *Decentralised*: employers and employees negotiate wages and working conditions in the individual workplace through bargaining.

→ other organisations = fair work ombudsman, safe work australia, comcare, workplace gender equality agency

**Employment contract** → legally binding formal agreement between employer and employee.
- Every employee has a contract with an employer, most basic workplace relationship
- *Key features:* duties, supervision, hours, location, promotion policy, discipline policy, bonuses, overtime, superannuation, benefits, leave, salary

**Common law** is developed by courts and tribunals

| | ***RIGHTS*** | ***OBLIGATIONS*** |
|---|---|---|
| ***Employer*** | - Employees carry out work according to award<br>- Employees follow WHS<br>- Notified of leave | - Provide work<br>- Payment of income and expenses |
| ***Employee*** | - Be paid for time and overtime<br>- Receiving allowances<br>- Access to leave | - Carry out duties beneficial to the business<br>- Follow procedures<br>- Give appropriate notice of termination |

**Minimum employment standards**

| | |
|---|---|
| - Maximum weekly hours of work (38) | - Community service leave |
| - Requests for flexible arrangements (parents) | - Long service leave |
| - Parental leave and related entitlements | - Public holidays |
| - Annual leave | - Notice of termination & redundancy pay |
| - Personal/carer's leave | - Provision of Fair Work statement |

**Minimum wage rates** → an employee's base rate of pay for the number or ordinary hours that they have worked
- Determined by award, enterprise or national minimum wage

**Enterprise agreements** → collective agreements made at a workplace level between an employer and a group of employees about the terms and conditions of employment (must be approved by the Fair Work Commission)
- Single enterprise agreements: between single employee and employees
- Multi-enterprise agreements: two or more employers and employees
- Greenfields agreement: single or multi made before employees can be cover by the agreement are

employed

Other employment contracts
→ independent contractors - known as consultants or freelancers, undertale work for others (most commonly found in the construction industry)
→ contracts for casual work - employment that is short term, irregular and uncertain; they are not entitled to paid holidays or sick leave

**CASE STUDY: McDonald's**
→McDonalds is reliant on Fair Work Act 2009 to govern their employee/employer relationships (created a national approach to workplace award and negotiations

– work health and safety and workers compensation

→ Safe Work Australia was established to conduct research and develop national standards, codes of practice and common approaches to WHS laws
→ workers compensation provides benefits to an employee suffering from an injury or disease relation to their work

- Paid for loss of wages, medical/rehabilitation

**CASE STUDY: McDonald's**
→ The document named 'business conduct - the promise of the golden arches' outlines their commitment to providing a safe work environment, mandating accidents and unsafe practice must be recorded promptly

– antidiscrimination and equal employment opportunity

→ **disrcimination** = when a policy or a practice disadvantages a person of group of people because of personal characteristic that is relevant to the performance of the work

- Human Rights and Equal Opportunity Commission Act 1986 (Cwlth)
- Affirmative Action (Equal Employment Opportunity for Women) Act 1986 (Cwlth)
- Sex Discrimination Act 1984 (Cwlth) and the Anti-Discrimination Act 1977 (NSW)

→ **Equal Employment Opportunity (EEO)** - equitable policies and practices in recruitment, selection, training and promotion
→ affirmative action refers to measures taken to eliminate direct and indirect disrcimination.

- Employers with over 100 employees are obliged to develop an affirmative action plan

- economic

- The demand for employees is determined by the demand for goods and services

- technological

- Technological change is a major source of improvements in productivity, communication and competition between businesses

**CASE STUDY: McDonald's**
→ they use a system called *Metime* - an online platform that is used for rostering, training and pay

- social – changing work patterns, living standards

Changing work patterns has meant a growth in part time and casual work because of growth in finance, retail, hospitality.

- Carer flexibility and job mobility have both increase in recent years (eg. work from home)
- Increased participation for women or elders has also increased in the last three decades

→ **Living standards** - australians have one of the highest living standards in the world

- Australians strive to have quality jobs which are safe, meaningful, secure and productive

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| **CASE STUDY: McDonald's**<br>→ they are open 24-hours to meet changing work hours |

- ethics and corporate social responsibility

**Ethical business practice -** practices that are socially responsible, morally right, honourable and fair
**Corporate social responsibility (triple bottom line) -** the way that business considers the financial, environmental and social impacts of its decisions

- Code of conduct is a statement of acceptable and unacceptable behaviours in business
- Code of ethics is a statement of a firm's values and principles

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| **CASE STUDY: McDonald's**<br>→ has a policy to say that full time students will work no more than two shifts pers week and those below 17 years will not work beyond 11pm or before 5am on a school day |

**processes of human resource management**

- acquisition

→ the process of attracting and recruiting the right staff for the roles in a business

- Recruitment is the process of locating and attracting the right quantity and quality of staff
- Analysing internal (goal and culture, cost) and external environment (economy, legal, social)

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| **CASE STUDY: McDonald's**<br>→ uses a centralized approach, applicants can submit their details through a central website |

- development

→ the enhancing of skills of the employee in line with changing future needs of the business

- Further training, mentoring, coaching
- 1. Induction → introduce a new employee to their job & co-workers
- 2. Training → teach skills, knowledge and attitudes to improve work performance

**Mentoring and Coaching**

| *Differences between mentoring & coaching* | | |
|---|---|---|
| | **Mentoring** | **Coaching** |
| **Focus** | Individual life development, prepared for future roles. | Performance enhancement by building skills and capabilities, overcoming weaknesses, resolving specific issues |
| **Role** | → facilitator, guide, based on sharing advice and experience<br>→ personal relationship, more like a friend | → specific to employee's work function<br>→ assists employee in setting goals and finding solutions |
| **Function** | Provide advice that may assist in improving the way someone manages issues and situations | Shares skills, knowledge, styles and techniques that are relevant to employee needs |
| **Time frame** | No time frame | Specific time frame |
| **Structure** | Unstructured | More structured |
| **Benefits** | → individual, through personal growth, potential improvement in performance | → business, through improved teamwork, performance and productivity<br>→ may enhance morale |

| | | |
|---|---|---|
| | → may also benefit business<br>→ enhances morale | |

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| **CASE STUDY: McDonald's**<br>→ McDonald's Australia spends AU$40million annually on training |

- maintenance

→ processes needed in order to retain staff and manage their wellbeing
→ communication and workplace culture - workplace relationships depend on the strength of the business's communication systems
→ employee participation - participation improves communication, empowers employees and develops their commitment to improving quality and efficiency
→ rewards = flexible arrangements, housing, company car, paid training, health insurance

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| **CASE STUDY: McDonald's**<br>→ McDonalds Australia holds staff surveys to receive feedback from staff |

- separation

→ where an employee leaves a business (voluntary or involuntary)
→ redundancy (retrenchment) - an employee losing their job,where the employee's job or work no longer needs to be done

| ***Voluntary Separation*** | ***Involuntary Separation*** |
|---|---|
| - Resignation<br>- Relocation<br>- Voluntary redundancy<br>- Retirement | - Contract expiry<br>- Retrenchment<br>- Dismissal |

**Dismissal** = ordering a person to leave (unfair dismissal = being asked to leave for harsh, unreasonable or unjuect reasons)

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| **CASE STUDY: McDonald's**<br>→ being in the fast food industry and attracting first job workers, the staff turnover is generally higher<br>→ 42% for crew and 20% for management |

**strategies in human resource management**

- leadership style

**Leadership Style** is the way that managers communicate with their employees to inspire and motivate them.
→ *Autocratic* = quick decisions without input from staff.
- Works well with unskilled or inexperienced workers
- Controls and organises work
- Higher levels of staff turnover

→ *Participative/Democratic* = a more consultative approach between managers and workers.
- Workers are more engaged
- Gives workers a sense of ownership
- Higher quality output
- Working TOGETHER to achieve goals

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| **CASE STUDY: McDonald's**<br>→ has a very structured hierarchy, with a crew member all the way up to store manager and consultant<br>→ each level of staff has precise operational structures, improving efficiency |

- job design – general or specific tasks

**Job Design** is the number, kind and variety of the tasks that a worker is expected to carry out in the course of performing their job.

*Specific tasks* → based on specialization and an efficient process that often uses low-skilled, cheap labour.

- Best highlighted in the scientific management approach developed by Fredrick Taylor.

*General tasks* → a greater variety of tasks to be performed by workers.

- Improves engagement, satisfaction and productivity.

- recruitment – internal or external, general or specific skills

**Recruitment** is the process of locating and attracting the right quantity and quality of staff to apply for employment vacancies or anticipated vacancies at the right coast.

- Effective recruitment allows the more appropriate applicant to be selected.

→ Poor selection process leads to increased costs and lower productivity.

**Internal recruitment** involves filling job vacancies with people from within the business.

Eg. intranet posting, staff records, promotion lists, word of mouth, email.

| *ADVANTAGES* | *DISADVANTAGES* |
|---|---|
| - Motivates staff<br>- Builds commitment and loyalty<br>- Only needs to hire at base level<br>- They know the business culture<br>- Rewards staff | - Can reinforce negative culture<br>- Can lead to rivalry for positions<br>- Need established framework<br>- Little value added<br>- No new skills added |

**External recruitment** involves filling vacancies with people from outside the business.

Eg. online/newspaper advertisements, trade unions, trade shows, radio, televisions.

| *ADVANTAGES* | *DISADVANTAGES* |
|---|---|
| - Wider applicant pool<br>- New ideas, perspectives and skills<br>- Dilutes internal politics<br>- More diversity | - Risk of unknown staff<br>- Lost productivity<br>- Takes time/effort<br>- Risk of legal claims |

**General/ Specific Skills**

*General skills* → flexibility, versatility, social confidence, positive attitude, motivation and the ability to work as a team and/or independently.

- Important to each business in order to undertake different tasks.

*Specific skills* → help to fill in gaps in businesses, for businesses worried about skill shortages.

Employee poaching is the proactive of enticing employees to work for other businesses.

**CASE STUDY: McDonald's**
→ McDonalds recruits crew members and corporate jobs externally through a central system where applicants are able to fill in an online form

- training and development – current or future skills

**Training** aims to develop skills, knowledge and attitudes that lead to superior work performance.

- Current skills required by employees

**Development** refers to enhancing the employee in line with the changing future needs of the organisation.

- Helps maintain competitiveness
- Concerned with the future skills of employees

*Insourcing* refers to delegating a job to someone within the business as opposed to someone outside the business.

<u>*Businesses must consider:*</u>

- Further in-house training and development

- Recruiting staff for  specific skills
- Retrain experts who retire on a part-time basis
- Retrain women through flexible work structure
- Share stadd
- Outsource functions

- performance management – developmental or administrative

**Performance Management** addresses both individual and business performance.
→ successful individual performance will often translate into the business's strategic objectives being met.
**Developmental** → Improves individual performance through establishing objectives such as reaching sales targets that are consistent with achieving the organisation's goals.
**Administrative** → Assesses the progress of the business in meeting its strategic goals and where necessary identifying the areas for improvement, such as establishing new goals or employee performance.

| *DEVELOPMENTAL* | *ADMINISTRATIVE* |
|---|---|
| - Assist with HR planning<br>- Overcome weaknesses<br>- Highlights effectiveness of processes<br>- Evaluates rewards and benefits programs | - Higher productivity<br>- Better financial performance<br>- Build self-efficacy<br>- Fosters promotion on merit |

**CASE STUDY: McDonald's**
→ McDonalds UK employees are subject to biannual performance reviews to assess their progress and set training and development goals for the future
→ 'crew member of the month' a reward for performance which crew members can strive for

- rewards – monetary and non-monetary, individual or group, performance pay

**Monetary Rewards** are those reflected in pay or have financial value.
**Non-monetary Rewards** are those that do not have financial value, such as social activities and retirement planning
**Remuneration** refers to both the financial and nonfinancial benefits that employees receive in return for their work effort

**Individual or Group reward**
→ individual rewards can lead to conflict or rivalry if not managed effectively .
→ gain-sharing plans involve benefits of improvements and success, such as, productivity, cost savings, and sales increase.
→ team rewards include shares, cash bonuses and annual bonuses.

**Performance pay** refers to remuneration that is based on distributing rewards according to individual employee performance.

- Feedback from performance appraisal and management provides many benefits to the business and the individual.
- An effective rewards system is equitable, clearly communicated, relevant, cost effective, simple to administer and aligned with business goals

**CASE STUDY: McDonald's**
→ up to 50% discount on food (monetary)
→ corporate employees are eligible for a company car, healthcare services and discounted child care (monetary)

- global – costs, skills, supply

→ **Globalisation** of business, as well as technological developments in the internet, human resource applications and telecommunications, has significantly increased the competition faced by any business.
→ increasing competition, shareholder demands for higher returns, privatisation, outsourcing and restructuring have all forced businesses to analyse their strategic direction.

A **subsidiary** is a company that is owned by another company (referred to as the parent) and it is often located in another country.
→ used to reduce production costs
→ outsourcing is used to lower labour costs

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| **CASE STUDY: McDonald's**<br>→ McDonalds offers the opportunity for employees to work in different locations around the word |

- workplace disputes
  – resolution – negotiation, mediation, grievance procedures, involvement of courts and tribunals

→ conflicts, disagreements or dissatisfaction between individuals and/or groups.
→ strikes refer to situations in which workers withdraw their labour
**Resolution** → stakeholders resolving disputes include employees, employers, governments, trade unions, courts
- *Three processes* = negotiated, mediated, arbitrated

**Negotiation** → a method of resolving disputes when discussions between parties result in compromise and a formal or informal agreement.
**Mediation** → the confidential discussion of issues in a non-threatening environment, in the presence of a neutral, objective third party.
**Grievance procedures** → formal procedures, generally written into an award or agreement, that state agreed processes to resolve disputes in the workplace.
**Involvement of courts & tribunals:**
- The fair work commission has the power to resolve industrial disputes through conciliation or arbitration
  → conciliation is where the decision is owned by the parties whereas arbitration is when the decision is imposed upon the parties
- Common law action is open to any part involved in or affected by industrial action
  → orders are decisions that require employees or employers to carry out a direction from the tribunal

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| **CASE STUDY: McDonald's**<br>→ Employees can discuss issues with direct supervisors or the employee can contact the Global Compliance Office and report and issue with may lead to mediation |

**effectiveness of human resource management**
- indicators

→ Human resource indicators are used by many businesses to evaluate the effectiveness of the business, team or individual.

– corporate culture

→ The best way to maximise employee productivity and motivation is through a constructive corporate culture, where employees are trusted, collaborate, have strong personal relationships and are highly trained and mentored.

– benchmarking key variables

→ **Benchmarking** is a process in which indicators are used to compare business performance between internal sections of a business or between businesses.
→ Benchmarking may be undertaken using informal benchmarking, performance benchmarking, best practice benchmarking and balanced scorecard benchmarking.

– changes in staff turnover

→ **Staff turnover** refers to the separation of employees from an employer, both voluntary and involuntary, through dismissal or retrenchment.
→ In assessing the significance of turnover, it is important for businesses to benchmark their turnover against that of other businesses in the industry; and to determine the type of staff leaving and their reasons

– absenteeism

→ **Absenteeism** is measured as the average rate of employee absences on an average day, without sick leave or

leave approved in advance.
→ High levels of absenteeism and/or lateness may indicate that workers are dissatisfied or that there is conict within the workplace.

– accidents

→ Around 5.3 per cent of Australia's 12 million employees experience a work-related injury or illness each year.
→ A low level of accidents, as measured by the Lost Time Injury Frequency Rate (LTIFR), indicate effective human resource management strategies.

– levels of disputation

→ Employers need to closely monitor both overt and covert manifestations of industrial disputes to evaluate relationships in the workplace.
→ Employers should be concerned if a number of formal grievances are reported as they are an indicator of poor quality relationships in the workplace and can be very damaging if they attract media attention or move through the legal system.

– worker satisfaction

→ **Employee satisfaction** is a key factor in employee commitment, job performance and staff turnover.
→ Employees who have good relationships with co-workers, enjoy their work activities, receive relevant training that allows them to do their job well, and gain
opportunities to grow are more likely to be satisfied and stay with the business.
→ Employee satisfaction is improved by matching the purpose of the business with the skills and cultural t of the employee

**CASE STUDY: McDonald's**
→ 83% of employees think it is a great place to work
→ 75% of managers feel favourable about the training they receive
→ in 2014, ranked 11th globally in the AON Hewitt Top COmpanies for Leaders report
→ in 2016, McDonalds UK ranked 2nd by the 'Great PLace to Work Institute' in the Best Workplaces list