

AS BUSINESS

Paper 2 Business 2

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Source 1: VeganLife Ltd

VeganLife Ltd

VeganLife Ltd (VL) is a manufacturer and online supplier that sells vegan female toiletries. Vegan goods are made using no animal-based products. VL operates in a niche market. It sells its products to other businesses such as supermarkets and department stores and also directly to individual customers. As this niche market grows at a fast rate every year, VL faces a growing threat to its market share from competitors, especially large businesses.

VL sources raw materials from countries around the world and it manufactures these into products such as soap, shower gel and makeup. VL packages and then sells the products to its customers who order through the website. VL tries to be ethical and environmentally responsible. It uses Fairtrade suppliers often located a long way away. VL tries to keep its waste and pollution as low as possible.

Figure 1 Market and VL Information

	2020
Market size	£50 million
VL market share	15%
Costs of sales for VL	£3.25 million

At the factory and warehouse there are currently two managers, two assistant managers and 30 full-time and part-time staff. The staff have their own specific job roles:

- machine operators
- quality control supervisor
- packaging staff
- general cleaning and maintenance staff
- office staff.

VL has high labour turnover compared to similar businesses. According to some staff this is due to low pay and 'repetitive and boring' tasks. Factory and warehouse staff complain about the high level of supervision, due to managers having narrow spans of control. Office staff say they are frustrated at the lack of feedback they receive on their work, and feel under-valued.

VL has one staff member in charge of quality control. Recently there have been a large number of quality issues with some products. The main problem is with the packaging of the products. Some of it has split, causing products to leak. When this happens, VL has to refund customers and/or replace its products.

The quality issues are causing VL to lose some loyal customers and are affecting its reputation. The Operations Manager suggests that VL should introduce a quality assurance system to the factory and warehouse. The system would initially cost £100 000 and would require all staff to be trained to use it, with further training whenever the system is updated. VL knows that its competitors use a similar system. The Operations Manager feels this is a good way to remain competitive.

VL has grown quickly in a short time and has been a profitable company that has paid rising dividends to its shareholders every year. The shareholders have made it clear they expect this to continue. However, cash flow is a problem. Recently a large business stopped trading,

owing VL £350 000. VL often struggles to keep up with the increasing demand from customers. 35
 It does not always have the cash to buy the raw materials to meet the orders, and not all of its
 suppliers will sell to VL on credit. Additionally, some of its customers do not always pay on time.
 VL often has to ask the bank to increase its overdraft. Currently VL is £550 000 overdrawn, and
 the interest rate is set to increase.

Emma, the Managing Director, thinks the quality assurance system is a good idea, but feels 40
 spending £100 000 of its profits is a risk. She believes the motivation issues amongst the staff
 need addressing more urgently.

Due to changes in demographics, such as an increase in the population size of the UK and the
 change in age structure, the markets for toiletries and vegan products are growing. New
 products are being launched weekly and new competitors are entering the markets. Emma has 45
 noticed through her own primary market research that there is a significant increase in the sales
 of vegan male toiletries. She does not have any marketing qualifications but has been
 collecting data from focus groups she has set up. She believes that targeting the vegan male
 toiletries market is the best way to make a profit and help VL's cash flow position. From her
 research she estimates that it would need a large investment for a new online advertising 50
 campaign for a vegan male shower gel.

Figure 2 Financial forecast data for vegan male shower gel

Fixed costs	£15 000
Total variable costs for 1000 units	£750
Selling price	£6.75

Figure 3 Focus group responses (sample size 20) vegan male toiletries

	2017	2018
Amount spent on toiletries in last shop visit	£21	£23
Would you consider buying vegan toiletries?	Yes	Yes
How much would you be willing to spend on vegan toiletries?	£8 per item	£9 per item

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