FOCUS:

- To revise and reinforce key concepts from Unit 4
- Tips to help you prepare for the exam
- Continue to build your confidence as you head for the Business Management Exam
- Fill any gaps you still may have
- Highlight some of the common mistakes BM students make in the exam
STRUCTURE OF AFTERNOON

- TIME - 1.30-5.00 P.M
- SHORT BREAK - BETWEEN AREA OF STUDY 1 AND AREA OF STUDY 2
- DRINK WATER TO STAY HYDRATED
- MOBILE PHONES ON SILENT PLEASE
- ASK QUESTIONS THROUGHOUT THE AFTERNOON
- LOCATION OF TOILETS
GENERAL EXAM TIPS

- FRONT COVERS ON VCAA WEBSITE - LOOK FOR THEM - NO OF QUESTIONS
- PRACTICE, PRACTICE, PRACTICE BY DOING EXAM PAPERS - 5 - 10 AT LEAST
- SEEK TEACHER FEEDBACK - identify where you are struggling to improve
- USE READING TIME EFFECTIVELY - read the questions carefully
- MANAGE YOUR TIME TO FINISH PAPER - TWO SECTIONS TO COMPLETE
- ASK FOR SCRIPT BOOK IF YOU NEED IT
- WRITE LEGIBLE - BLACK OR BLUE PEN ONLY
- REVISE NOTES, DO MIND MAPS, TIMED QUESTIONS
A WORD ABOUT DEFINING KEY BUSINESS TERMS AND MORE TIPS

- Do not focus on this for every question
- Weave the definition into your answer
- Look at the mark allocation and the task word - key to success for this paper
- Always select the best fit answer where there is choice
- Write with confidence to avoid being repetitive
- Plan the 10 mark answer - essay format without an intro and conclusion
- No more than 20 minutes for this task - look at the task word last year evaluate - description of business concept, strengths, limitations and justification or conclusion
2017 EXAM AND UNIT 4

PART A - WORTH 50 MARKS NOW - SHORT ANSWER, SCENARIOS AND EXTENDED RESPONSE

- REFERENCE TO KPIs - Q1C - 2 MARKS
- Q4B & Q4C - 7 MARKS - KPI, STAKEHOLDERS, CSR AND CHANGE (OVERLAP WITH UNIT 3)

PART B - CASE STUDY 25 MARKS

- QUESTION 4 - LEWIN - 6 MARKS
- QUESTION 4 - PORTER - 5 MARKS
- QUESTION 6 - DRIVING AND RESTRAINING FORCES - 4 MARKS

PURELY FROM UNIT 4 - 20 MARKS
OVERLAP ADD 4 MARKS

ANTICIPATE IT WILL BE MORE UNIT 4 QUESTIONS THIS YEAR
BUSINESS MANAGEMENT EXAM

- MONDAY 5TH NOVEMBER - 3 -5.15 P.M.
- APPROXIMATELY FIVE WEEKS AWAY NOW
- ABOUT 1.6 MARKS PER MINUTE
- FOCUS ON APPLYING YOUR KNOWLEDGE TO THE CONTEXT OF THE QUESTION - BE PRECISE DO NOT WAFFLE
- IF THE QUESTION ASKS FOR TWO PROVIDE TWO E.G. SKILLS, STRATEGIES ETC.
- UNDERSTAND THE LINKS BETWEEN DIFFERENT AREAS OF THE COURSE
UNIT 4 - TRANSFORMING A BUSINESS
AREA OF STUDY 1 - REVIEWING PERFORMANCE - NEED FOR CHANGE

- CONCEPT OF BUSINESS CHANGE (DESCRIBE)
- KEY PERFORMANCE INDICATORS (9) AS SOURCES OF DATA TO ANALYSE THE PERFORMANCE OF A BUSINESS INCLUDING:
  - PERCENTAGE OF MARKET SHARE,
  - NUMBER OF SALES,
  - NET PROFIT FIGURES,
  - RATE OF PRODUCTIVITY GROWTH,
  - RATE OF STAFF ABSENTEEISM,
  - LEVEL OF STAFF TURNOVER, LEVEL OF WASTAGE,
  - NO OF CUSTOMER COMPLAINTS,
  - NO OF WORKPLACE ACCIDENTS (CRITICAL TO BE ABLE TO ANALYSE, APPLY, EVALUATE)
KEY PRINCIPLES OF THE FORCE FIELD ANALYSIS THEORY
(LEWIN) – CAN YOU APPLY?

DRIVING FORCES FOR CHANGE – 10 LISTED in STUDY DESIGN – how do they push for change

RESTRAINING FORCES FOR CHANGE – 6 LISTED IN STUDY DESIGN – how do they hold back change

PORTER’S GENERIC STRATEGIES – LOWER COST AND DIFFERENTIATION (EVALUATE/APPLY)
AOS 1.1 CONCEPT OF BUSINESS CHANGE

- BUSINESS CHANGE - PROCESS OF TAKING THE EXISTING BUSINESS, ALTERING IT AND ESTABLISHING A NEW OR MODIFIED VERSION
- ALTERING SOME ASPECTS OF A BUSINESS TO FORM A NEW VERSION
- ADOPTING A NEW IDEA OR BEHAVIOUR IN A BUSINESS
- ESSENTIALLY BUSINESS IS DIFFERENT AFTER THE CHANGE

- Notes on Page 3
WHY DO BUSINESSES NEED TO CHANGE?

- NEW COMPETITION IN THE MARKETPLACE
- TECHNOLOGY
- GLOBAL MARKETS
- INTERNAL ISSUES - PROFIT, RESTRUCTURE, MERGERS
- GROWTH - GAPS IN MARKET
- CHANGING NEEDS OF SOCIETY
- CUSTOMER TASTES
- STATE OF THE ECONOMY
EXAMPLES YOU CAN CONSIDER

- KIKKI K - PRIVATE COMPANY GOING GLOBAL, HIT CANADA AND USA MARKETS THIS YEAR - FOCUS ON DIFFERENTIATION
- WESFARMERS DEMERGING COLES - NOVEMBER 2018
- COLES AND WOOLIES - SINGLE PLASTIC BAGS - CSR ELEMENT
- BUNNINGS WENT ONLINE NOVEMBER 2017 & EXPANDED TO BRITAIN
- OTHERS?
REMEMBER THE FOLLOWING

- CONSULTATIVE MANAGEMENT STYLE - BEST FIT DURING THIS PERIOD AS INVOLVES STAFF IN THE DECISION-MAKING PROCESS BY SEEKING THEIR INPUT

- SUITABLE MANAGEMENT SKILLS - COMMUNICATING, PLANNING, LEADING, DECISION-MAKING CRITICAL TO HELP MOVE CHANGE ALONG

- PROACTIVE APPROACH VERSUS REACTIVE APPROACH

(FORSEE CHANGE AND TAKE ADVANTAGE V’S WAIT AND SEE APPROACH)
QUESTION 3 - PAGE 5 - 4 MARKS

IF CHANGE IS NOT WELL MANAGED THE RESULTS COULD BE DISTASTROUS. DISCUSS WHAT MAY HAPPEN AS A RESULT OF POORLY MANAGEMENT CHANGED. INCLUDE TWO EXAMPLES TO SUPPORT YOU ANSWER

DISCUSS = STRENGTHS AND LIMITATIONS

CHANGE IN INEVITABLE IN BUSINESS. TECHNOLOGY, COMPETITION, PURSUIT OF PROFIT CAN ALL LEAD TO A BUSINESS ALTERING ITS OPERATIONS OR PROCESSES

IF CHANGE IS POORLY MANAGED THIS COULD LEAD TO A LOSS OF MARKET SHARE AND SALES AS CUSTOMERS GO ELSEWHERE TO MAKE THEIR PURCHASES. SOME BUSINESSES HOWEVER MAY STILL HAVE A LOYAL CUSTOMER FOLLOWING THAT ENABLES THEM TO CONTINUE OPERATING DESPITE THIS SLOW GROWTH

EXAMPLE: PLASTIC BAG DEBACLE WITH COLES AND WOOLWORTHS (2 MARKS)
ANOTHER EFFECT IS DISGRUNTLED STAFF WHO BECOME UNSURE OF WHAT IS OCCURRING AND WHAT PROCESSES NEED TO BE UNDERTAKEN TO SUPPORT THE CHANGE. THIS COULD LEAD TO A LOSS OF MORALE WHICH WILL GIVE RISE TO INCREASED STAFF ABSENTEEISM, STAFF TURNOVER AND A DECLINE IN PRODUCTIVITY.

EXAMPLE: EMPLOYEES IN HOSPITALITY USUALLY LAST FOR 8 MONTHS BEFORE THEY LOOK FOR WORK ELSEWHERE (2 MARKS)
KEY PERFORMANCE INDICATORS

- Measurable criteria used to evaluate or assess the success and achievements of a business
- Provide data to drive change/review of business performance to push for transformation
- Linked to efficiency and effectiveness
- Nine listed in the study design -
  - Group them to match areas of the course, (best fit to scenario)
  - Always describe and apply to the given case study or scenario,
  - Be able to use given data to comment on the business - is it successful, areas for improvement, what does it tell us about key parts of the business

See Page 6 of notes
AOS 1.2 - KEY PERFORMANCE INDICATORS

- Business owners and managers need to plan and set objectives that need to be measured
- Regular assessment should be made of performance using a range of data and KPIs to provide information that is relevant, accurate, reliable and timely
- Business can then make INFORMED decisions using this information and data (at strategic, tactical and operational level)
- Businesses can also determine that resources are used properly
- Budgets and forecasts need to be met
- Helps to monitor employee performance
- Helps the business to stay solvent and continue to be successful
- (REFER TO THESE WHEN EVALUATING BUSINESS PERFORMANCE OR TRANSFORMATION)
THE LINK - UNDERSTAND HOW EACH DRIVES THE OTHERS

- BUSINESS SETS OBJECTIVES - WHAT DOES IT WANT TO ACHIEVE
- STRATEGIES OR TACTICS TO ACHIEVE THESE OBJECTIVES
- EVALUATE OR ASSESS PERFORMANCE - USE KPI’S TO MEASURE
KPI’S APPLICABLE TO MANAGING EMPLOYEES

- **RATE OF PRODUCTIVITY GROWTH** - measure of how many inputs it takes to produce output (goods and services); aim to reduce input costs or produce more output for the same amount of input to increase profit.

- **RATE OF STAFF ABSENTEEISM** - measures the number of staff who choose not to go to work due to job dissatisfaction rather than illness or family commitment - impacts on the level of productivity, if high levels of illness then need to investigate to reduce.

- **LEVEL OF STAFF TURNOVER** - measure of the number of staff leaving the business over a period of time and need to be replaced - linked to job satisfaction if high (not relevant during a period of business downsizing).

*Page 7 of notes*
KPI’S APPLICABLE TO MANAGING EMPLOYEES

- **NUMBER OF WORKPLACE ACCIDENTS** - measures the number of staff involved in accidents which leads to production stopping; measure of how safe the workplace is for employees - again cost to the business in terms of time and WorkCover claims

- Strict laws that businesses have to comply with
KPI’S LINKED TO OPERATIONS MANAGEMENT

- **PERCENTAGE OF MARKET SHARE** - the portion of the market controlled by a particular business - share of total industry sales for a specific good or service expressed as a percentage - increases mean business is doing well leading to more profit; decrease suggest issues in some area that needs to be addressed (woollies 35.7%, Coles 33.2%, Aldi 13.2% - 2018)

- **NUMBER OF CUSTOMER COMPLAINTS** - measure of the number of customers who are not satisfied with the performance of the business over a period of time and have notified the business of their concerns - can lead to a drop in demand, customer loyalty and profits

- *Refer to notes on Page 7 & 8*
KPI’S LINKED TO OPERATIONS - continued

LEVEL OF WASTAGE - measures the amount of waste a business creates through its production process; cost to the business, CSR considerations, linked to waste minimisation as a strategy to improve efficiency and effectiveness.

2017 EXAM – Q 4C – 4 MARKS – ANALYSE THE IMPACT OF THE REDUCTION OF THE LEVEL OF WASTAGE ON SUPPLIERS AND ONE OTHER STAKEHOLDER OF SMALL GOODS COMPANY (ties in with effect of change on stakeholders – in AOS 2.8)

CONSIDER IF POSTIVE OR NEGATIVE IMPACT ON EACH STAKEHOLDER

Suppliers – are the businesses that provide raw materials and resources to Small Goods Pty Ltd - less materials needed, more efficient use of resources – negative outcome as lower earning

Another stakeholder could be shareholders – own part of the business – less costs, more profit, more dividends so positive outcome

AVERAGE OF 2 MARKS with 16 % GETTING ZERO
KPI’S LINKED TO CHANGE

- **NET PROFIT FIGURES** - measure of the money the business earns after expenses are deducted from revenue - business would expect to increase profit to remain viable and attractive - as an owner or shareholder reason to invest is to make money not just run a business to cover costs or make a loss.

- **NUMBER OF SALES** - measure of the number of products sold over a period of time - linked to marketing strategies and expect this to be rising to lead to increased profits.

- Range of questions for you to use as revision after you study this key knowledge on Page 9 - 12.

- We will do 2 Questions - Q5 on page 9 and Q6 on Page 10.

- 5 marks (3 + 2) = 8 minutes.
Question 5 (3 marks)

Management of a business establish the business objectives or the direction the business will take over a specific period of time. (1 mark) They need to implement a range of strategies such as a just-in-time to control materials and costs or motivational strategies e.g. investment in training to enable staff to be multi-skilled and more flexible to help the business achieve its objectives. (1 mark) Management will then use a range of key performance indicators such as net profit figures and no of sales to evaluate business performance and determine whether these objective have been achieved. (1 mark)

Question 6 (2 marks)

Business owners set objectives for their business whether it is profits, increased market share, or to fulfil a social need. Analysing performance allows the business to determine if they are operating in a manner that will allow them to achieve these objectives or whether they need to implement new strategies to improve business performance. (2 marks)
REMEMBER

- DATA NEEDS A POINT OF COMPARISON TO BE RELEVANT TO BUSINESS
- KPI’S MEASURE OVER TIME AND NEED TO BE USED TO UNDERSTAND WHAT THE BUSINESS DID IN THE PAST AND WHAT IT IS DOING NOW THAT IS BETTER OR WORSE
- DATA CURRENT VS 6 MONTHS AGO FOR EXAMPLE

Look at the Question 7 - Page 11 - typically 4 mark question

- Number of sales are dropping
- Number of customer complaints are increasing
- One is affecting the other - business has to address customer complaints to be able to improve sales
- Task word EVALUATE - short explanation, strengths - data indicates need to change business; limitations - need more data from a range of sources to make informed decisions; overall conclusion - starting point to monitor performance and make improvements
AoS 1.3 KEY PRINCIPLES OF THE FORCE FIELD ANALYSIS
FORCE FIELD ANALYSIS - CONTINUED

- Lewin developed a theory that states that driving forces must push through the restraining forces if proposed change is to successfully occur.

- Looks at the forces that are either drive the change or help it to happen and those blocking the change.

Page 13-17 of notes
Force Field analysis is a decision making tool analysing the forces for and forces against a decision or change. It is divided into driving forces and restraining forces.

A business can use a simple graphical model to identify the driving and restraining forces to enable discussion by key decision-makers.
CONNECTING THE FORCES FOR CHANGE

- A BUSINESS WILL SUCCESSFULLY IMPLEMENT CHANGE DEPENDING ON WHETHER THE CHANGE IS DRIVEN BY RESTRAINING OR DRIVING FORCES
- IF DRIVING FORCES ARE MORE DOMINANT THEN THE CHANGE IS LIKELY TO BE SUCCESSFUL
- IF THE RESTRAINING FORCES ARE MORE POWERFUL THEN THE CHANGE WILL NOT BE SUCCESSFUL
- IF BOTH MATCH THEN AGAIN THE CHANGE WILL NOT BE SUCCESSFUL

https://www.mindtools.com › Decision Making › Deciding Whether to Go Ahead
TO CONDUCT A FORCE FIELD ANALYSIS
A BUSINESS NEEDS TO

- Form a guiding group of people driving change
- Identify the proposed change
- Examine driving and restraining forces,
- Allocate each force a score out of 5,
- Address key restraining forces (those that score more than a 3)
- Set actions for change
- Assign responsibility for each action
BENEFITS OF A FORCE-FIELD ANALYSIS

- MANAGERS CAN IDENTIFY AND ANALYSE FORCES THAT WORK FOR THE CHANGE AND THOSE THAT WORK AGAINST THE CHANGE
- HELPS MANAGEMENT DECIDE IF THE CHANGE IS WORTH DOING
- ALLOWS MANAGERS/OWNERS TO DEVELOP WAYS TO REDUCE RESTRAINING FORCES – E.G. EMPLOYEES – OFFER EXTRA TRAINING
- ALLOWS FOR ACTIONS AND TIMELINES TO BE SET
- CAN HELP IDENTIFY IF STAFF NEED TRAINING TO REDUCE BARRIERS
- IDENTIFIES THOSE STAKEHOLDERS WHO ARE IN FAVOUR AND SUPPORT THE CHANGE AND THOSE WHO ARE LIKELY TO RESIST THE CHANGE
LIMITATIONS

- Force field analysis requires every group member to participate so that they can have all the information needed for a better analysis, which can be difficult to achieve.

- When full participation isn't possible, it would be difficult to provide a complete picture of the driving forces and restraining forces.

- Force Field Analysis may have a bad influence on team work; may lead to division between those who support change and those who are against change.

- Assigning scores is arbitrary - based on value judgements.

- Let's do question 8 on Page 16 - 4 marks 6 minutes.
Describe the Force Field Analysis theory

What will you include in your answer?

- Force field analysis is a model that businesses can use to determine which forces are operating to drive the business to change and which forces are restraining the business from undergoing change.

- The business needs to identify the people of influence or decision-makers who will drive the project by completing an action plan.

- This action plan involves a T-diagram where driving forces are listed on the left and restraining forces on the right and given a numerical score in order of importance. These forces are prioritised so I can decide which restraining forces to remove first and which driving forces to promote and encourage.

- Developing the action plan allows the business to see if there is strong support to overcome the resisting forces and enable the change to successfully occur.

- Each relevant point is worth 1 mark × 4 = 4 marks.
AoS 1.4 DRIVING FORCES FOR CHANGE IN BUSINESS

- There are nine identified in the study design
- Learn them, be able to apply them to a given scenario
- Understand how they are linked to the force field analysis
- Understand how they drive change
Work to move change forward, initiate change, encourage it to happen, supports change

**Managers** - want to run a profitable business, key driver of change especially if the owner, review OM systems and KPI’s to target areas for improvement, bonus payments, job security, pay dividends to shareholders (think Banks and how they have changed) - BRING NEW IDEAS OR PROCESSES TO BUSINESS

**Employees** - exchange their time and effort for payment, share ideas, innovation, drive new products to be offered by the business, new employees bring new ideas to a business, or seek process changes, can even support change to keep jobs

*See page 19 of notes*
COMPETITORS - provide rival products and any changes will impact on other businesses, think pricing policies, new products, advertising strategies (Coles and Woolworths)

LEGISLATION - three levels of government that change laws that affect each business (unfair dismissal laws, smoking restrictions, parking restrictions, penalty pay rate changes) - BUSINESS HAS TO DO SOMETHING DIFFERENT TO COMPLY WITH NEW LAW

PURSUIT OF PROFIT - major driver of change to provide a better return for the owner and the shareholders (think Qantas, Australia Post), could be marketing campaign, new product lines etc. (Coles Little Shop minis campaign added $200m in sales and $11m in profit)
**AoS 1.4 - DRIVING FORCES FOR CHANGE - CONTINUED**

- **REDUCTION OF COSTS** - if production costs are too expensive businesses will look to alternatives to source materials whether through outsourcing locally or overseas or downsize labour forces.

- **GLOBALISATION** - Technology and communication have helped reduce trade barriers between countries, enabling a business to source materials from overseas as well as seek overseas markets to expand its business operations. (Kikki K and Bunnings both gone global in the last 12 months)
AoS 1.4 - DRIVING FORCES FOR CHANGE - CONTINUED

- **TECHNOLOGY** - constant improvements to technology help a business to change whether online trading, or using more social media for marketing purposes; reduces costs long term and speeds up productivity (think AMAZON drones parcel deliveries, Woollies trialling scan and go technology in Queensland)

- **INNOVATION** - compliments technology and globalisation used to improve a product or a process (think do it yourself checkouts in a range of businesses) can lead to a niche market e.g. vegan café, cannoli bar, self driven cars are coming

- **SOCIETAL ATTITUDES** - focus from the community on specific areas of concern like the environment, inclusion of women in workforce, diversity, family friendly workplaces, we are becoming more educated and have higher expectations of businesses and their operations
AoS 1.5 - RESTRAINING FORCES FOR CHANGE IN BUSINESS

- FACTORS THAT HOLD BACK CHANGE, PREVENT IT FROM HAPPENING, CREATE RESISTANCE, WORK AGAINST PROPOSED CHANGE

- AGAIN SIX SPECIFIC FORCES LISTED IN THE STUDY DESIGN SO FOCUS ON THESE - HOW DO THEY ACT AS BARRIERS TO CHANGE?
Aos1.5 - RESTRAINING FORCES - continued

- **MANAGERS** - if make rushed decisions, unclear about what they want to do, delay decision making, or don’t support the change

- **EMPLOYEES** - fear change, loss of jobs or promotions, change corporate culture, new processes or procedures that cause undue stress

- **TIME** - can be critical factor work against the change if timing is poor - too rushed to take too long to make decisions

- **ORGANISATIONAL INERTIA** - management is not embracing proposed change, prefer status quo - think letters rather than emails or other forms of communication for a business - think Kodak - waited too long to adapt to new technology

- See notes on Page 20
AoS 1.5 - RESTRAINING FORCES- continued

- **LEGISLATION** - must be followed and can place restrictions on operational practices and procedures e.g. merger restrictions, food labels with ingredients making it too costly to comply with

- **FINANCIAL CONSIDERATIONS** - cost is just too great compared to the benefit whether buying new equipment, redundancy payments to reduce staff, retraining staff, reorganising plant layout, need cost/benefit analysis

- **REMEMBER - CHANGE WILL ONLY OCCUR IF DRIVING FORCES ARE GREATER THAN RESTRAINING FORCES**
2017 EXAM - PART B QUESTION 6 - 4 MARKS

- ONE DRIVING AND ONE RESTRAINING FORCE LINKED TO CASE STUDY AND IMPACT ON SUCCESS OF BUSINESS OBJECTIVE – TO BECOME GLOBAL BRAND

- AVERAGE 1.8 MARKS – 16% GOT ZERO

- NEEDED TO LINK EACH FORCE TO THE OBJECTIVE FOR THE FULL 2 MARKS

- SUITABLE CHOICES – FOR DRIVING FORCES GLOBALISATION, MANAGEMENT, PURSUIT OF PROFIT OR RESTRAINING FORCES – FINANCIAL CONSIDERATIONS, EMPLOYEES

- EXPLAIN THE FORCE FIRST THEN HOW IT AFFECTS THE OBJECTIVE

- READ THE QUESTION – MENTALLY BREAK DOWN MARKS TO UNDERSTAND WHAT YOU HAVE TO WRITE

  QUESTION 13 – AGE 21 – 6 MARKS – 10 MINUTES – GIVE IT A GO – REVISING RIGHT NOW FOR THE EXAM!
Question 13 - Explain how managers and employees can act as both driving and restraining forces - Page 21

For 6 marks - ALLOCATE 3 FOR EACH FACTOR x2

Managers - responsibility to operate a successful business that generates a profit. Seek new markets, more efficient ways of operations, improved productivity so will be drivers of change through the implementation of new processes, staff or systems. Restraining force if managers are indecisive or too slow to address areas for improvement by implementing change (3 marks)

Employees seek job security and good pay/working conditions. Can suggest change especially if new recruits to the business to help it remain competitive or willing to support change to see business grow and keep their jobs. Can ALSO be restraining force by opposing change fearing job losses or change of job description and less security especially if the change is technologically driven (3 marks)
Define globalisation for 1 mark

Globalisation is the movement across nations of trade, investment, technology, finance and labour bought about by the removal of trade barriers. It makes trade easier and increases the potential market for a business. (1 mark)

Explanation how helped this business - With improved communication, the development of the internet, online shopping and reduced transport costs it has become easier and cheaper for businesses like Steinhoff Asia Pacific Holdings Pty Ltd to operate on a global scale. The relaxation of trade and legal barriers has allowed these businesses to be based in one country and to acquire a business based in another country. (2 marks)

Is globalisation driving or restraining force and justify choice - Globalisation is a driving force as businesses don’t consider globalisation or recognise that markets are now global will find themselves at a disadvantage compared to their competition. They may suffer from a decline in customer numbers, sales, and profit. As Steinhoff Asia Pacific Holdings Pty Ltd would be a profit driven business globalisation would encourage the business to change and expand its operations capabilities to keep pace with its competition. (2 marks)
Porter developed a theory about how businesses may change in an attempt to gain a competitive advantage.

Focused on four generic strategies to help a business achieve this.

Study Design names two of these - lower cost and differentiation which you have to learn, understand, be able to apply and evaluate.
Porter’s Generic Strategies Approach

Porter states that the business needs to understand the competitive forces that affect their industry. Identifies five such competitive forces:

- **Supplier Bargaining Power** - ease in which suppliers can drive up costs
- **Buyer Bargaining Power** - how powerful buyers are in driving down prices
- **Competitive Rivalry** - examine rivals and their capabilities
- **Threat of substitution** - how easy is it for customers to find a similar good or service
- **Threat of new entry** - how easy is it for new competitors to enter the market

*(NOT EXAMINABLE)*

See notes on page 24 and 25
Porter’s Generic Strategies Approach

- These five forces determine industry profitability because they have the ability to influence prices, costs and the necessary investment from firms in an industry.
- Businesses must identify and focus on their strengths - what they does well.
- Porter’s generic strategies way of gaining competitive advantage - or an edge to boost sales and outdo rivals.
- He talks about these generic strategies because they can be applied to any business or industry.
- Focus is on
  - Lower cost - competitive advantage by reducing or altering the costs of the business.
  - Differentiation - businesses can gain a competitive advantage by offering a product that is different from others on the market.
AoS 1.6 - Lower Cost Strategy

- Once these five industry forces are analysed then a business can decide which generic strategy it wants to implement.
- For us the focus is on lower cost strategy - business can gain a competitive advantage by becoming a low cost producer in a specific industry.

**Businesses can achieve through:**

- Economies of scale - increased output leads to lower costs
- Using more technology
- Gaining preferential access to raw materials, reviewing its materials management, buying in bulk, JIT, negotiation discounts on materials to stay loyal to one supplier.
AoS 1.6 - Lower Cost Strategy - continued

- Business can only gain a competitive advantage if they are able to become a cost leader - so charge prices near the industry average
- Need to assess activities in the value chain (set of activities a business does to add value to a good or service) to identify areas where costs can be lowered
- Must operate at lower costs than rivals to be successful
- ALDI IS AN EXCELLENT EXAMPLE

LIMITATIONS:
- ONGOING THREAT OF COMPETITION
- CUSTOMERS COULD SEE PRODUCT AS POOR QUALITY AND DON’T BUY
AoS 1.6 - Differentiation Strategy

- Business aims to be **unique** in its specific industry so that customers value this difference
- Business can then charge premium prices for the product - **INCREASING PROFITS**

**Differentiation can include:**

- Use of high quality materials
- Patents - exclusive rights
- Marketing approach
- Innovation
- Training
- Distribution Channels - **RESTRICTED**
- LUSH - CSR, CULT BRAND, MORE EXPENSIVE BUT MARKETS ITSELF AS AN AUTHENTIC AND ETHICAL PRODUCT RANGE
AOS 1.6 - DIFFERENTIATION STRATEGY

- Gain competitive advantage
- Aim to be unique in industry
- Valued by customers
- Use high quality materials, innovative product, distribute through selective channels and provide customer service by trained professionals
- **STRENGTHS** = brand loyalty, competes in areas other than price, charges premium prices as cost not such an important consideration for consumers
- **LIMITATIONS** = investment to get a top quality product, eliminate budget focused consumers who can’t afford higher prices, unique features can be copied
- (THINK APPLE/MERCEDES, CHANEL)
Porter - final words

- Porter believes that business should focus on one strategy but still consider the others in some way.
- Managers need to identify what changes are needed for the business through an analysis of specific KPI’s.
- Choice of strategy should link to the business objectives, mission and vision of the business.
- Will the business go for product differentiation or lower costs?
NEEDED TO SELECT ONE PORTER APPROACH AND DISCUSS THIS IN RELATION TO SPECIFIC CASE STUDY
IDENTIFY – EITHER LOW COST OR DIFFERENTIATION
THEN DISCUSS – STRENGTHS AND LIMITATIONS OF THIS APPROACH
DIFFERENTIATION – UNIQUE, VALUED BY CUSTOMERS
CHARGE PREMIUM PRICES BUT NEW COMPETITORS MAY ENTER AND WIN OVER MARKET SHARE
AVERAGE 1.9 MARKS
30% GOT ZERO – did they run out of time or did they not know the strategies?

*Lets do Question 18 on page 28 – examine – break it down – look at in detail – for 4 marks – 6 MINUTES*
Porter developed a theory that attempted to explain how businesses may change as they attempt to gain a competitive advantage over other rival businesses.

Low cost approach helps the business gain a competitive advantage by seeking to lower costs to increase profit margins.

Can achieve lower costs through using assets more efficiently and offering only those products that the customer is willing to buy so high turnover of stock.

Business can also source cheaper suppliers (local or overseas), reduce wages costs by streamlining staff, using technology to increase productivity and using just in time to manage stock.

1 mark for each point made in relation to this strategy x 4 marks.
UNIT 4 AREA STUDY 1 - DONE

- 11 MARKS IN 2017 EXAM - for just AOS 1 no overlaps
- Short break before doing Area of Study 2