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**BUSINESS**

**Paper 2 Business 2**

**7131/2**

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**Source 1: VeganLife Ltd**

**[Turn over]**

## **VEGANLIFE LTD**

<b>VeganLife Ltd (VL) is a manufacturer and online supplier that sells vegan female toiletries. Vegan goods are made using no animal-based</b>	<b>1</b>
<b>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.</b>	<b>5</b>
<b>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</b>	<b>10</b>
	<b>15</b>
	<b>20</b>

**responsible. It uses Fairtrade suppliers often located a long way away. VL tries to keep its waste and pollution as low as possible.** **25**

## **FIGURE 1 Market and VL Information**

	<b>2020</b>
<b>MARKET SIZE</b>	<b>£50 million</b>
<b>VL MARKET SHARE</b>	<b>15%</b>
<b>COSTS OF SALES FOR VL</b>	<b>£3.25 million</b>

**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:** **30**

**[Turn over]**

- machine operators
- quality control supervisor
- packaging staff
- general cleaning and maintenance staff 35
- 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. 40 45**

**VL has one staff member in charge of quality control. Recently there have been a large number of quality issues 50**

**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. 55**

**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. 60 65 70**

**[Turn over]**

**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. 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.**

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**Emma, the Managing Director, thinks the quality assurance system is a**

**good idea, but feels spending  
£100 000 of its profits is a risk. She 95  
believes the motivation issues  
amongst the staff need addressing  
more urgently.**

**Due to changes in demographics,  
such as an increase in the population 100  
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 105  
entering the markets. Emma has  
noticed through her own primary  
market research that there is a  
significant increase in the sales of  
vegan male toiletries. She does not 110  
have any marketing qualifications but  
has been collecting data from focus  
groups she has set up. She believes  
that targeting the vegan male**

**[Turn over]**

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 campaign for a vegan male shower gel.

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## FIGURE 2

Financial forecast data for vegan male shower gel

<b>Fixed costs</b>	<b>£15 000</b>
<b>Total variable costs for 1000 units</b>	<b>£ 750</b>
<b>Selling price</b>	<b>£ 6.75</b>



**FIGURE 3**

**Focus group responses (sample size 20)  
vegan male toiletries**

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

**END OF SOURCE**

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