



Third Edition

BUSINESS

ANSWER GUIDE

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2 Why new business ideas come about

Teaching advice

This section could be a bit dry. It's especially important to liven it up with some up-to-date material. Obsolescence is always easy to find among smartphones and games consoles, so make sure the material is up to date. Google 'Apple investor relations' and click onto 'SEC filings' and you'll soon get to Apple's latest quarterly accounts. About a third of the way into the SEC filing is the company's latest set of sales by units and by dollars, broken down by product and by global region. That's how to find the latest iPhone or iPad sales.

Another useful source is *The Grocer* magazine, which will tell you about forthcoming grocery or confectionery product launches, allowing you to ask students why they think the new product ideas came about. The magazine is expensive these days, but look out for the Christmas Double Issue, which has wonderful details of market sizes and shares across all grocery markets.

End of chapter exercises, page 9

1 What changes might come about over the next three years in the markets for:

(a) chocolate

- Greater pressure for low-fat chocolate.
- Definitely more no-melt chocolate for hotter developing countries, e.g. India.

(b) mobile phones.

- Answers clearly depend on where the market has got to by then. At the time of writing the iPhone7 is soon to launch, probably with the option for wireless charging and without the end of the headphone jack.
- The main longer-term issue is perhaps fiercer price competition in the centre of the smartphone market.

2 Look at Table 2.1 on page 9. Outline two possible reasons why 3D printing has not yet been successful in the UK.

- Companies may have struggled to find a profitable use for its technology.
- Other countries may have got there first, making it hard for UK companies to compete.

3 Outline two factors that might cause motorbikes to become obsolete.

- Safety legislation might make bikes too boring to ride or too awkward, with enforced heavy protective clothing.
- Changing social habits and attitudes might make the higher risks of motorbikes unacceptable.

4 Using the information in Figure 2.1 on page 8, calculate Switch's 2017 share of the global market for games consoles.

- $13.1 \text{ m} / (19.8 + 13.1 + 7.7 + 6.6) \text{ m} \times 100 = 13.1 \text{ m} / 47.2 \text{ m} \times 100 = 27.75 \text{ per cent}$
(28 per cent is fine)

- 5 Look at the quote by Marshall McLuhan on page 8. What do you think it means?
 - The reason products become out of date is that others have arrived that make them look that way. So obsolescence is the start of something as well as the end.
- 6 Figure 2.1 shows that sales of the Xbox One had been sliding even before the 2017 launch of Nintendo's Switch. By 2020 the Xbox was becoming obsolete. Discuss the factors that may have led to the Xbox One becoming obsolete by 2020.
 - Obsolescence is often a result of technical advances made by other products. In this case the PS4 had been far outselling the Xbox One, perhaps allowing Sony to keep introducing new accessories or better games – making the Xbox seem behind the times.
- 7 In late 2020 Xbox launched its new XS console. What factors may prove the most important in determining whether the new XS is a success?
 - Competition will be critical, especially in its battle with the Sony PS5. (www.vgchartz.com showed that in early October 2021 the PS5 outsold the XS by about 60 per cent). So perhaps the attractions of the new Xbox product are outweighed by the Sony one.
 - Another key factor will be the software support for the hardware. Will Xbox get some must-have games that are unique to its platform?

Practice questions, page 10

Allbirds' million dollar trainers

Total: 20 marks

- 1 Outline how hand-painting might add value to Allbirds shoes. (2)
 - Hand-painting is, by definition, a USP – unique selling point. Each pair of trainers will be decorated uniquely, which explains why the seller can charge a 'significant price premium'.
- 2 Explain how Allbirds' success is based on understanding changes in what consumers want. (3)
 - The two founders spotted that there was a significant segment of US society that wants to be seen to be caring of the environment. The shift in attitudes would have been due to greater concern about global warming, leading to changes in what people want – and what they're willing to spend their money on.
- 3 Analyse the possible effect on Allbirds' two founders of the rewards they will get from the company's success. (6)
 - The specification lists three types of reward for business activity: 'business success', profit and independence. The most interesting may be independence. Becoming the very wealthy owners of a successful business gives significant business and personal independence. As long as the founders don't reduce their share of ownership below 50 per cent, they have the power to push through the changes they see as necessary for the future development and success of the business. If they want to build sales in China, they can do so. Their personal wealth also gives them independence as individuals.
 - Another reward is the wealth generated by the profits they are making – and receiving income from. This allows them to invest in other ventures – perhaps newer, smaller ones. In America it's especially common for entrepreneurs to invest excitedly in new ventures – a bit like the 'Dragons' in the TV programme *Dragons' Den*.

4 The new business idea behind Allbirds could have come from either of these two sources:

Option 1: Original ideas

Option 2: Adapting existing products/services/ideas

Justify which one of these two options is a better explanation of Allbirds' start-up.

[9]

- It does seem like an original idea to make trainers made of natural plus recycled materials and therefore create a product with a smaller environmental 'footprint'. Of course, 'ideas' get you nowhere without action, and they clearly achieved a key action in taking out a patent to ensure that no-one could copy them (for a long time). A patent wouldn't be available if the production technique was unoriginal. And the originality of what they did would help explain how this business idea could generate such extraordinary growth in the value of the business – from figures in the \$000s in 2016 to \$billions by 2020.
- On the other hand, you could argue that 'it's just a trainer' – OK a different trainer, but still a casual shoe. It's hardly an original in the same category as music streaming (Spotify) or a Covid-19 vaccine. Following this logic the story of Allbirds is much more of an adaptation of an existing product, i.e. it's the same shape and largely the same structure, but made of materials that appeal to a certain type of buyer: those who need to keep up a 'green' image or (probably) older, middle-class people for whom the environment is of greater importance than the athletic 'performance' of their trainer/running shoe.
- It's difficult to be sure which is the stronger argument based on the evidence provided, but perhaps the argument for 'original' is stronger based on the grounds of the remarkable value that investors seem to be placing on such a young company. \$2 billion is a lot of trainers.

3 How new business ideas come about

Teaching advice

This section should work well in the classroom. It's what students choose Business for. Encourage them to have their own ideas. As an ice cream fan, I feel that ice cream needs a lot of innovation in the UK. A group discussion would be worthwhile, getting students to discuss their likes and dislikes of current ice creams (in tubs and individual servings). Then prompt them by asking them to discuss two new ice cream products: an ice cream on a stick with a raspberry sorbet centre, vanilla ice cream around it and a milk chocolate coating; and a half-litre tub of chocolate and vanilla – chocolate on one side and vanilla on the other, touching in the middle. Would they want to try either? What do they think is the right price? Might they become regular buyers?

End of chapter exercises, page 14

- 1 Outline two benefits a business can gain from asking the question 'why'.
 - Investigates the logic behind what's out there, which may give rise to ideas about what *should* be there.
 - 'Why?' can lead on to a more relaxing 'Why not?'. In other words: 'Let's do it!'
- 2 What might be a correct business response to the following questions:
 - (a) Why are organic foods so expensive?
 - Some customers are looking to pay a price premium to show how much they care about ethical considerations (such as the environment/their kids, etc.) or for the perceived increase in the quality of the product.
 - (b) Why does Lidl keep growing in the UK grocery market?
 - Because it keeps adapting in response to feedback from customers, and keeps building more UK shops.
 - (c) In what way might the launch of Warburtons' full-size bagels damage the company's sales?
 - As the full-size bagels are a follow-up to their launch of thin bagels, the latter's £20.5 million of sales must be vulnerable to the new product. In other words many customers for the new Warburton's product may come from the company's existing brand.
- 3 Suggest two ways in which managers could encourage staff to share their own ideas about new products.
 - If the business has 6–25 staff, a Friday night session paid for by the business could feature a 30-minute business discussion slot (perhaps followed by a ban on shop talk afterwards).
 - A suggestion box could work if it is known that the manager reads every suggestion personally.

- 4 (a)** What is the most likely explanation for the high number of suggestions from the Cowley staff? Explain your reasoning.
- A good underlying level of motivation among the workforce, i.e. they care.
 - There can't be any feeling of 'them and us', i.e. 'we' (staff) won't talk to 'them' (the managers). So talking and sharing ideas is okay.
- (b)** Discuss whether the staff should get a financial reward for the suggestions that are put into action.
- Case for financial reward: in a modern business world where directors get huge bonuses, it is unfair if shop floor staff get zero financial reward for what might prove a good earner for the business, so it's not that the financial reward is the attraction, it is both a thank you and a sign of shared enterprise, including rewards.
 - Case against financial reward: the problem is the huge potential for unfairness – I put forward a cost-cutting measure that makes sense but the boss chooses not to implement it; you put forward an idea that sounds quite similar, it is adopted and you get £800. I'm pretty fed up! The risk of unfairness can disrupt what might otherwise be a stable, motivated team.
- 5 (a)** Examine one reason why Lily's business idea might be a good one.
- The idea becomes exciting from a business point of view once it's clear that there are 27 million gardeners. So the potential market size is huge. Get half of them to spend just £2 a year on your app and you have £27 million income per year!
- (b)** Discuss what might give Lily's app a sustained competitive advantage.
- As long as she has the skills to do the job, her low-cost 'business' can allow her to price the app at a level far below what a professional business could do. £2 a year would seem a hopelessly low price to a big software business. But Lily's low costs can mean good profits from a low-priced service.

Practice questions, page 14

Me & The Bees

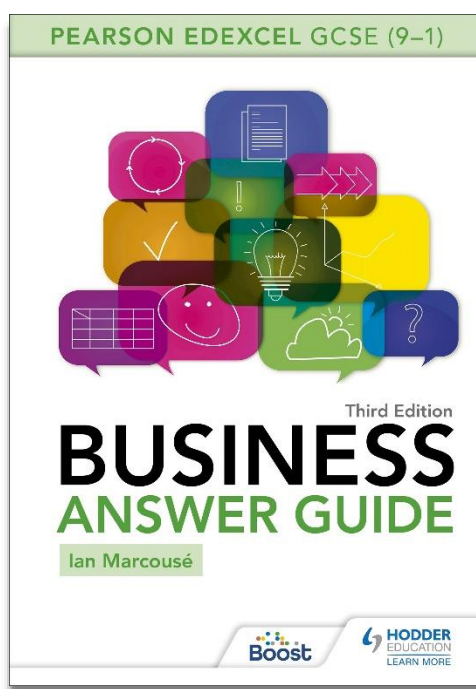
Total: 20 marks

- 1** Outline how this business idea came about. (2)
- It came about as a result of a four-year-old's enterprise. She made the business decision to try to sell her family-recipe lemonade, and took the risk that it would end in humiliation. Fortunately she found something that met customer needs.
- 2** Analyse the ways in which Me and the Bees has been able to stand out in this 'tough, \$200 billion industry'. (6)
- The key has been wrapping the brand up in a brilliant fusion of the brand name and the photo of a young Mikaila Ulmer. Businesspeople talk about a brand having 'personality' – this one has a wonderful, quirky, memorable and highly differentiated one. If I want this type of drink, am I buying Me and the Bees or a Pepsi equivalent? I'm going for the quirky one every time.
- And Barack Obama is a pretty good name as a brand ambassador. Especially for African Americans, the former President is an iconic figure, so his support of Mikaila's venture will help it stand out in a crowded market.

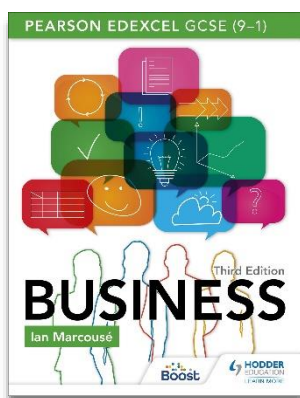
3 So far, Mikaila's business has been very successful. Evaluate whether it is likely to continue being successful over the next few years. You should use the information provided as well as your knowledge of business. (12)

- The prospects look excellent for 'the next few years', partly because the coherence of the story remains intact. Eventually Mikaila will reach her 20s and the kid entrepreneur story will evaporate – but for now the mixture of upbeat story and environmental concern is marketing magic. Companies such as Coca-Cola will look on with some envy – but with no possibility of matching it.
- Furthermore there's that huge investment by some very public faces – the American footballers. Their support – every bit as much as their money – should keep Mikaila's story in the news. And although numbers such as \$800,000 sound huge, they're trivial compared with the vast scale of the US market for fizzy drinks (\$200 bn). So Me and the Bees has plenty to aim for. After all, just a 1 per cent share of that market would be a barely imaginable £2 billion a year of sales.
- But one has to be realistic. Great stories come and go. Who is to say there won't be an even cuter six-year-old with an even better soft-drink story – sucking media attention from Mikaila. In other words competition is always a key factor – and the better your story the more likely it is that someone else will copy/embellish. Markets are dynamic, not static, especially when the heart of the business is based on the ability to attract media attention.
- Is it likely to continue being successful? The evidence seems to point that way, but with no sense of certainty. Perhaps there's a 60/40 probability of continuing success for the next few years. But Mikaila and her family should beware of overstretching themselves financially. Fierce competition is still possible – and may spoil Mikaila's prospects.

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