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Introduction

The undertaking of this report can be divided into two different sections, both relating to the case study of Amana Ltd. In the first, the control report for the company has been prepared to show the original and flexible budget. The price and quantity variance of the company has been calculated to support the preparation of the performance report. In that segment, some recommendations have been provided so that the company can ameliorate its performance. In the second part of the report, whether the company should decide to develop its online delivery network or sell products on Amazon has been discussed using the cost-benefit analysis.

Part A

I) Control Report showing original budget, flexed budget, and variances:

The control report that shows the original and flexible budget, and variances have been prepared below:

Original Budget:

	Original budget (£)	Original Quantity of Input at Original Price/ Original Budget
Units	100,000	
Selling price	25	2500000
Variable costs:		
Materials	2.5	250000
Labour	4	400000
Overhead	1.5	150000
Contribution Margin	17	1700000
Fixed overheads:		
Warehouse rental	200,000	200,000
Insurance	100,000	100,000
Fulltime warehouse supervisor salary	50,000	50,000
Profit		1,350,000

Table 1: Original Report

Source: Own

The original budget shows the amount of revenue the management thinks to generate during a particular period and costs incurred to support the sales (Groot and Selto, 2013). According to the original budget of Amana's business, the company will sell around 100000 units @ £25 and generate a revenue of £2.5 million and incur a net profit of £1.35 million. The original budget is used as a benchmark to evaluate the performance of the company.

Flexed Budget:

	Original budget (£)	Actual (£)	Actual Quantity of Input at Actual Price/ Actual Output	Actual Quantity of Input at Original Price/ Flexible Budget
Units	100,000	80000		
Selling price	25	20	1600000	2000000
Variable costs:				
Materials	2.5	3.5	280,000	200000
Labour	4	5.5	440,000	320000
Overhead	1.5	1.5	120,000	120000
Contribution	17	9.5	760,000	1,360,000
Fixed overheads:				
Warehouse rental	200,000	170,000	170,000	200,000
Insurance	100,000	100,000	100,000	100,000
Fulltime warehouse supervisor salary	50,000	35,000	35,000	50,000
Profit			455,000	1,010,000

*Table 2: Flexed Budget**Source: Own*

A flexible budget has been prepared, which can be used to evaluate the performance of the company (Hansen and Mowen, 2019). The flexible budget showed that the company could make a turnover and profit of £2 million and £1.01 million against an estimated turnover and profit of £2.5 million and £1.35 million, which shows an inferior performance because of activity variance. However, the company actually made a turnover and profit of £1.6 million and £455000, which depicted even more interior performance due to price variance. Hence, the price variance and quantity variance has affected the performance of the company, which will be discussed in the next segment.

Control Report: Variance Analysis

	Original budget (£)	Actual Activity (£)	Actual Quantity of Input at Actual Price/ Actual Output	Actual Quantity of Input at Original Price/ Flexible Budget	Original Quantity of Input at Original Price/ Original Budget	Price/Rate Variance	Quantity/Efficiency Variance	Total Variance
Units	100,000	80000						
Selling price	25	20	1600000	2000000	2500000	-400000	-500000	-900000
Variable costs:								
Materials	2.5	3.5	280,000	200000	250000	-80,000	50000	-30000
Labour	4	5.5	440,000	320000	400000	-120,000	80000	-40000
Overhead	1.5	1.5	120,000	120000	150000	0	30000	30000
Contribution Margin	17	9.5	760,000	1,360,000	1,700,000			
Fixed overheads:								
Warehouse rental	200,000	170,000	170,000	200,000	200,000			30,000
Insurance	100,000	100,000	100,000	100,000	100,000			0
Fulltime warehouse supervisor salary	50,000	35,000	35,000	50,000	50,000			15,000
Profit			455,000	1,010,000	1,350,000			
Total Variance						-600000	-340000	

Table 3: Control Report showing original budget, flexed budget, and variances

Source: Own

The report mainly focuses on calculating the variances, which demonstrates where the company performed poorly and underpins the foundations for the recommendations (Ekholm and Wallin, 2011). In this section, the whole math has been prepared in a concised manner, but, the detailed math is done in the next segment, where the performance report will be prepared.

II) Preparing Performance Report for Amana's Business

This section of the report is dedicated to preparing the performance report, where the different components of the budget have been scrutinised separately.

Sales:

The variance analysis identified two variances: price and quantity variance. The price variance refers to the difference between the budgeted and actual price, whereas the quantity variance refers to the discrepancy between the budgeted and actual quantity (Egbunike and Unamma, 2017). The control report showed, the company sold the products @ £20 whereas, it expected that it would be able to sell the souvenirs @ £25, which reduced the overall sales of the company. One of the reasons behind is that the company attempted to push sales through discount because during the Covid-19 the financial conditions of the customers propel them to go for the more affordable products. The company also sold 20000 products less than what was budgeted, which caused an unfavorable variance of £500000. Due to lockdowns and pandemic, fewer people traveled in the UK, which reduced the demand for Souvenirs, which caused the company to sell a lesser number of products.

Direct Materials

Amana Ltd. has also failed to buy the direct materials at the budgeted price, which undermined the performance of the company. The inefficiency of the procurement manager is reflected in the fact that the company had to pay £1 extra on every direct material purchased (Hansen and Mowen, 2019). The manager failed to negotiate the product price with the suppliers in the favor of the company, which resulted in unfavorable price variance of £80,000. In addition, the company used less direct materials to produce and sell the products, which is a favorable variance for the firm of £50,000, leading to an unfavorable total variance of £30,000. However, this is actually not favorable because the company was not efficient in using the material rather it simply used a lesser quantity of materials because it produced fewer products.

Labour:

Though the company estimated that it would pay its labours £4 per unit of products, it actually had to pay £5.5, which indicates an unfavorable price variance. The possible reasons behind the unsatisfactory performance are that the HR department has failed to negotiate with the labor union or the labours spent more time in producing one unit of products (Groot and Selto, 2013). As labours are paid based on an hourly rate rather than how many products they manufacture, it raised the costs per product (this scenario depends on how the company pays the labour). Besides, the company experienced a positive activity variance of £80,000; however, this does not show a true picture because the company produced a lesser number of products, which is why they incurred lower labour costs.

Overhead:

The manufacturing overhead did not show a price variance, that is, the company has been able to stick to the original budgeted overhead costs per unit of souvenirs. However, the company experienced a favorable activity variance of £30000 because of the lower level of actual outputs. As the overhead costs are variable, the fall in actual activity resulted in a decrease in overall overhead costs (Hansen and Mowen, 2019), which resulted in a favorable output variance.

Fixed Costs:

Though the fixed costs remain the same regardless of the output level (Donovan, 2016), in the case of Amana Ltd., the warehouse rental costs and supervisor's salary were lower than budgeted, which is a positive variance for the company. Due to the Covid-19, many real estate owners reduced the rental charges because the businesses have suffered a huge loss, which is the reason why the company's actual rental costs are lower than the budgeted figure (Weetman, 2020). Besides, during the pandemic, many companies have slashed the salaries of employees and Amana Ltd is no exception. This is the reason, why the company's supervisor's salary was lower than the budgeted amount.

III) Recommendations

The analysis of the control report and performance report using standard and flexible budget showed that the company performed poorly and there are many areas, where further improvement can be brought. One of such areas relates to the advertisement, that is, the company should promote its products more aggressively to sell more units of product (Marlowe, 2018). Besides, the company should train its salesforce so that they can enhance as well. The company should also differentiate its products through beautiful packaging, offering more varieties of products, etc. so that it can attract customers and sell the products at the budgeted price.

The company should attempt to find suppliers, who can supply the materials at lower prices, which will save the company a great deal. The company should extend its search for suppliers to countries like Vietnam, Chinese Taipei, India, while also looking for suppliers in other regions of China. This will enable the company to procure direct materials cheaply. Alternatively, the company can enter into a futures or forward contract, which will enable the company to purchase products at a fixed rate determined when the parties enter the contract (Adilov, 2019). This will allow the company to eliminate the risks related to price variance. The company should renegotiate the terms with the labours so that they cannot demand a higher wage rate. However, if the problem originated from the inefficiency of the labours, the company should arrange training for the labours.

Lastly, the company should find other ways to cut costs rather than slashing the salary of the Factory Supervisors. This action leads to dissatisfaction and demotivation among the employees, which reduces their productivity and impacts their performance adversely. Alternatively, instead of reducing salary, the company can change the salary structure consisting of both fixed and variable parts (Donovan, 2016). The supervisor will get a fixed salary and the rest of the remuneration will be based on how many units are sold. In this way, the company can reduce the salary while keeping its employees satisfied. Thus, the company can improve its performance by implementing the recommended solution.

Part B

Analysis of Mr. Amana's decision to go online

In order to sustain a business for a long time, companies need to drive their business towards the future and one of the ways to do so is to observe the market trend, opportunities, and threats, and respond to them effectively and efficiently (Gupta and Mirchandani, 2021). If a company fails to adapt to the changing business environment, it loses its competitive position, which slowly leads to its demise. Hence, organisations need to have updated knowledge about their business environment and make changes internally to cope up with the changing competitive landscape.

The competitors of Mr. Amana are going online; besides, the customers prefer online shopping, and this consumer behaviour has been reinforced by the Covid-19 pandemic (Koch, Frommeyer, and Schewe, 2020). Hence, the company needs to go online to serve the customers, who are not willing to come to the physical stores to buy souvenirs. By strengthening the online presence, the company will be able to offer its products to a larger customer base. The company will not sell less than 60000 units of products online, which will only account for 50% of the total sales, and hence, the company will be able to sell around 120000 units at least, which is 50% higher than the current sales level. Hence, there is no debate whether the company should go online given the current market conditions. However, the way the company will go online, that is, whether the company will develop its online platform or harness the established platform of Amazon.

Particulars	Amount (£)	Type of Cost
Cost of setting up a delivery network	150,000	One-time Cost
Cost of upgrading the current website to handle the large volume of sales	50,000	One-time Cost
Salary of a full-time IT programmer	35,000	Ongoing cost
Total cost	235,000	

Table 4: Costs of setting up an online delivery network

Source: Own

The cost-benefit analysis model can be used to evaluate both these options so that a better option can be recommended to Mr. Amana. The company is required to invest around £235,000 to develop its own online delivery while the company can access the online platform of Amazon by spending only £50,000. The full cost-benefit analysis is conducted below, which will help to make a better decision.

Setting up own online delivery Platform

Though the company will have to invest around £235,000 to develop its own online delivery, only £35,000 is an ongoing cost and the rest £200,000 is a one-time investment. Besides, it will give a guaranteed sale of 100000 units against a guaranteed sale of 60000 if it chooses to sell products on Amazon. Besides, the company will have better control over its pricing strategy and return policy because it will not have to comply with the policies of Amazon (Gupta and Mirchandani, 2021). However, during a time when the company is going through a financial crisis, an investment of £235,000 will be very difficult for Mr. Amana to arrange. As the financial leverage will go up, the company will have to bear a higher risk (Holmes, 2017), which is also justified by the higher return (a guaranteed sale of 100000 units).

Selling Products on Amazon

One of the benefits of selling souvenirs on Amazon is that the platform is well-established, and the company will have a guaranteed sale of 60000 units. Besides, it will only cost £50,000 to sell products on Amazon, which the company can afford. Besides, the financial leverage will not increase and the risks of doing business will also remain the same. However, the demerits of this choice are that the company will have lesser control over its pricing and return policy, which can affect the profitability of the company adversely (LaBahn, 2019). For example, the company cannot increase the price of the products if the production or operating costs go up because Amazon may not allow a price increase (Song, Chen, and Li, 2017). Besides, the fierce competition can also prevent the company to ramp up the price in order to pass the increase in the costs to the consumers.

Hence, if the company is risk-averse, the company should go for the second option; however, if the company aspires to take high risks to generate abnormal returns, the first option should be chosen (Holmes, 2017). The company can take a different choice, that is, the company can initially sell the products on Amazon as the company may not be able to arrange such a big investment.

Meanwhile, the company will develop its own delivery network gradually and ultimately sell its products through its own online delivery network in the long run. Thus, the company can overcome the financial crisis by taking the short-term strategy, that is, the company will not have to invest a huge amount to sell the products online. In addition, Amana Ltd. will not depend solely on the platform of Amazon for the long-term, which will enhance the sustainability of the company. That is why the company should not take only one choice rather the company should take the second choice for the short-term and implement the first choice for the long term.

Conclusion

The analysis of the control report using the original budget, flexed budget, and variance analysis divulged that the company has experienced unfavorable price variance in generating sales and all types of variable costs except for manufacturing overhead, which identified many areas, where the company can improve. Though there are some positive quantity variances, they are not favorable in the true sense. Based on this analysis some recommendations have been provided as to how Amana Ltd can improve its procurement, advertising, distribution channel, HR practices, etc. to lift its performance. From the second part, it has been shown that the company is better off using the platform of Amazon for the short-term, and when the company's financial position becomes strong, it should develop its own online delivery network.

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