BUS.EN8 Reasons Why New Businesses Fail

AQA 8132 · Calculators not allowed · about 40 minutes

Total Marks

Name: ________________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Short answers may be one or two sentences unless longer is asked for. Show simple reasoning briefly where asked. Each question is self-contained and includes the case details needed.

1 Case study A: The Bean & Byte cafe was a small independent cafe in a busy Sheffield high street. It opened with limited experience in running a food business, a modest 3,000 pounds of start-up capital, and no formal market research. After nine months it closed. Which one of the following is most likely to have been a cause of The Bean & Byte cafe's failure?

- [ ] A) Strong market research before opening
- [ ] B) Having too much start-up finance
- [ ] C) Lack of experience in running a cafe
- [ ] D) Low competition on the high street

(Total for Question 1 is 1 mark)

2 Case study B: GreenGadgets Ltd was a small tech accessory start-up in Bristol which launched one product without customer testing and discovered few customers wanted it. Which one of the following best describes the immediate problem GreenGadgets faced?

- [ ] A) Strong product-market fit
- [ ] B) Weak market research and product development
- [ ] C) Excess working capital
- [ ] D) Monopoly in the market

(Total for Question 2 is 1 mark)

3 Referring to The Bean & Byte cafe case, identify two reasons given in the prompt that could cause a new food business to fail.

(Total for Question 3 is 2 marks)

4 Referring to GreenGadgets Ltd, identify two failings from the prompt that commonly lead to a start-up not reaching customers.

(Total for Question 4 is 2 marks)

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5 Explain why insufficient start-up finance might cause a small cafe like The Bean & Byte to fail. Use the case details where helpful.

(Total for Question 5 is 4 marks)

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6 Explain why weak market research and lack of customer testing might cause GreenGadgets Ltd to fail after launch. Use the case details where helpful.

(Total for Question 6 is 4 marks)

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7 State one common early warning sign that a small business is struggling, as seen in failing start-ups in the UK high street sector.

(Total for Question 7 is 1 mark)

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8 State one other warning sign that a new business might be in financial trouble, referring to cash and payments.

(Total for Question 8 is 1 mark)

9 State one way poor location choice might cause The Bean & Byte cafe to fail, drawing on the idea of customer footfall.

(Total for Question 9 is 1 mark)

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10 State one management-related reason, other than lack of experience, that might cause a small start-up to fail.

(Total for Question 10 is 1 mark)

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11 Identify one way strong competition might cause GreenGadgets Ltd to fail after launch.

(Total for Question 11 is 1 mark)

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12 Identify one immediate action a founder could take if their start-up shows the warning sign of falling sales, to try to avoid failure.

(Total for Question 12 is 1 mark)

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13 State one non-financial consequence for owners when a small UK start-up fails.

(Total for Question 13 is 1 mark)

14 Case study summary: The Bean & Byte cafe opened in Sheffield with limited experience, 3,000 pounds start-up capital and no formal market research. It faced a row of established cafes nearby. After nine months it closed, reporting falling sales and unpaid supplier bills. Analyse the most likely reason for The Bean & Byte cafe's failure, using the case details. Give a judgement that weighs other possible causes.

(Total for Question 14 is 6 marks)

Mark scheme · BUS.EN8 Reasons Why New Businesses Fail

Question 1

- **B1** C cao
- **Answer: C**

Question 2

- **B1** B cao
- **Answer: B**

Question 3

- **B1** limited experience in running a food business
- **B1** insufficient start-up capital (3,000 pounds) or no formal market research
- **Answer: Limited experience in running a food business; insufficient start-up capital and/or no formal market research.**

Question 4

- **B1** launching a product without customer testing
- **B1** weak market research leading to a product customers do not want
- **Answer: Launching without customer testing; weak market research so the product was not wanted by many customers.**

Question 5

- **B1** identifies a problem: not enough money to cover early losses or necessary costs, e.g. stock, rent, equipment
- **B1** develops the point: the cafe had only 3,000 pounds start-up capital so cash could run out quickly
- **B1** further development: running out of cash can force the business to reduce quality or close
- **B1** links to outcome: customers leave or staff cannot be paid, causing closure
- **Answer: Insufficient finance means the cafe may not cover early losses or essential payments like rent, stock and wages; with only 3,000 pounds start-up capital the business could quickly run out of cash, forcing cuts to quality or closure when it cannot pay staff or suppliers.**

Question 6

- **B1** identifies a problem: product does not meet customer needs so few sales are made
- **B1** develops the point: launching without testing means the firm did not check price, features or demand first
- **B1** further development: low sales reduce revenue, making it hard to cover costs
- **B1** links to outcome: sustained low sales can cause loss of cash and eventual closure
- **Answer: Without market research or testing, the product may not match customer needs so few units sell; this means low revenue that cannot cover fixed and running costs, so the business runs out of cash and may close.**

Question 7

- **B1** falling sales or falling customer numbers
- **Answer: Falling sales or a decline in customer numbers.**

Question 8

- **B1** inability to pay suppliers or staff on time
- **Answer: Inability to pay suppliers or staff on time.**

Question 9

- **B1** low footfall in a poor location reduces the number of passing customers, leading to low sales
- **Answer: A poor location with low footfall reduces passing customers and so lowers sales.**

Question 10

- **B1** poor financial control or poor planning by management
- **Answer: Poor financial control or weak management planning.**

Question 11

- **B1** competitors offering a similar product at a lower price or with better features reduces GreenGadgets' sales
- **Answer: Competitors offering better or cheaper alternatives can steal customers and reduce GreenGadgets' sales.**

Question 12

- **B1** reviewing and improving the product or marketing, for example carrying out quick customer research or offering promotions
- **Answer: Review and improve the product or marketing, for example do quick customer research or run promotions to attract customers.**

Question 13

- **B1** loss of reputation or loss of time and personal stress
- **Answer: Loss of reputation, personal stress or wasted time and effort for the owners.**

Question 14

- **Level 1** (1-3): Identifies plausible reasons from the case with simple, partially developed explanation, but does not weigh causes or reach a clear judgement.
- **Level 2** (4-6): Analyses the evidence from the case, evaluates the relative importance of at least two causes, and reaches a justified judgement about the most likely reason for failure.
- **Indicative content:**
  - The lack of experience could be central: inexperienced owners may misjudge pricing, staffing and stock control, causing falling quality and rising costs, which is consistent with unpaid supplier bills in the case.
  - Insufficient start-up finance is likely important: only 3,000 pounds capital makes it hard to survive a slow first year, meaning short-term cash shortages could force missed payments and closure.
  - Strong local competition is also significant: established cafes nearby reduce the new cafe's market share and make it harder to attract customers without strong differentiation or marketing.
  - Weak market research and no clear product differentiation may have left the cafe offering nothing distinctive versus competitors, contributing to falling sales.
  - A balanced judgement might argue that the immediate cause was cash shortage caused by low sales, with the root causes being a combination of insufficient finance and lack of experience compounded by strong competition. The most likely single dominant reason in this case is insufficient start-up finance combined with falling sales, because unpaid bills and closure point to a cash crisis that could have been mitigated by larger capital or better financial management.