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Chapter 12
Managing Risk

12.1 Outline the challenges and risks associated with enterprise and entrepreneurship.

HL Paper 2 Q1 (b) (ii)

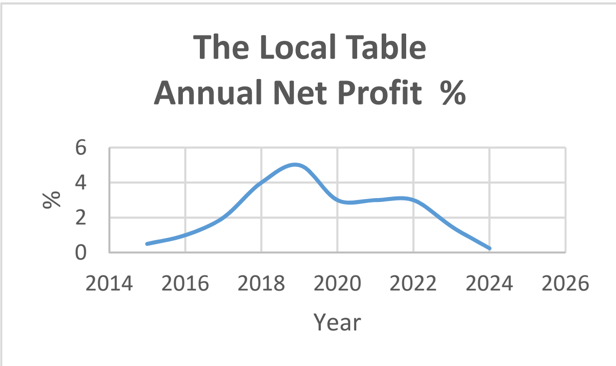
The Local Table Restaurant

The Local Table, an Irish restaurant, was founded in 2015 by two brothers, John and Mark Lee. The business is built around a unique selling point (USP) of using locally sourced ingredients, reflecting their commitment to quality and sustainability. However, this approach has introduced challenges, including supply chain issues, which mean not all menu items are available year-round. To adapt to this, The Local Table has embraced digital innovation by replacing printed menus with a daily updated menu application, allowing them to update offerings in real-time based on ingredient availability.

The Local Table began as a single outlet, funded through John and Mark's personal savings. The venture quickly gained traction, attracting large volumes of customers and earning a profit. Motivated by this, the duo expanded their business by opening two additional outlets in nearby towns, financing the expansion with a long-term loan. They installed solar panels aiming to reduce energy costs and eventually generate surplus electricity to sell back to the grid.

The Local Table operates without a dedicated marketing team, with John handling marketing and personally managing social media updates when time permits. It primarily relies on word of mouth and has not actively sought customers reviews. Competition has intensified, making it difficult to retain a loyal customer base. Despite its growth, it has faced mounting challenges. Mark is struggling with managing human capital. Overseeing three outlets has also stretched their operational capacity, leading to increased staff turnover and inconsistencies in both service and product quality.

Economic pressures have added to their difficulties. Rising costs across various aspects of the business, coupled with changes in the minimum wage, have impacted profitability.



Faced with these challenges, John and Mark are considering their next steps to secure The Local Table's future. Among their potential strategies is the introduction of new plant-based menu options, aimed at diversifying their offerings and attracting a broader customer base. Their concerns reflect wider industry struggles, as the Restaurant Association of Ireland has expressed concerns about the viability of the industry under current economic pressures. The closure of 856 Irish restaurants and cafés in 2024, underscores the difficult road ahead. As The Local Table navigates these turbulent times, its ability to adapt and innovate will be critical in determining its future.

(ii) Discuss **two** challenges John and Mark may face when introducing new products, and explain how they can address these challenges.

Challenge:
How to address challenge:
Challenge:
How to address challenge:

HL Paper 2 Q1 (b) (ii) Solution

Note: ***question asked about "when introducing new products" so could be a good idea to reference that in each part.***

Challenge 1: Marketing Costs / Customer Awareness

Introducing new products requires strong promotion, but *The Local Table* does not have a dedicated marketing team. This makes it difficult to build awareness of new dishes, especially with increased competition from other local restaurants. Without effective marketing, new products may fail to reach their target customers, leading to poor sales.

How to Address Challenge: They could use cost-effective methods such as social media promotion, partnerships with local suppliers, and offering tasting events to generate interest and build brand loyalty locally, inviting locals to taste/try new dishes for free or at a very low cost to get customers in the door.

Challenge 2: Operational Capacity and Consistency

Introducing new products places extra pressure on daily operations. At *The Local Table*, John and Mark already manage a small team, and adding new dishes increases the risk of mistakes, slower service, or inconsistent quality. This can damage their reputation if customers feel the dining experience is unreliable.

How to Address Challenge:
They could provide staff with training before launching new items and introduce clear preparation processes to maintain standards. Trial runs of new dishes during quieter periods would allow staff to practice, reducing pressure at busy times and helping ensure a consistent customer experience.

OL Paper 1 Q5 (e)

(e) Outline **two** challenges, apart from inflation, facing entrepreneurs in Ireland.

1
2

OL Paper 1 Q5 (e) Solution

Access to Finance
Many entrepreneurs in Ireland find it difficult to secure funding to start or grow their businesses. Banks often view start-ups as risky, which makes it harder for new entrepreneurs to access loans or investment.

Competition in the Market
Entrepreneurs also face strong competition from established businesses and international brands. This makes it more difficult to attract customers and build a loyal customer base when starting out.

Staffing Challenges
It can be difficult for entrepreneurs to recruit and keep skilled workers. Without enough staff, service and product quality can suffer, which may harm the business's reputation.

Changing Consumer Trends
Customer preferences are constantly changing, especially in areas like food, fashion, and technology. Entrepreneurs must adapt quickly or risk losing customers to businesses that respond faster to new trends.

12.2 Outline the importance of assessing and managing risks in business.

HL Paper 2 Q3 (a)

(a)

Storm Éowyn cost likely to be in hundreds of millions as insurers survey damage

Industry figures have warned of higher insurance premiums due to increased risk, if severe weather is to occur more often.

Explain **two** reasons why it is important for a business to manage risks.

1
2

HL Paper 2 Q3 (a) Solution

Reason 1: Protects Resources and Reduces Financial Loss

Effective risk management helps businesses avoid or reduce major losses. For example, taking out **insurance** such as public liability or business interruption cover ensures the business can recover financially if accidents or disruptions occur. This protects stock, premises, and cash flow.

Reason 2: Maintains Consistency and Prevents Disruption

Risk management ensures day-to-day operations can continue smoothly. For instance, using **prevention strategies** like staff training and quality control reduces the chance of mistakes or accidents. This means customers get a reliable service, protecting the brand from reputational damage.

Reason 3: Builds Long-Term Sustainability and Stakeholder Confidence

Managing risks helps businesses adapt to challenges and earn trust from investors, employees, and customers. For example, by **spreading risks** across different products or sales channels, a company avoids relying on just one income stream. This makes the business more resilient and sustainable.

12.3 Analyse a range of risk management strategies that can be used to respond to the challenges and risks in business.

HL Paper 1 Q3 (e)

(e) Grant Thornton's recent International Business Report highlights the resilience and adaptability of Irish businesses as they aim to mitigate new and emerging risks.

Discuss **four** risk management strategies that can be used by businesses to respond to potential risk.

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2
3
4

HL Paper 1 Q3 (e) Solution

1. Avoidance

Businesses can avoid risks by choosing not to engage in certain activities. For example, a café might decide not to offer home delivery to avoid the logistical and legal risks linked to food transport. This prevents exposure to risk but may also limit growth opportunities.

2. Spread

Spreading risk means diversifying products, markets, or sales channels. For instance, a clothing retailer might sell both online and in-store so that if one channel underperforms, the other can support income. This reduces dependence on a single market.

3. Prevention

Prevention involves taking proactive steps to reduce the chance of risks occurring. A factory, for example, may invest in staff training, safety equipment, and quality control systems. These measures minimise accidents, protect staff, and reduce reputational damage.

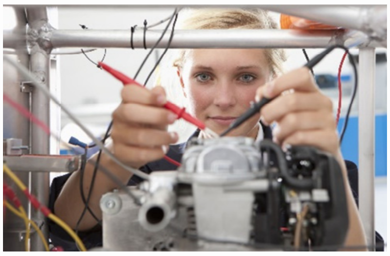
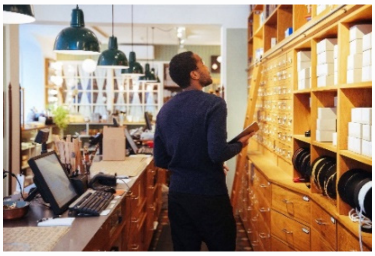
4. Insurance

Insurance transfers the financial burden of risks to an insurance company. A bakery might take out public liability or business interruption insurance to cover costs if customers are injured or equipment fails. This provides financial protection and supports business continuity.

OL Paper 2 Q1 (f)

PJ Maher, an electrical contractor, employs six qualified electricians. He has recently expanded his business model. He saw an opportunity to source his own electrical materials for a better price and to also act as a wholesaler to other electricians around the area. This additional business complements his existing electrical contracting business.

PJ has built a state-of-the-art showroom and warehouse on his premises with an impressive display of light fittings and other materials. He is happy for electricians to bring potential customers to the showroom so that they can view the range of products.

PJ has a strong credit-rating, and after much thought, decided to fund this expansion using a combination of retained earnings and a long-term loan. He created a Business Plan that not only helped him secure loan approval but also enabled him to identify potential business challenges. He later used this plan to apply for the Feasibility Study Grant from his Local Enterprise Office but was disappointed to learn that his business did not meet the criteria. However, this setback did not deter him.

PJ decided to lease a van for deliveries. One of his employees, Wojciech, had recently requested to reduce his physical workload and working hours for health reasons. After considering this request, PJ proposed that Wojciech take on the role of driving the van and handling morning deliveries. Wojciech was satisfied with the suggestion and is happy in his new position.

PJ is pleased that the business is currently doing well and reaching all targets on schedule.

(f) Insurance is one strategy PJ could use to manage risk.
Outline **three** suitable types of insurance that PJ should consider to protect his business from potential risks.

1
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OL Paper 2 Q1 (f) Solution

Public Liability Insurance

This protects PJ if a customer or member of the public is injured on his premises or because of his work. It covers compensation claims and legal costs if people were injured visiting as “he is happy for electricians to bring potential customers to the showroom so that they can view the range of products”.

Employer’s Liability Insurance

If PJ hires employees, this insurance covers him if a worker is injured while doing their job. It is a legal requirement and prevents large payouts. PJ “employs six qualified electrician” that could get injured while working for him, so it covers against that risk.

Buildings and contents insurance

Buildings Insurance protects the physical structure of the business premises for example, against fire, flood, or storm damage. Contents Insurance covers the items inside the premises, such as stock, machinery, equipment, and fittings, if they are lost, damaged, or stolen.

PJ could get this as “PJ has built a state-of-the-art showroom and warehouse on his premises with an impressive display of light fittings and other materials.”