

# BUSINESS STUDIES

## Case Study Report: Filter Factory PTY LTD

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### Executive Summary

The purpose of this report is to disclose and analyse a variety of information about the small business, "Filter Factory Epping". The following report involves a detailed investigation of the many aspects that influence the day to day operations of the business. The report discusses and analyses the following:

1. Business Background
2. Organisational Structure
3. Situation Analysis
4. The Business Environment
5. Key Business Functions
6. Future Direction
7. Evaluation

### Purpose of the report

This business report is to provide the Filter Factory with a realistic assessment of its current position within its industry. This report seeks to identify opportunities and threats facing the firm with the goal of providing an honest evaluation that can assist the business and help improve it.

### 1. Business Background

The Filter Factory is a retail pool maintenance shop located on the corner of Ray Road and Pennant Parade. The shop is open from 9-5.30 Monday to Friday and from 10 to 4 on Saturday. The legal structure of the business is the form of a sole trader, which is Kerry Hoare. The shop has been operating for over 20 years, with the first owners purchasing it in 1986. Since then two other people have owned the store, the second owners in 1999 and the present owner purchasing it in 2001. This business is in the tertiary sector, as they provide services to customers.

**Prime Function** – Selling pool equipment and chemicals.

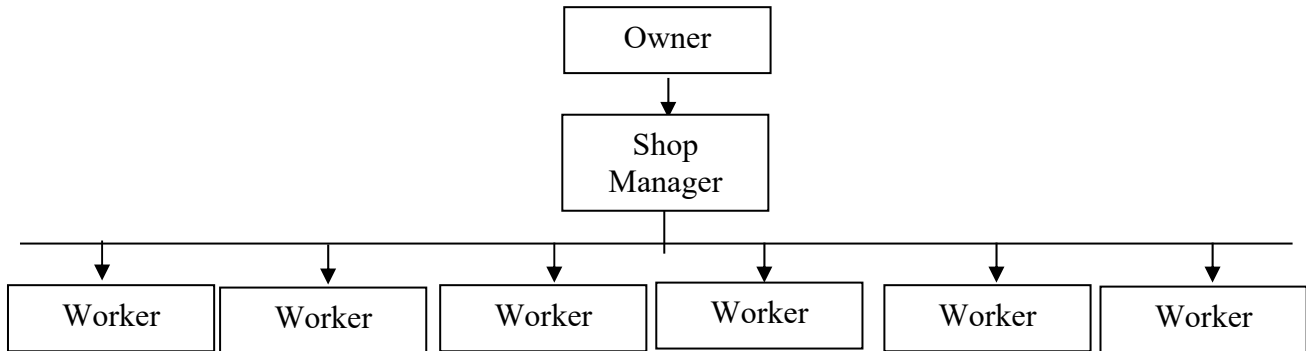
#### 1.1 Factors Affecting Location

- The business is located in an area that is highly visible to passing traffic and pedestrians, which is important in order to raise the business' profile in the public.
- There is very good parking around the Filter Factory, which makes it easier for the transportation of goods and for customers.
- There are many high-income earners living close to the business that own pools, which makes it an ideal place for a pool maintenance and repair shop.
- There is a loyal customer base built up over 20 years in the area, which encourages reliable consumers for the business.

## 2. Organisational Structure

This particular business is owned and administered by one person, who is known as a sole trader. The owner has all responsibility and makes all the important decisions in the business. There are 7 employees, which consist of one shop manager and 6 store workers. The shop manager's span of control is 6. The Filter Factory has a traditional chain of command, as the shop workers all report to one shop manager, who manages the workers under the owner's guidance. This is shown below in the management chart below.

### 2.1 Management Chart



### 3. Situation Analysis

#### 3.1 Swot Analysis

<p style="text-align: center;"><b><u>Strengths</u></b></p> <ul style="list-style-type: none"><li>• Excellent service in satisfying the needs and wants of each customer. This is evident because of a number of customer's positive feedback. This can also be seen by the period of time the business has been operating.</li><li>• Great customer base, that continues to grow.</li><li>• A productive business plan.</li><li>• Quality products.</li><li>• Extensive industry knowledge.</li><li>• Excellent reputation in the local community.</li><li>• No debt within the business.</li><li>• Steady sales growth.</li></ul>	<p style="text-align: center;"><b><u>Weaknesses</u></b></p> <ul style="list-style-type: none"><li>• Slow to adapt to changes in technology as seen by the business having no website.</li><li>• No marketing plan, which could mean that new customers are not attracted to the business and sales may eventually fall.</li><li>• Poor financial planning and unorganised paperwork.</li></ul>
<p style="text-align: center;"><b><u>Opportunities</u></b></p> <ul style="list-style-type: none"><li>• Move online, as this would enable the business to gain a bigger market share and gain revenue from consumers who otherwise would not have purchased products from the shop on Ray Road.</li><li>• Sell different products, as well as services in order to have a competitive advantage over competitors within the same industry.</li><li>• Improve advertising and promotion, to draw attention to the business in the community.</li></ul>	<p style="text-align: center;"><b><u>Threats</u></b></p> <ul style="list-style-type: none"><li>• The financial crisis may cause more people to save their money, therefore some people may choose not to have their pool repaired or maintained as it is a luxury.</li><li>• Other competitors, within the same industry (there are 3 pool shops in a 5km radius).</li><li>• New government regulations which may directly affect the business, e.g. if the government decides to increase the amount of taxes, or increase the tax on products that the business purchases.</li><li>• The internet is the biggest threat to the business, as similar products are able to be sold at a cheaper price and can be a more convenient way of buying.</li></ul>

### 3.2 Business Life Cycle

The Business has experienced steady growth, with a 5% increase being recorded for last year and a 6% improvement for the previous year. The owner has expressed that he is hoping for growth in the range of 5-10% over the next two years, which he describes as steady. The owner also said that he does not want the Filter Factory to grow too quickly and fail, as a lot of small business' do, and according to the Australian Bureau of Statistics, 75% fail within 3 years.

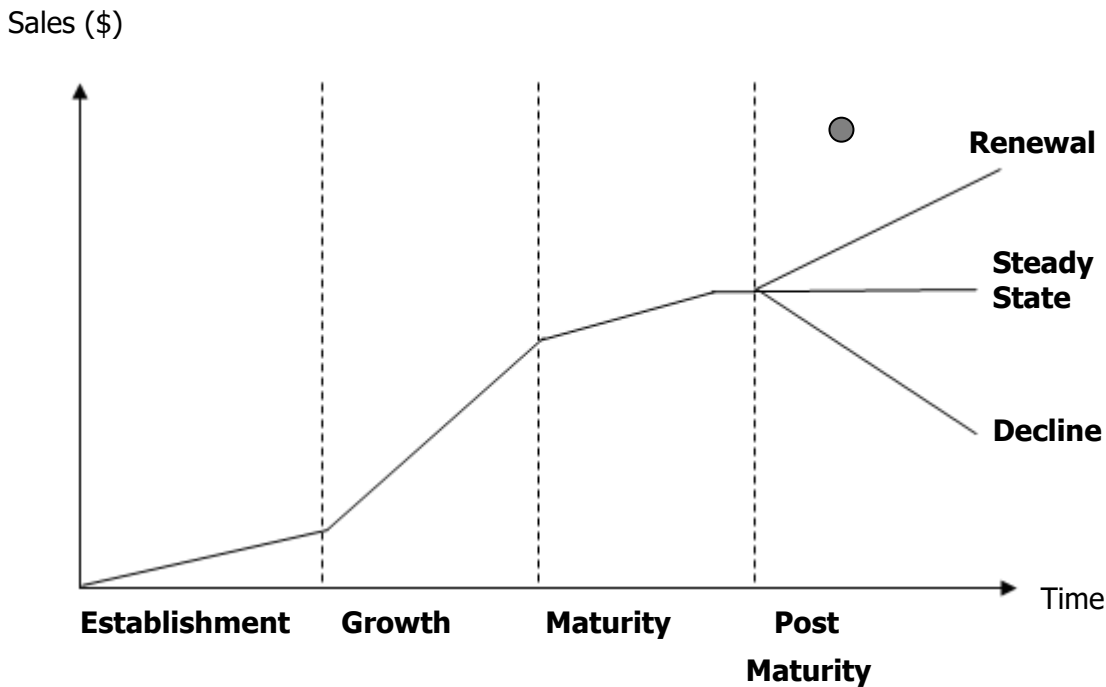


Diagram 3.2 shows the stages of the business life cycle. On the diagram the ● indicates the stage at which the business is at, which is the renewal stage. As the Filter Factory has been open for over 20 years, the business has completed the various stages, but the current owner has ensured that the sales are still increasing each year, through new initiatives; and the business is still growing steadily.

## 4. The Business Environment

### 4.1 Internal Influences

- **Safety**- dangerous chemicals need to be separated from the other products, or major harm could occur and the business may lose money.
- **Communication**- it is essential that all employees in the business communicate problems efficiently, in order to get the best solution and ensure the business is run productively. Also giving the lower members of the staff more responsibility improves their productivity.
- **Products**- The products are similar to competitors, which show that promotion may be the key to improving the market share of the Filter Factory.

## 4.2 External Influences – Economic Conditions

- The owner says that the economic climate does not really affect the business, as their sales have stayed steady after the recent global financial crisis. However, over time the business may see a fall in revenue, due to consumers having a lower level of income.
- **Expansionary macro-economic** policies may help to improve the business' revenue, as they encourage spending.

## 4.3 External Influences – Others

- **Geographical influences**- an increase in the population of Epping may lead to new houses and pools being built, which could improve the sales for the Filter Factory.
- **Legal influences**- all chemicals must comply with the legal requirements in order to operate legally and be safe. Also the business must comply with Occupational Health and Safety laws and equal employment opportunities.
- **Technological influences**- Although the Filter Factory has no website, the internet is its major competitor, which shows that in the future, if the business wishes to continue to be successful, a website is vital.
- **Social influences**- if pools are in or out of fashion, due to changing consumer tastes, the Filter Factory could benefit or suffer from it and must seek to adapt quickly to these changes.

## Key Business Functions

### 5.1 Operations

The prime function of the Filter Factory is selling pool chemicals and equipment, although they also repair pools and install products relating to pools.

#### 4.3.1 Purchasing/Supply Chain

The Filter Factory has rationalised its suppliers in order to benefit from various advantages, including lower costs per-unit due to bulk purchasing and a reliability of supply. This also means less paperwork for the owner. The Filter Factory's suppliers include:

- Lo Chlor Chemicals (who provide all chemicals)
- Premium Quality Pool Products ( who provide all other general pool equipment and products)

#### 4.3.2 Rostering

Rostering is the process of arranging or rearranging staff in order to complete tasks within the organisation. The roster of the Filter Factory includes the 4 full-time staff, the owner and the 3 casual staff. The roster was not available, but the owner said that it is very flexible and takes into account the workers' other commitments.

### 4.3.3 Technology

Technology is the equipment and knowledge that are available to help perform certain functions in the business. At the Filter Factory, there are various forms of technology. These include:

- **Cash register**- This is used to ensure that all money is stored safely and the correct amount of change is given. Credit card and Eftpos cards are also catered for.
- It also uses **price labels** on its products so that the consumers know what price the product is straight away, rather than not knowing and charged a price they thought was lower.
- They also use a **bar-coding** system where all the prices are recorded into a database.
- **Computers**- for spreadsheets to do with various information regarding control and finance. With the use of spreadsheets, it helps the Filter Factory to analyse the business' financial progress at any point in time.
- **Phone**- Used for contact with customers and suppliers.

### 4.3.4 Inventory Control

Inventory control is very important to the business and is a vital part of their operations. A stock take is also taken at the end of each financial year.

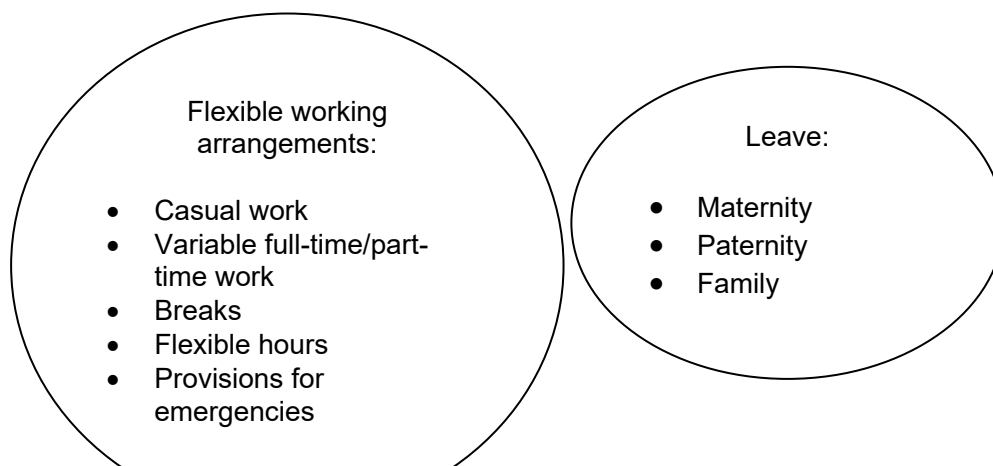
The Filter Factory utilises inventory control for a number of reasons including:

- To monitor levels of stock in store to be aware of any losses in stock.
- To keep record of how much stock they sell.
- To monitor which products are more popular, and hence order more of these products.
- To monitor which products are almost out of stock, and order in new stock.

## 5.2 Employment Relations

The Filter Factory is a small business, only employing 7 staff. There are 4 full-time staff and 3 casual staff in the business. There is a ratio of 5:2 male to female staff, which could be due to the nature of the pool repair and maintenance work the business does. The Filter Factory also has policies that are family friendly and contribute to a better working environment.

### 5.2.1 Family Friendly policies



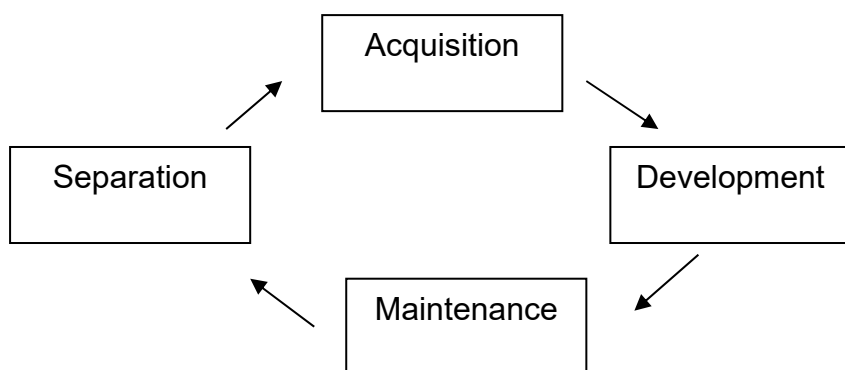
## 5.2.2 Key Influences

**Social Influences** – Changing work patterns in society have caused the Filter Factory to increase the amount of flexibility in regard to employee hours. Also, full-time job contracts are now more widely preferred in the workforce, so in the future; the Filter Factory may employ more full-time workers than casual workers as it traditionally had.

**Legal Influences** – The Filter Factory has to comply with a number of government laws when hiring staff including:

- Anti-Discrimination Act 1975
- Sex Discrimination Act 1985
- Equal Employment Opportunity for Women in the Workplace Act 1994
- Occupational Health and Safety act 2000 (very important with regard to chemicals)

## 5.2.3 Human Resource Cycle



### Acquisition

Although at the time of the interview the Filter Factory were not looking for any new members of staff, the business still has an acquisition plan in place. The Filter Factory advertise in local newspapers and depending on the job they generally hire people with a knowledge of cleaning and repairing pools, or people that have a understanding of pool equipment and maintenance.

Once candidates are selected for an interview, they meet with the owner, and he asses their ability to do the job and if they will fit in with the working team.

### Development

The Filter Factory provides on-site training for new employees, even if they are familiar with pool equipment. This is to show them the Filter Factory's way of operating and acquaint the new employees with their surroundings.

### Maintenance

The Filter Factory has loyal employees, with the majority working for over 5 years at the business. These employees are rewarded through monetary benefits and non-monetary benefits.

#### Monetary benefits include:

- Wages
- Superannuation

### **Non-Monetary benefits include:**

- Sick leave
- Holidays
- Flexible hours
- Store discounts
- Paid meal breaks

### **Separation**

In the near future, the Filter Factory does not intend to voluntarily separate any of its employees and has not done so in the recent past.

### **5.2.4 Rights and Responsibilities**

The new Industrial Relations Laws caused many changes in the working environment for both employers and employees. The Filter Factory has encompassed a clear set of rights and responsibilities for each group.

#### **Employees**

Rights include:

- Award wages
- Safe working environment
- Holiday leave

Responsibilities include:

- Working to the best of their ability
- Being prompt for work
- Acting in an appropriate manner in the workplace
- Treating customers with respect

#### **Employer**

Rights include:

- Have full control over business decisions
- Reserve the right to dismiss employees
- Implementing policies that contribute to a pleasant working experience.

Responsibilities include:

- Efficient running of the business
- Making sure safe working practices are being implemented
- Ensure all legal concerns are satisfied, when hiring new staff and when operating the business.
- Provide optimal customer service.



## 5.3 Marketing

Marketing is a vital part of business, as it provides a major link between the business and the consumer.

The Filter Factory owner describes their **target market** to be all people and businesses with a pool in a 5 km radius of the store. This shows that the target market has been segmented geographically due to the fact that there are many pool shops around Sydney and the owner is sure that consumers would not travel across Sydney in order to get a slightly better price on a product.

### 5.3.1 The Marketing Mix

#### Product

- Wide range of products available to consumers
- Have a unique warranty as well as a guarantee
- Are packed to Australian standards
- Purchased from trusted suppliers
- Well known pool brands

#### Price

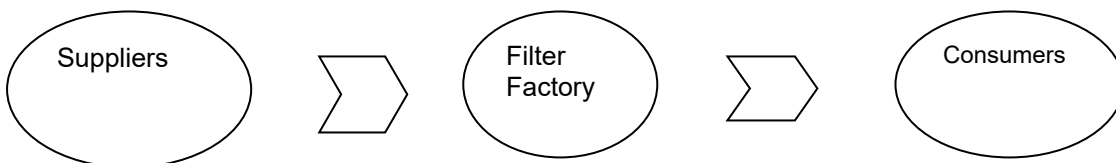
- 3 strategies
- Cost-plus: involves increasing the price to a certain profit margin from what the Filter Factory originally paid to their suppliers.
- Competitive: involves setting prices at a level that uses competitor's prices as a guide.
- Discount: involves selling items of poor demand at a discounted price due to increase sales.
- Owner says 90% success rate of selling goods once the customer walks into shop- shows price isn't most important aspect.

#### Promotion

- Advertising in the local paper
- Business cards are also used

#### Place

- Located on the corner of Ray Road which is ideal for visibility.
- Ideal parking for transportation and customers
- Distribution channel:



## 5.4 Accounting and Finance

Financial management is extremely important for the Filter Factory. This factor determines how efficiently the business can operate with regards to paying bills, ordering stock and paying wages.

### 5.4.1 Sources of funds

The owner of the business obtained finance to purchase the business in the form of a bank loan from Westpac bank in 2001.

The Filter Factory cannot gain funds through the sale of shares, as it is not a public company, which means that the sale of stock is the only way the business obtains funds.

### 5.4.2 Uses of funds

Retained profits are used for 2 main reasons.

- Wages for employees
- Day-to-day running of the business (rent, electricity, ordering stock)

### 5.4.3 Budgeting

The Filter Factory budgets in way such that it can obtain the stock at the right price, while also being able to account for expenditure and the exact amount of funds coming into the business. Future opportunities and threats like internet shopping are also identified, due to the number of resources allocated to control and investigate the situations. If the budget was incorrect, it could have dire consequences for the Filter Factory, as suppliers may not be able to be paid, bills may not be paid and financial problems may occur.

### 5.4.4 Financial Statements

The Filter Factory utilises 3 main financial statements to assist with the running of the business.

#### Profit and Loss statement

At the end of every financial year, the Filter Factory produces a profit and loss statement. The production of a profit and loss statement is important because it provides the owner with an insight as to whether or not the business is profitable, or whether the business is actually losing money. By analysing this statement, improvements could be made to aspects of the business that are not profitable.

#### Balance Sheet

The balance sheet is also produced at the end of the financial year. The owner believes the balance sheet is important because it provides a view of the stability and financial state of the business. He expressed that in recent years the balance sheet has provided him with a good, overall financial picture of the Filter Factory.

#### Cash Flow Statement

The cash flow statement has been one of the most valuable records available to the business according to the owner, due to its ability to assist with budgeting. It also gives creditors information on the risk involved when allowing extra stock purchased on trade credit, which is import in the pool industry, especially in the summer time.

## 5. Future Direction

The Filter Factory has been operating for over 20 years and is still growing; however some changes need to be made to ensure the business continues to be successful in the future years, especially due to the poor economic conditions currently affecting the business environment.

### 5.1 Changes

The Filter Factory has a loyal customer base, although it does have problems attracting new consumers. This could be improved by increased promotion. Currently, the firm only advertises in the local newspaper, which may not attract everyone's attention in their target market. The Filter Factory could advertise on the radio to improve public knowledge about the business and this could increase sales. Few of the business' competitors use this method of promotion, showing that the Filter Factory could be seen as the leader in the local market.

In order to compete with firms selling items over the internet, the Filter Factory could create a website. Without a website, the firm cannot compete on a level basis with these competitors and in time this could harm the business and lower market share. Also the introduction of a website could create a new customer base that has no geographical limitation, which could further improve the business' sales and revenue.

Although the owner believes that the current economic conditions do not adversely affect the business, some consumers may be less willing to maintain and repair their pools, as it is a luxury and they may have to spend money on more essential goods and services. To combat this, the firm could temporarily reduce prices on some products, which would increase demand in the short term.

Another change the business could make would be to increase the product range that is for sale at the shop with product differentiation. For example, the business could sell other pool-related items or could expand into selling spa pools and Jacuzzis. This could potentially improve the sales and success of the business and could also take market share away from its competitors that also offer these products.

In order to reduce the wage bill at the Filter Factory, the owner could employ more full or part-time staff instead of casual workers. Casual labour is more expensive per hour than part-time labour and this action could improve the business' profitability.

### 5.2 Key Factors Affecting Success

In order to achieve success and profitability, the Filter Factory needs to consider a number of factors.

**Economic conditions** – if the economic conditions continue to decline, the business may experience a slower rise in sales than in previous years and profitability may not be as high as in the past. However, if the economy experiences an upturn or a boom, the Filter Factory will positively benefit, with increased demand leading to increased revenue for the business.

**Social demographic** – if the Epping and Carlingford areas have an influx of high income earners, new houses may be built that include pools. These residents would need pool maintenance and repairs, which could improve sales and market share for the Filter Factory.

**Competitors** – there is 3 other pool shops located in a 5km radius from the business and numerous outlets online that compete with the Filter Factory. If these competitors are successful, valuable market share and revenue is lost for the Filter Factory.

**Service** – the Filter Factory boasts excellent customer service, which is one of the most important factors affecting success. This contributes to a loyal customer base that continually purchase products and choose the Filter Factory as their preferred pool maintenance firm. The firm’s reputation is also excellent within the community, which reflects positively on the success of the business.

## 6. Evaluation

The Filter Factory is a friendly, local business that operates above its stature in the pool industry. The owner, Kerry Hoare is dedicated and motivated and has sound knowledge of the industry. The owner’s dedication is evident to see and the employees also share his motivation. There are many positive aspects about the business; however there are some areas where improvements could be made.

The Filter Factory has a loyal customer base, which is a testament to the firm’s workers and owner. The firm has sound policies concerning employment relation, that contribute to the loyal employees at the business, that state they enjoy working at the Filter Factory.

The future for the business looks bright, with growing sales and a motivated team at the Filter Factory, however strong competition from the internet and the owner’s reluctance to create a website may stunt the business’ success in the long term.

## Summary

This business report has analysed many different aspects affecting “Filter Factory Epping”. The business’ main support services and functions have been outlined and explained. Through a detailed investigation, the future direction of the business has been described and an overall picture of the business has been outlined. After analysing the key aspects affecting the business, I recommend that the business should create a website, as it could seriously improve the business.



## **Bibliography**

Personal interview with Kerry Hoare, owner, Filter Factory Epping, 16 June 2009

Personal interview with James Davidson, employee, Filter Factory Epping, 16 June 2009

Personal interview with Lucy Hepburn, customer, Filter Factory Epping, 16 June 2009.