



# Business Mgt Update

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The purpose of the Business Management Update is to provide teachers and their students with some of the latest ideas and examples from the business world. In this 1st edition, these have been applied to the relevant key knowledge points from Areas of Study 1 & 2 from VCE Unit 3 Business Management Study Design.

## Unit 3, Area of Study 1

### Large-scale organisations (LSOs) in context

The first Area of Study relates to the context in which businesses operate. So what does "context" actually mean? The context consists of the circumstances, environment or situation in which the businesses operate.

#### The context which contributes to the unique nature of LSOs

To illustrate the importance of the context when studying large-scale organisations (LSOs), this Update will use the current examples that are provided to us by the businesses competing in the Supermarket industry.



#### Characteristics of LSOs

The two largest supermarkets, Coles and Woolworths, that form the examples for this update, are clearly large-scale organisations (LSOs). The three key criteria that have been used to determine their large scale are contained in the following table:

Characteristic	Coles & Woolworths
More than 200 employees	Both employ more than 100,000 people throughout Australia
Substantial assets	Both own assets including stores, trucks, warehouses and stock. As part of Wesfarmers, Coles' parent company has other assets such as mines and other retail businesses such as Bunnings.
May be listed on the stock exchange	Both Woolworths and Wesfarmers are listed on the ASX

#### Internal and external (operating and macro) environments of LSOs.

The factors that create the context can be separated into the environments from which they arise.

**External (Macro):** these factors tend to affect the entire industry, not just one business.

- Economic conditions. Consumer sentiment as measured by the Westpac-Melbourne Institute has remained quite low in recent years, although there were some signs of recovery in December 2012 and January 2013. While spending of households remains cautious, the supermarkets need to retain and build their customer bases.
- Political considerations. With a Federal election looming in September, managers may feel that there is uncertainty until the various parties' policies are released and the election has been won. This could impact on supermarket managers as they hold off on any big decisions to see if there will be changes to taxes or spending that will directly affect their businesses.
- Climate and weather. The recent floods in Queensland may have destroyed crops that supermarkets were relying on, such as the damage caused to many citrus growers. In addition, there were also losses of cattle and sheep in the Victorian bushfires. These events could lead to managers being forced to find new suppliers and changing their prices accordingly.

#### External (Operating):

- Competitors are the main factor to consider here. Not only do we have the fierce competition between Woolworths and Coles, but we also have new players attracting a bigger share of the

market. In particular, Aldi and Costco are starting to make real inroads into the supermarket industry. IGA has also held fast, particularly in some smaller communities.

2. **Suppliers** are also a relevant factor to consider. Due to the competition between Woolworths and Coles, suppliers have reduced the prices of many every-day products, such as milk. There have been concerns raised that the customer is benefitting, while the dairy farmers are doing it tough; having to accept really low prices for their milk if they want to sell it to the big two.

**Internal:**

1. The organisational structure of Coles has changed in recent years. Wesfarmers bought out the Coles group in 2007. Prior to this, Coles had been part of Coles Myer. Becoming part of this large, successful organisation has been an important factor in the recent achievements of Coles.
2. Coles manager, Ian McLeod, has been credited with building the growth of Coles since he took the reins. "Under the leadership of avuncular Scotsman Ian McLeod, with his team of Anglo-Australians, profits have more than doubled. For 48 consecutive months, the business has out-performed its major competitor Woolworths." (Against the odds Wesfarmers has taken Coles to the top of the supermarket tree, Archie Norman, The Age, 29.1.13)

**Variations in types of LSOs, their objectives and related business strategies**

The supermarket industry can, to some extent, be considered a duopoly; i.e. two businesses dominate the industry. These are Woolworths and Coles (which is owned by Wesfarmers). There are certainly several other big players – some of whom are emerging as real competitions, but at this stage the big two have clear dominance as they control a substantial majority of the market.



**Coles**

Wesfarmers' Annual Report 2012 (p 18) outlines some of Coles' recent objectives and their strategies to achieve them:

*"Coles seeks to give the people of Australia a shop they trust, delivering quality, service and value. This year was the fourth year of a five-year turnaround plan for Coles, which was focused on 'driving the Coles difference'.*

*Coles' investment in lower prices during the year saved customers more than \$800 million as part of an ongoing strategy to deliver value through programs such as 'Down Down', 'Super*

*Specials' and the new 'My5' – introduced with the relaunch of the 'flybuys' customer loyalty program.*

*.....As part of its 'Australian First' policy, Coles awarded numerous new contracts to Australian-based businesses during the year, including: a five-year contract with Tamar Valley to produce Coles brand yoghurts; switching from a New Zealand supplier for all Coles brand cheese to Australian-based Bega Cheese Limited, which will see 19,000 tonnes of cheese produced for Coles annually; and launching a new brand – 'Great Ocean Road' cheese and milk – with Warrnambool Cheese and Butter."*

**Woolworths**

Woolworths on the other hand, set their main objectives out as follows:

*Strategy and Objectives -Growth Plans*

*Woolworths' current business growth plan is built on four key strategic priorities.*

1. *Extend and defend leadership in food and liquor*
2. *Act on our portfolio to maximise shareholder value*
3. *Maintain our track record of building new growth businesses*
4. *Put in place the enablers for a new era of growth*  
(www.woolworthslimited.com.au)

These are quite explicit (and both companies have further detail of their plans on their websites) and the connections can be made with other key knowledge points in Business Management such as Policy Development (in Area of Study Two) and Performance Indicators which are outlined below:

**Performance indicators**

As publically listed companies, both Coles and Woolworths must disclose their financial information. It is interesting, however, to note some of the non-financial information that is provided as evidence of success. For example waste reduction is considered an important factor at Coles:

*"A focus on controlling waste has generated savings of more than \$400 million over the last four years, which has been invested in better store and distribution infrastructure and lower prices for consumers." (Wesfarmers' Annual Report 2012 p 20)*

Both companies report on Corporate Responsibility as well. It is clear that they consider this to be an important indicator of achievement.

While trying to improve their own performance, managers at Coles and Woolworths would also be keeping tabs on their competitors' success rates.

*"Discount retailer Costco has underscored its threat to supermarket giants Woolworths and Coles by posting its maiden annual profit in Australia. (Costco) reported a net profit of \$9.73 million for the 53 weeks to September 2012, its first profit in Australia and a turnaround from its \$13.2 million loss in 2011." (Costco rolls on in campaign to steal big boys' market. Eli Greenblat, The Age, 30.1.13)*

This turnaround in profit may influence Costco's rivals to make strategic plans to protect their market share.



succeed.

1. **Frame a Choice:** Convert your issue into at least two mutually exclusive options.
2. **Generate possibilities:** Create happy stories that describe how a company might succeed.
3. **Specify conditions:** Describe what must be true for possibilities to be strategically sound.
4. **Identify barriers:** Determine which conditions are least likely to hold true.
5. **Design test:** For each barrier condition, devise a test you deem valid sufficient to generate team commitment.
6. **Conduct the tests:** Start with the test for the barrier conditions in which you have the least confidence.
7. **Make your choice:** Review your key conditions in light of your test results to reach a conclusion.

All planning models have clear links to the skill of decision-making throughout the process. Decision-making can be defined as selecting the best choice from a range of options. This is exactly what this strategic planning process allows to happen. In this case, Procter and Gamble were very successful. Their strategic plan led to good decision-making which turned around the sales of Oil of Olay.

*"The massive strategy succeeded beyond expectations; in less than a decade, the Olay brand surpassed \$US2.5b in annual sales by spawning a series of "boutique" lines – Total Effects, then Regenerist, Definity, and Pro-X – that attracted more prestige shoppers.... The possibilities-based approach forces managers to move away from asking "What is the right answer?" to "What specifically must we know in order to make a good decision?"*  
(AFR BOSS, Harvard Business Review, August 2012)

The skill of negotiation is one that is vital for most of the management functions. Operations managers often negotiate prices and delivery dates with suppliers, while human resource managers are often involved in negotiating wages and conditions of work with employees or their representatives.

Harvard professor Daniel Shapiro is an expert in negotiation. "The most common mistake he sees is people going into a negotiation as adversaries rather than seeing it as a problem-solving exercise." He developed the following rules to assist business leaders:

#### Daniel Shapiro's Five Golden Rules of Negotiation

1. Appreciation – stronger rapport creates better deals
2. Autonomy – don't tell people to 'take it or leave it'
3. Affiliation – turn adversaries into colleagues
4. Status – making people look bad only gets their back up
5. Role – do people have a fulfilling role in the process?

*(The Negotiator by Patrick Durkin, AFR BOSS August 2012)*  
Harvard negotiation project: [www.pon.harvard.edu](http://www.pon.harvard.edu)

Understanding what is involved in a negotiation process, rather than just being able to define the term, can lead to a much better application of this skill in the workplace.

#### **Ethical & socially responsible management of the internal environment**

Unilever is a large multi-national company that has made a determined effort to take on a more socially responsible position. This company has many well-known brands, including the following: Streets, Rexona, Dove, Domestos, Sunsilk and Lipton's.

Paul Polman was appointed Chief Executive in 2009 and is largely responsible for this vision and direction.

*"We thought about some of the mega-trends in the world, like the shift east in population and the demand for resources. And we said 'Why don't we develop a business model aimed at contributing to society and the environment instead of taking from them?'"*

Under the Sustainable Living Plan, Unilever developed a number of targets to reach by 2020. Three of these are:

1. Health and hygiene – Help more than a billion people improve their hygiene habits and bring safe drinking water to 500 million people
2. Greenhouse gases – Aim to halve the greenhouse gas impact of products across their lifecycle; from sourcing to consumer use and disposal
3. Livelihoods – Aim to link more than 500,000 smallholder farmers and small-scale distributors into the supply chain.

*(Rebel with a Cause by Adi Ignatius, AFR BOSS, July 2012)*

The Unilever Australia website contains a wealth of further information about the Sustainable Living Plan. As more investors insist on ethical business practices, companies like Unilever will not only be doing the right thing for society, but may reap rewards as more investors support their plans. Visit <http://www.unilever.com.au/sustainable-living/index.aspx> for more information.



## REVIEW QUESTIONS

1. Identify and explain two skills besides negotiation and decision-making that would be useful to Unilever as they make the business more socially responsible.
2. Discuss why the role of organising would have been important for the managers of Procter and Gamble as the company tried to make Oil of Olay a more up-market product.
3. Identify the management structure of Woolworths.
4. If managers follow Daniel Shapiro's Five Golden Rules of Negotiation, they are probably not using an Autocratic management style. Explain why this statement is true.
5. Read the quote below from the Unilever website. This is just one small example of the ways in which Unilever is becoming more ethical in its production and more socially responsible. Discuss the possible impact of this strategic direction on the corporate culture of Unilever.

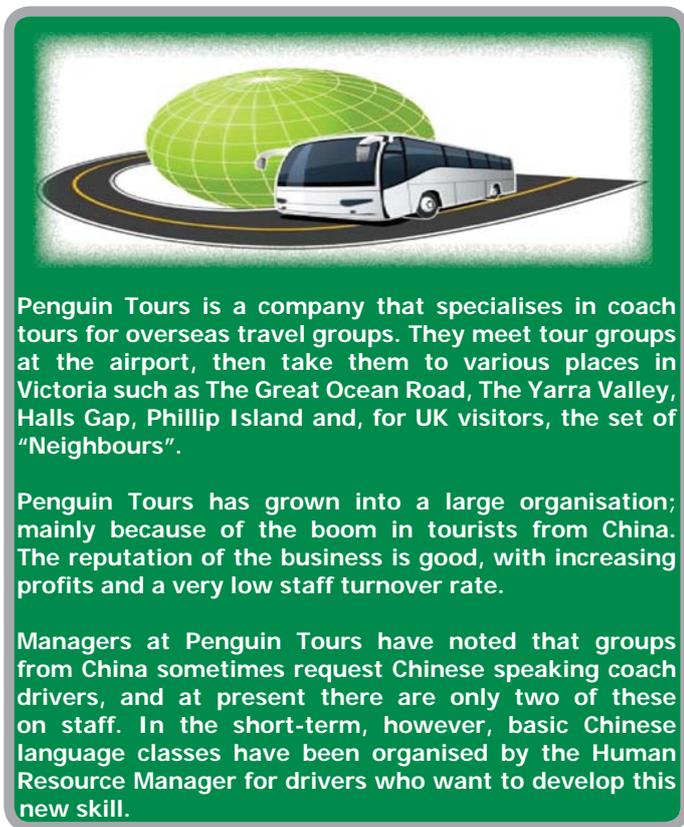
*Australia & NZ Focus: Currently an estimated 70% of our paper and board packaging is made from recycled materials and 95% is recyclable. We currently do not use recycled plastic materials, but we have invested in technology that will allow this in the future. We use a number of plastic materials in our packaging, 40% of which is recyclable and we are working on increasing this percentage.*

*We aim to increase both the recycled content and recyclability of our packaging, as well as work with partners to increase recycling rates. For example, we are currently investigating options to increase the recycling rate of aerosols cans in Australia and New Zealand as well as plastics readily accepted for recycling in other markets. <http://www.unilever.com.au/sustainable-living/index.aspx>*

## APPLICATION EXERCISE

### Tourism Case Study

*Note that this case study relates to both Areas of Study 1 and 2 in Unit 3 Business Management.*



Answer the following questions that relate to Areas of Study 1 and 2 of Unit 3 Business Management.

1. Outline 3 of the characteristics we would expect to see which indicate that Penguin Tours is a large-scale organisation.
2. Define the term vision statement, and write a vision statement that would be appropriate for Penguin Tours.
3. Identify one factor from the external macro environment that is currently impacting on the operations of Penguin Tours.

4. Besides customers and employees, identify one stakeholder of Penguin Tours that would have been affected by the company's recent growth.
5. Besides profit and the staff turnover rate, identify and justify two performance indicators that the managers of Penguin Tours could use to evaluate the success of the business.
6. Define the term controlling, and explain two areas in which control would be important at Penguin Tours.
7. Chinese language classes are being organised for drivers at Penguin Tours. Identify one management skill that would be essential to allow this to occur.
8. Identify and justify a management structure that would be appropriate for Penguin Tours.
9. Explain why the laissez faire management style would not be appropriate for Penguin Tours.
10. Explain one ethical or socially responsible practice that Penguin Tours could employ.

## INTERESTING INFORMATION

The focus in Business Management is large-scale organisations. This update began with an explanation of what is meant by the "context" in which they operate.

Some of Australia's most successful businesses in recent years have been the mining companies. At the same time we have seen a large number of manufacturers either downsizing or completely closing, and retail sales dwindling.

Some see healthcare as the next growth industry. "The next big boom is healthcare – which already employs around 1.3 million people in Australia – and in social assistance.... An ageing population and the growing promotion of services, such as 'hospital in the home' and the increasing use of telehealth, mean there will be plenty of need for support.... Healthcare – which will replace retail as the nation's biggest employer – and other social services also may offer solutions for youth unemployment, currently running at almost 3 times the national unemployment average..."

*(After the Gold Rush, Deborah Tarrant, HR Monthly, February 2013)*

Often when we look for examples in Business Management, we tend to forget the healthcare sector, yet it can provide us with excellent examples of large-scale organisations that provide essential services to the community, as well as employment for so many Australians. In this way, the sector contributes to the economy by improving both our material (employment/income) and non-material (health) living standards.

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