

NEW

Edexcel 9-1 GCSE Business

TARGET 9-6

Revision Handbook for Top Grades



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Risk and Reward

What? (Grade 5 basics)

Risk is the possibility that things will go wrong. It can be quantified, as in: 'there's only a 30% chance of success' and therefore a 70% chance of failure. Poor outcomes can lead to financial losses, lack of security or even the outright failure of a business.

Reward comes from the benefits of success. This might be in the form of profit - or from personal independence for the entrepreneur whose success provides control over his/her life.

Do think about the risks involved for that specific entrepreneur: has a family? Wealthy enough to take a loss?

Why? (Grade 6)

Entrepreneurs make decisions by weighing up risks compared with rewards. It might be worth taking a big risk if there's a possibility of a huge reward. In 2016 Skyscanner – a £100 start-up by 3 Scottish university students in 2001 – was bought for £1,400 million. So the reason why risk-reward matters is because it's a fundamental part of businesspeople's decision-making.

Don't be too inclined to avoid risk; business decisions are about the future, so every decision carries risk. Risk is not a bad thing; it's a fact of business life.

How? (Grade 7)

To judge risk against reward, you first need a numerical estimate of the level of risk. In the UK fewer than 1 in 5 new products becomes a success, so the risk of failure is 4 out of 5 (80%). But in a market such as healthy snacks, the reward for success can be sales of £20 million a year (Nakd cereal bars). So reward can be weighed against risk.

So? (Grade 8)

In the exam, never treat risk as a problem. In business risk is a factor to set against reward to make a judgement about whether or not to go ahead. All decisions are about the future, which introduces an element of risk. But as long as the rewards are good enough, risks are worth taking.

Exam tip: it's easy to focus too much on risk (the downside). Balance your argument by writing clearly about reward as well.

Grade 9

Risk has an ethical element as well. Me risking my money is my problem. But me risking other people's money may be their problem. An under-financed start-up may collapse at the cost of blameless customers and suppliers. They probably didn't realise the risks they were being encouraged to take. Good entrepreneurs take risk upon themselves; 'cowboys' impose risk on others.

Risk & Reward: 5-step logic chain (necessary to get to the top response level)

Chain 1. Both risk and reward can be measured or estimated (1) ... so they can be balanced against each other (2) ... which allows those with lots of capital to take big risks as long as the rewards are even bigger (3). Businesspeople with less capital may accept that this risk is not for them (4) ... because they can't afford the losses involved if the idea fails (5)

Chain 2. Risk is caused by ignorance of customer wants. Nokia bet on buttons but the market wanted Apple's touchscreen. (1) ... To measure risk (and reward) market research is needed (2). This may lead to better decisions, which reduces risk (3) ... and may boost the levels of rewards available (4) which helps the business finance better long-term developments (5)

Answering exams

Edexcel produces sample exam papers to help teachers. In these there are only two 1-mark questions about risk. But in Edexcel's marking guidance there are far more references to risk. So risk is a concept that can be used to answer many different questions.

Here are three questions in which risk can be a significant part of the answer:

Q1d) Explain one disadvantage to a sole trader of having unlimited liability. (3 marks)

Q7d) Sally is considering whether or not to buy a franchise to start up on her own. Justify whether or not Sally should buy a franchise. (9 marks)

Q7e) Evaluate whether Sainsbury's is likely to benefit from its takeover of Home Retail Group. You should use the information provided as well as your knowledge of business. (12 marks)

So although a glance at the Sample Paper suggests there are only 2 marks relating to risk, in fact risk can be a significant part of answers to 26 marks' worth of questions. That makes risk (and reward) among the most important topics to revise.

On the right are strong answers to these three questions. They focus on how risk/reward can be used in the answers – so they are models for using risk/reward rather than models for how to score 9 or 12 marks.

For more on exam technique see Section 3.

Grade 9 Answers (questions on left)

1d) Even for an apparently super-safe business, risks may arise from competition or from a poor economic climate. With unlimited liability the owner is responsible for all financial losses and debts, placing their personal/family finances at huge risk.

7d) Franchising works best when there's a powerful brand, marketed heavily and with clear operational benefits, such as McDonalds supplying the milkshake machines plus instructions. That's not the case here, with Sally offering a Personal Trainer service, which is about personal skill and stamina plus likeability/charisma.

The risk for Sally is that she pays an upfront fee and signs an agreement taking 5% of her revenue without getting much in return. With a franchise, businesses don't usually go under, but they can merely 'exist', with too little profit for the franchisee. Sally would be taking on the risks, while the franchise owner enjoys the rewards.

7e) Every takeover contains huge risks. The first is simple: caveat emptor - let the buyer beware. Buying a second hand car has the risk that the seller knows more about the car than you do; so it is with companies. Even if everything is great, the process of takeover has its own risks: especially that it may be hard to pull the two workforces together. Research shows this to be a bigger problem than managements expect. On the other hand the rewards may be so great that the risks are worth taking, as in the case of Whitbread buying Costa Coffee (50 stores then; 4,000 now). It's hard to see Sainsbury's buying Home Retail Group (Argos) in the same light. Yes, it may be helpful to tap in to the Argos online ordering and pick-up service, but perhaps Sainsbury's needs to get Online right all by itself.

Are the potential rewards for Sainsbury's worth the risks? Not quite. Sainsbury's would've been better off focusing on a better Sainsbury's.

The Role of Procurement

What? (Grade 5 basics)

Procurement means obtaining supplies. Businesses usually negotiate with a number of suppliers, then decide on the basis of quality and reliability, costs and credit terms. Some companies offer the business to just one supplier in order to get the best possible terms. A supplier with the chance of a huge contract may offer especially low prices.

Another factor is logistics: the organisation of transport and delivery of stock plus the final deliveries to customers. Efficient logistics help to keep costs down while ensuring the reputation of the business and a high level of customer satisfaction.

Why? (Grade 6)

In 2018 the huge aircraft-maker Airbus found problems with engines supplied by one of the top American engine-makers. Fortunately it had a deal with a second supplier. By switching to the second supplier, customer airlines could keep getting deliveries of their planes. Clever procurement saved Airbus from cancellations on its orders. With each A320 airplane priced at \$101 million, this is no small matter.

How? (Grade 7)

Procurement starts by identifying the exact supply needs. In 2018 Airbus received an order for 36 A380 Superjumbo airplanes from Emirates Airlines. Delivery begins in 2020, so Airbus must place orders for 36 sets of aero-engines from key suppliers. Negotiations with suppliers may take a long time, because each engine costs around \$50 million. And in this case, it's not just the purchase and delivery that matters, but also the after-sales service and maintenance. All these factors can be part of the procurement decision.

So? (Grade 8)

Successful businesses such as Toyota or Jaguar build up long-term relationships with key suppliers. Instead of fighting over the cost of every deal, they work together on improving quality plus the speed and reliability of delivery. The important thing is to build up trust, so that the producer has faith in the supplier. For example, if the supplier is struggling to keep up with orders, it should inform the customer in plenty of time about the threat to the availability of the supplies.

Grade 9

With the rise in online e-commerce, procurement and logistics are becoming a central part of management. Millions may be spent on advertising, but if the customer gets the wrong product delivered, she won't return. The 2018 KFC disaster (outlets closures/chicken delivery problems) will not be forgotten quickly.

Do remember that procurement can be done in one of two ways: switching suppliers regularly, to whichever is the cheaper; building a relationship over time to work with a supplier on new innovations and ever-better quality

Don't forget 'logistics' - the management of transport and delivery to keep costs down and customer satisfaction up.

Exam tip: don't muddle logistics and procurement; examiners love to see business terms used in exactly the right way.

Procurement and Logistics: 5-step logic chain (to get to the top response level)

Chain 1. For a business with weak profits, costs can be cut by more careful procurement (1). There are advantages in having the same supplier for 20 years, but it's important to check, every few years, to see what else is on offer (2). Britain leaving the E.U. gives an opportunity to look again at possible UK-based suppliers (3) ... who may be able to supply more cheaply thanks to lower transport costs (4) ... allowing better procurement to help cut costs and re-build profits. (5)

Chain 2. For a fast-expanding business logistics can be a problem (1) .. because it's hard to get enough trucks, lorries and drivers (2) ... to keep inward supplies and customer deliveries arriving on time (3). So it's important to hire a really capable Logistics Manager – and give her or him the power to make decisions such as buying new trucks (4) ... without checking every decision with senior managers (5)

Making full use of the exam time

Problem 1.

In all exams students tend to write too much at the start. Nerves are fizzing away and the response to the first questions is to write plenty – to make sure of the marks. Big mistake. The time is needed later.

The Solution

Be self-disciplined. Force yourself to be brief on the early questions. These aren't the questions that will really matter for grades. They're coming later.

Problem 2.

Re-writing the question. This is the ultimate in time-wasting. The examiner knows the question – you don't need to rewrite it. So if there's a question such as 'Explain **one** benefit to employees of employment law' (3 marks), most answers start with "One benefit to employees of employment law ...". These words may only waste a quarter of a minute, but as there are about 16 written questions per exam paper, that's 4 minutes wasted. That could be the difference between having 7 minutes and 11 minutes to answer a 9-mark question.

The Solution

Start answering the question straight away. In answer to that question on employment law, dive in: 'The law sets a minimum standard such as the National Living Wage. As all employees have to be paid at or above that level it helps reduce poverty and therefore reduced inequality.'

Problem 3.

You may know too much – and want the examiner to know how much you know. Also a big mistake. All the examiner cares about is whether you know how to answer the questions set.

The Solution

Again, self-discipline is needed. You may know loads about cash flow, but if the question is about profit, don't stray for a second. In this case attempting to show off your knowledge about cash flow will actually harm your mark – but it suggests to the examiner that you don't know the difference between these two concepts.

Every sentence you write must be focused directly at the question set. The *precise* wording of the question. Take a look at these two answers to the question:

Explain **one** disadvantage to a small business of using an overdraft as a source of finance. (3)

Tight focus on the question	Answer focused poorly on question
An overdraft is on 24 hours' recall, so the bank can demand that the debt be repaid in full within a day. A small business is unlikely to be able to find the funds needed, raising the threat of insolvency	One disadvantage to a small business is that the bank may want the overdraft repaid in 24 hours. It's better if the business has a bank loan because that's for a set period of time, such as 2 years. Crowdfunding would also be a better and safer way to get capital for a small business.

Commentary: on the left is a nice, quick 3 marks out of 3. On the right is a long-winded 1 mark out of 3.

Do practise writing answers with 'connective' words such as because, as, therefore, 'so that' and however. And with a 12-mark question, the conclusion is improved by the magic words: 'It depends.'

Don't try to answer an exam paper in a different order, e.g. the 12-mark questions first. Examiners use 2 and 6-mark questions to get you used to the business story. Then you'll write better answers to the tougher questions.

Exam tip: if, despite your best efforts, you have only 6 minutes left for the final, 12-mark question, don't start to write in note-form or bullet points. Write your case For, making clear references to the business situation and build your 5-step analysis.

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