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Part A

Control statement showing fixed, original and flexed budget

Particulars	Original	Actual	Flexed	Variance
Units	£100,000	£80,000	£80,000	£0
SP	£25	£20	£20	£0
Sales	£2,500,000	£1,600,000	£1,600,000	£0
				£0
Variable cost				£0
Materials	£250,000	£280,000	£200,000	(£80,000)
Labour	£400000	£440000	£320000	(£120,000)
Overhead	£150,000	£120,000	£120,000	£0
Contribution	£1,700,000	£760,000	£960,000	(£200,000)
Fixed overhead				
Warehouse rental	£200,000	£170,000	£200,000	£30,000
Insurance	£100,000	£100,000	£100,000	£0
Supervisor salary	£50,000	£35,000	£50,000	£15,000
Profit	£1,350,000	£455,000	£610,000	£155,000

Performance analysis

Performance analysis is one of the most important parts of monitoring and control in any business organisation. Performance analysis helps an organisation to understand the resource allocation and its profitability (Rašovská, Kubickova and Ryglová, 2021). For example, if an organisation is dedicating significant number of resources towards a particular business activity and they will expect to generate sufficient profits. Profit analysis will help in comparing actual profit with the expected profit and develop the strategy accordingly. Focus of this section will be to analyse the performance of AMANA with respect to operations in budgeting process. Budgeting process is a process that helps in controlling cost of operation and maintain desired level of profitability throughout an accounting period. It is important for an organisation to understand the importance of budget planning and variance analysis stage. Variance analysis will be performed in this section in order to identify the performance of Amana.

Covid-19 pandemic has affected all the business organisations irrespective of size, nature and scale of operation. Impact of covid-19 pandemic has been very severe on business organisations operating in hospitality industry (Mele, Russo-Spena and Kaartemo, 2020). Amana Limited is a tourist-based family business. This organisation is selling Souvenir to tourist that visits in England. They are operating through several locations in England namely Brighton, London Bridge, Western Bridge, Buckingham Palace, Buckingham City Centre and Manchester City Centre. It can be said that their cost of operation will be significant due to number of locations. This is due to the fact that company will be required to pay rent tax and other fixed expenses with respect to each of their property. Overall expenses will be higher which means that their breakeven point will be higher. Company has to ensure that they are able to sell certain number of units each year in order to cover their direct and fixed costs during the time of covid-19 pandemic.

One of the major reasons that covid-19 pandemic has affected all the business organisation is decrease the purchasing power of customer. Business organisations operating in hospitality industry are affected due to the restrictions on flights and tourism activities in a country. Every government has imposed travel bans internationally and

domestically in order to prevent spread of covid-19 (Malra, 2021). This type of action taken by the government will definitely have a negative impact on all the organisations operating in hospitality industry including Amana Limited. This section of the report will help in identifying the performance of AMANA during the time of covid-19 pandemic.

Performance analysis in the given scenario can be divided into four major categories i.e., analysing sales, profitability, variable expenses and fixed expenses. analysing each of these components will help in identifying different aspects of management on part of AMANA.

Profitability analysis

Profitability analysis can be undertaken on the basis of total profit generated by the organisation in the accounting period and estimated profit. It was estimated that company will be able to generate a total profit of 1350000 during the given period. On the contrary company has been able to generate a profit of only 455000 during this period. It clearly indicates that company has not been able to meet expectation of Management and investors with respect to profitability (Williamsand Calabrese, 2019). These estimations are made after considering the negative impact of covid-19 pandemic which shows that the margin of error is significantly higher.

Variable expenses analysis

overall expenditure with respect to variable expenses are also as compared to estimations in the planning stage. Actual expenditure with respect to variable cost is 200000 higher as compared to estimations. This high level of variable cost expenditure is not justifiable during the time of covid-19 pandemic. Majority of business organisations are seeking methods to reduce the variable cost so that they can recover variable and fixed cost of operation as controlling fixed cost of operation is very difficult (Snider et.al, 2019). Three components of variable cost in the given scenario are material labour and overhead. Overall expenditure in case of material and labour expenditure is higher as compared to estimations a company has been able to control its overhead expenditure.

Amana has not been able to deal with suppliers to control cost of raw material and production process during the time of covid-19 pandemic. It is evident that majority of raw material suppliers would have demanded higher prices for products due to rise in transportation cost. It is responsibility of manager to ensure that this cost does not have any negative impact on profitability (Williams and Calabrese, 2016). Similarly, management of labour has also not been very effective during this time. HR management strategy should be used by organisation and Amana in order to control the cost of employees and increase their efficiency.

Fixed cost analysis

Company has been able to implement appropriate cost controlling strategies to control fixed cost of operation. In the given scenario, indicates rental expenditure, insurance expenditure and salary. Overall cost with respect to rent and supervisor salary has been 45000 lower as compared to estimations made by Amana. Amana as to ensure that the decrease in fixed cost operations has not affected the overall quality of product and services.

Demand analysis

Analysis of demand in market can be done on the basis of units sold by the company in the accounting period and estimation. It was estimated that total sales in the given period of time would be 100000 but company was able to sell only 80000 units. It clearly indicates the demand of product has decreased due to covid-19 pandemic and inability of a customer to pay for souvenirs. This type of product and services does not come under essential products which has resulted in a significant impact on profitability and revenue.

Recommendation to chief executive officer

Control over demand

It is recommended that the management of the company should use marketing strategies to increase demand of product in market. It is evident that sales and demand of product will decrease in the current scenario. Covid-19 pandemic has affected every

industry especially tourism industry and it will definitely have a negative impact on ability of organisation to generate revenue. It is recommended to chief executive officer for developing altered marketing strategies (Silva, Fortunato and Bastos, 2016). Main focus of this marketing strategy will be to generate revenue even in the time of covid-19 pandemic. For example, selling souvenir on online platforms might be effective method of coping with decreased demand.

Control over indirect expenses

One of the primary reasons of decreased the profitability in the given scenario is excess variable cost of operation. Actual cost of indirect expenses has been 200000 higher as compared to estimated cost. This excess of cost is a significant negative indicator for operational efficiency during the time of covid-19 pandemic. majority of business organisations are implementing cost controlling strategy to control indirect cost of operation as it is a cost that can be controlled. Controlling fixed cost of operation is very difficult as these are predetermined cost such as rent (Harel, 2021).

Operation of operational strategies

There are different types of management strategies that are required for day-to-day operations. Business environment is highly dynamic and it is essential for an organisation to understand the importance of dynamic leadership and management. This type of leadership and management functionality will help an organisation to adapt to the changes in environment. For example, authoritative leadership will be more successful in case of covid-19 pandemic as compared to democratic leadership (Stalmachova, Chinorackya and Strenitzerova, 2021). This is due to the fact that fixed part of operation is required to be followed by every employee of the organisation to control cost. There is no scope of providing scope of error any employee in such scenario as it will increase cost of operation.

Maintaining break-even point

Profit cost volume analysis is a tool used by Business organisations to cope up with market down time scenario. One of the tools used in such analysis is called break-even

point. volume of sale at which organisation will be able to recover its direct and indirect expenses is called as break-even point. Chief executive officer is required to determine break-even point and ensure that company is able to reach this point irrespective of any market situation.

Part B

Cost in setting delivery network-

Option 1- Delivery network	
Particular	Amount
Cost	£150,000
Upgrading current website	£50,000
Salary of a fulltime IT programmer	£35,000
Expected additional sales	£100,000
Cost per additional units	£235,000

Cost in selling online through amazon-

Option 2- Amazon	
Particular	Amount
Amazon fulfilment fees	£50,000
Expected additional sales	£65,000

Analysis of the provided alternatives

Amana Limited is thinking of investing in online platform for selling their product and services. Online presence has become an essential requirement for any organisation irrespective of their size and operation. Mode of online selling is dependent on availability of budget and future plans for a company (Ghajargar, Zeneziniand Montanaro, 2016). For example, an organisation will prefer to develop International of distribution if they are operating in retail sector where online selling is significantly higher as compared to store selling. Business environment is highly dynamic and is

essential for businesses to change their operations accordingly. Step taken by Amana limited to sell their product and services online platform is in accordance with current trends.

First alternative available to the organisation is setting up delivery network and official website. Company already has an official website but this website does not have ability to handle large amount of sales volume. It means that organisation has to hire IT and programmers in order to make effective changes. Majority of Expenditure will be incurred by organisation in developing network internal delivery network. This type of network is very beneficial if an organisation wants to sell product and services on online platform for a long period of time. On the other hand, cost is one of the major deficiencies of this alternative.

Second alternative is selling product and services on Amazon. Amazon is a selling platform where seller can register themselves and buyer will purchase product and services directly on Amazon. Cost of implementation and use is one of the primary benefits. Amazon will charge certain percentage of revenue generated by Amana Limited through sale on Amazon. Disadvantage of this method will be that company will not be able to control selling prices (Ghajargar, Zeneziniand Montanaro, 2016). Selling prices will fluctuate in accordance with the needs and requirements of Amazon. There is a possibility that company will not be able to generate similar profitability margin on each product.

Best alternative

There are two type of factors that are required to be considered in buy or make decision i.e., financial factors and non-financial factors. Financial factors are primarily focused on cost of operation and overall benefits that will be achieved in terms of money. On the other hand, non-financial factors include the factors that are not related to money. For example, control over pricing is one of the non-financial factors that is involved in this decision. From financial perspective, it is evident that using Amazon for selling product and services will be beneficial. this is due to the fact that total cost required for selling

products on Amazon would be only £50,000. On the other hand, setup cost required for selling product on internal channel will be £235,000.

Current environment should also be considered before making decision from the perspective of financial factors. Currently majority of business organisations are facing financial crisis due to inability of consumers to spend in tourism industry. Budget analysis of AMANA limited has also indicated that company has not been able to achieve estimated profit in the accounting period under consideration. Business environment is fluctuating significant to due to the different variants of covid-19 and this might have a negative impact on future.

Non-financial factor with include ability of organisation to control pricing. Company will not be able to control pricing which means that to profitability on each product will differ on the basis of price decided by Amazon. On the other hand, total additional sales unit under Amazon would be 65000 whereas expected additional sales in case of delivery network will be £100,000.

After analysing both of the situation it can be said that selling product on Amazon will be more profitable at the given point of time. Company does not have sufficient financial resources to invest in internal delivery network (Stankevich, 2016). This option can be evaluated after a certain period of time where company has accumulated financial resources. Primary focus in the given scenario should be to earn short-term profits so that company can sustain for upcoming future.

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