# Chapter 12

## Chapter 12 Ordinary Level Questions

Q1. A local entrepreneur wants to open a food truck near a sports stadium. Describe **one risk** and **one challenge** they might face in setting up and running the business.

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| Risk<br>The entrepreneur faces a **financial risk** if costs rise or sales fall.<br>If ingredient or fuel prices increase but sales stay flat, profits shrink and the business may struggle to stay viable.<br>On match days, bad weather or lower-than-expected attendance could reduce sales, making it hard to cover daily operating costs. |
| Challenge<br>A key challenge is managing **location and staffing**.<br>Securing a legal pitch near the stadium may involve permits or competition, and finding reliable staff for peak match times can be difficult.<br>If the food truck can't serve quickly during busy periods, it risks losing customers to faster competitors. |

Q2. Fill in the blanks choosing from the following terms: **reputation, staff, finance, regulations.**

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| An entrepreneur may struggle to raise enough **finance** to start the business, risk damaging their **reputation** if the business fails, and face legal issues if they don't follow industry **regulations.** |

**Q3.** Explain why risk management is essential for a business in today's economy. Include one example of a risk and how a business might assess its potential impact.

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| **Risk management** helps businesses avoid costly mistakes and make better decisions by identifying and then taking steps to reduce risks that they face. For example, a retailer might assess the *risk of cyberattack* by evaluating how likely it is and what customer data could be exposed, then invest in prevention and cyber insurance to reduce the potential damage. |

**Q4.** Match the **risk management strategy** to the correct description:

| Strategy | Description |
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| 1. Avoidance | A. Taking out public liability cover in case someone slips in your shop. |
| 2. Spread | B. Choosing not to sell in a market where the brand is unknown. |
| 3. Prevention | C. Offering more than one product line. |
| 4. Insurance | D. Training staff to handle customer complaints properly. |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| B | C | D | A |

**Q5.** Give **two** examples of how a business can use different **types of insurance** to reduce the impact of a risk that they face.

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| **1. Public liability insurance**<br>Covers the cost if a customer is injured on the business premises.<br>E.g. if someone slips and falls in a shop, this policy covers legal and compensation costs.<br><br>**2. Product liability insurance**<br>Protects against claims if a faulty or defective product causes harm.<br>E.g. A bakery could face claims if an item contains undeclared allergens. |

# Chapter 12 Higher Level Questions

Q1. *A retailer is considering opening a retail store selling clothes aimed at teenagers in a new city centre location with high rent and strong competition.*

Discuss **three** risks this business should consider before making a final decision.

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| 1. Financial Risk<br>High rent increases fixed costs, which raises the break-even point.<br>If sales do not meet expectations, the retailer may struggle to cover the expensive city centre lease.<br>In a city centre location, the cost of operating may outweigh the demand from teenage shoppers. |
| 2. Market Risk<br>The business might misjudge teen fashion trends or preferences in the new area.<br>If the clothing range doesn't appeal locally, the store could experience poor sales and high levels of unsold stock.<br>This is especially risky in a fashion-driven market where teenage tastes shift quickly. |
| 3. Operational Risk<br>Running a physical store involves daily challenges such as managing stock levels, hiring trained staff, and maintaining a smooth customer experience.<br>Poor staffing or inefficient systems could lead to delays, stockouts, or poor service.<br>In a fast-paced city centre, this could damage the store's reputation and turn teen customers towards more reliable competitors. |

**Q2.** Explain the challenges an entrepreneur faces when starting a business using any **three** challenges listed: **finance, ownership, production, marketing.**

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| 1. Finance<br>Accessing start-up finance can be difficult, especially without a proven track record or security.<br>Banks and lenders may be reluctant to provide loans, and personal savings may not be enough to cover all costs.<br>This limits the entrepreneur's ability to invest in stock, equipment, or promotion early on. |
| 2. Ownership<br>Choosing the right ownership structure affects control, liability, and tax.<br>For example, a sole trader has full control but unlimited liability, while a private limited company (Ltd) offers limited liability but more paperwork/accounting and can come with shared control and profits.<br>This choice impacts decision-making and long-term business planning. |
| 3. Marketing<br>Reaching the target market requires research, planning, and a strong promotional message.<br>New entrepreneurs may lack the experience or budget to build brand awareness effectively.<br>This makes it difficult to attract and retain early customers in a crowded market. |

**Q3.** (i) Define risk management

Risk management is the process of identifying, assessing, and taking steps to reduce or manage risks that could negatively affect the business.
It helps a business make better decisions and reduce potential damage from uncertainty or unexpected events.

(ii) Outline the steps a business takes when assessing risk.

1. Identify potential risks
The business considers what could go wrong in areas like finance, operations, or reputation.

2. Assess the likelihood and impact
Each risk is judged on how likely it is to happen and how serious its effects would be.

3. Choose a risk management strategy
Based on the assessment, the business selects a suitable response, such as avoidance, prevention, or insurance.

4. Monitor and review regularly
Risks and business conditions can change, so strategies must be reviewed and updated over time.

Q4. Explain how each of the following strategies can protect a business:

Avoidance – Spread – Prevention – Insurance

Avoidance

This strategy involves choosing not to take on a particular activity or enter a market where the risks are too high.

For example, a business might avoid selling products in a region with strict legal requirements or low brand awareness.

Spread

Spreading risk means not relying on a single product, supplier, or market.

A business might offer multiple product lines or sell in several locations so that failure in one area doesn't threaten the entire business.

Prevention

Prevention reduces the chance of a risk occurring by taking proactive steps.

This can include training staff, installing safety equipment, or securing data systems to avoid accidents or breaches.

Insurance

Insurance transfers the financial impact of certain risks to an insurance company by paying a premium for cover.

Policies like public liability or property insurance help cover costs if something goes wrong, protecting the business from large unexpected expenses.

Q5. *A small online retailer experienced a data breach that affected hundreds of customer accounts.*
**Discuss** how this business could have used both **prevention** and **insurance** as strategies to reduce the damage from this event.

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| Prevention<br><br>Prevention involves taking steps to stop a risk from happening.<br>The retailer could have used cybersecurity measures like strong firewalls, regular software updates, and employee training to reduce the chance of a data breach.<br>These actions would help secure customer data and protect the business's reputation. |
| Insurance<br><br>Insurance helps cover the financial cost of certain risks in exchange for paying a premium for cover.<br>The business could have taken out cyber insurance, which would help cover legal fees, compensation claims, and data recovery costs after the breach.<br>This would reduce the financial impact and help the business recover faster. |

**Q6.** Outline the importance of **four different types of insurance** the 3Arena might need for hosting concerts and shows.

. Public Liability Insurance
Covers injury or damage to a member of the public while on the business premises.
If an audience member slips or is injured at a concert, this insurance would cover any claims made against the 3Arena.
2. Employers' Liability Insurance
Protects a business if an employee is injured at work.
For example, if a stagehand or security staff member is hurt during setup or during a show, the 3Arena would be covered for compensation costs.
3. Property Insurance
Covers the business premises and its contents against risks like fire, theft, or damage.
If there was a fire in the venue or damage to equipment, this insurance would help the 3Arena replace or repair what was lost.
4. Motor Insurance
Covers business vehicles used for company purposes.
If the 3Arena uses vehicles to transport staff, equipment, or supplies to and from the venue, those vehicles must be insured for accidents or damage.