



Cambridge Pre-U

BUSINESS AND MANAGEMENT

9771/01

Paper 1 Business Concepts

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INSERT

2 hours 45 minutes

INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.



Fantastic Flowers (FF)

Anisha and Harry started FF as a shop selling flowers in Leicester. They both worked long hours making the business successful. They converted the business from a partnership to a private limited company in 2015.

FF sells individual flowers, bunches of flowers and floral arrangements. Customers can purchase flowers in person at the shop, by telephone and using the FF website.

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The business now has two outlets: the original shop in Leicester and another shop 21 miles away in Coventry. FF plans to open a third shop in 2023 in central London.

Fig. A shows extracts from FF's financial statements.

Extract from FF's income statement for 2022 (£000)

Year	2022	2021
Revenue	420	390
Cost of goods sold	290	270
Gross profit	130	120
Expenses	125	65
Operating profit	5	55

Extract from FF's balance sheet at 31 December 2022 (£000)

Year	2022	2021
Non-current assets	160	100
Current assets	60	50
Current liabilities	20	10
Non-current liabilities	100	40
Equity	100	100

Fig. A: Extracts from FF's financial statements

The new shop

FF plan to open a new shop in central London in June 2023. It will be managed by Fiona who is the deputy manager of the Coventry shop. Fiona wants to relocate to London and is happy to take on the responsibility of running the new shop.

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Anisha has used the sales from the Leicester and Coventry shops to try and forecast the sales for the central London shop. She has used time series analysis (see Table A).

Table A: Time series analysis for FF

Year	Season	Revenue (£000)	Centred four period moving average	Seasonal variation
2018	Spring	120		
	Summer	95		
	Autumn	80	91.25	11.25
	Winter	65	94.38	29.38
2019	Spring	130	93.75	-36.25
	Summer	110	93.13	-16.88
	Autumn	60	80.00	20.00
	Winter	80	57.50	-22.50
2020	Spring	10	50.63	40.63
	Summer	50	50.00	0.00
	Autumn	65	63.75	-1.25
	Winter	70	86.25	16.25
2021	Spring	130	93.75	-36.25
	Summer	110	95.63	-14.38
	Autumn	65	98.75	33.75
	Winter	85	101.25	16.25
2022	Spring	140	103.13	-36.88
	Summer	120	104.38	-15.63
	Autumn	70		
	Winter	90		

Harry thinks that opening the London shop should allow FF to benefit from many economies of scale in the future. However, Anisha thinks FF may encounter problems with the expansion, such as poor communication.

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Ethical floristry

Harry has always cared about the environment and he recently became a vegan. He has asked Anisha to consider making FF a more ethical and sustainable business. He believes that the power of the 'green pound' is increasing and thinks that this could be FF's unique selling point (USP). He has created a strategic plan with the following elements: 20

- 80% of FF's flowers are currently imported from The Netherlands. Most of these flowers cannot be sourced any closer to the UK. However, 10% of FF's flowers are imported from Kenya. These flowers are transported by air from Nairobi; they cannot be economically sourced from any other country. Harry believes that FF should not sell flowers from Kenya to reduce FF's carbon footprint. 25
- Some of FF's suppliers use large amounts of pesticides to control diseases and pests. These diseases and pests can damage the production and marketability of the flowers. However, Harry would like FF to use only suppliers who limit their use of pesticides. This is likely to increase the cost of the flowers and may reduce their shelf-life.
- Long-term, Harry would like to use only suppliers who are certified as organic producers by the Soil Association. 30

Anisha is sympathetic towards Harry's ideals, but she also wants to focus on FF's profitability. She believes that most customers already see flowers as an expensive, luxury item and would not be willing to pay higher prices.

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