

4. Magda's flower business

Magda Fiori has always loved flowers. When 18 years old, she left school and worked as an assistant florist. Then, three years later, she set up her own flower business. She is a sole trader; this type of organization is common for florists. She employs two part-time assistants: one who delivers flowers to customers in the morning, and one who helps her in the shop at busy times, in the late afternoon. Both assistants work four hours a day, six days a week.

After a difficult start, Magda's business has been very successful for the last two years. Her customers are loyal, even if they cannot always find the flowers they want. Customers like her creativity, her sense of humour and the good advice that she gives.

Magda would now like to expand her business. She could join an international franchise such as *Interflora*. She likes the idea, but she knows that her stock control methods would have to change radically. She would need to adopt a "just-in-case" method of stock control, which *Interflora* would require to ensure that customers always find the flowers they want. Magda also fears that she cannot afford the necessary investment for storage and marketing. She wonders whether a bank will loan her money. Magda's small business has only one source of revenue.

Magda has also considered three methods of external growth:

- a joint venture with a local wedding organizer
- a strategic alliance with a garden centre
- a merger with another florist.

- (a) Identify **two** variable costs for Magda's flower business. [2 marks]
- (b) Explain the meaning of the sentence: "Magda's small business has only one source of revenue". [2 marks]
- (c) Using Magda's flower business, distinguish between "just-in-case" and "just-in-time" methods of stock control. [4 marks]
- (d) Analyse the advantages **and** disadvantages for Magda of joining an international franchise such as *Interflora*. [5 marks]
- (e) Recommend to Magda **one** of the three methods of external growth that she has considered. [7 marks]

5. Setting up new businesses in Albania

Gent Spahiu has worked as a teacher for 25 years in Kotë, a small town in Albania. His son Agon has just moved to Tirana, the Albanian capital, to set up a small business importing electrical appliances from Germany. Albania is one of Europe’s poorest countries and its economic and political environment is difficult to conduct business in. Agon is aware of the economic and political challenges. Most of the population work in agriculture. Towns suffer from poor infrastructure. In the countryside, access to electricity can sometimes be unreliable. In 2009, Albania applied to become a member of the European Union (EU). Agon thinks that his business could benefit if Albania joins this regional trading bloc.

As Agon now lives away from home, Gent wants to use the free time that he now has in the evening. He wants to give local people the skills and knowledge necessary in a modern society. He imagines an evening school for adults, with classes in subjects such as English, basic computer skills and business. To pay for the overheads and teachers’ wages, Gent is thinking about the following sources of finance for the evening school:

	% of total funding required by Gent
Fees paid by students	10%
Bank loan (at a very low interest rate)	10%
Funding from international non-governmental organizations (NGOs)	40%
Funding from local authorities	40%

Gent has work colleagues who have agreed to teach for very low wages; their main motivation is non-financial. Gent’s evening school will follow business principles, especially for quality management, but his aim is not primarily to make a profit, it is rather to make improvements to society.

- (a) Describe **one** form of non-financial reward that Gent could use to motivate the teachers in the evening school. *[2 marks]*
- (b) Explain **one** benefit for Agon’s business if Albania joins a regional trading bloc such as the European Union (EU). *[2 marks]*
- (c) With reference to Gent’s evening school, contrast **two** reasons for setting up a business. *[4 marks]*
- (d) Analyse the main problems that a business start-up may face in a less economically developed country such as Albania. *[5 marks]*
- (e) Discuss Gent’s proposed sources of finance for the evening school. *[7 marks]*