

Amana LTD

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Management Accounting 2

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Part A

The Covid-19 pandemic has led to measures that have reduced the ability to travel. This means that businesses that rely on tourists have performed very poorly since individuals do not wish to travel to a destination unless it is very necessary. Businesses that rely on people who travel, such as those in the tourism sector, have been affected negatively since the demand for their products has fallen. Such businesses have tried to sell their products online. However, Covid 19 has also led to reduced incomes of individuals; hence they are keen on what they consume (Infomineo, 2020). The demand cannot be matched with the previous demand before the pandemic. Amana, in this case, has been in the sector and is one of the companies affected by the pandemic. The report shows how the company has been affected and then recommends on areas of improvement that have to be considered for better performance of the company.

Monthly Control report

Amana has been selling Souvenirs in the United Kingdom. Operating in the tourism sector, Covid 19 pandemic has adversely affected the company operations. The projected performance has not been as expected, and a Monthly control report is prepared to show the variances. The following is the summary of the report;

	Original	Flexed (Actual)	Variance	Comments
Units	100,000	80000	-20,000	Negative
Selling price	25	20	-5	Negative
Variable costs				
Materials	240000	280000	40000	Negative
Labor	400000	440000	40000	negative
Overheads	150000	120000	-30000	Positive
Contribution	1700000	1160000	-540000	Negative
Fixed overheads				
Warehouse Rental	200000	170000	-30000	Positive
Insurance	100000	100000	0	Okay

Fulltime warehouse supervisor salary	50000	35000	-15000	Positive
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Amana's performance

There are areas where Amana performed well, and in other areas, the company was not doing well when the actual performance is compared to the original budget. First, it is evident that the company did not sell the planned quantities of souvenirs, as the company sold 20000 units less than what was planned. This means that the total revenues dropped even if the price did not change in the market. Additionally, the company had to sell the products at a lower price (Bragg, 2013). It had to reduce the price of each unit by \$5 in order to attract sales, but this did not lead to the targeted sales. With the drop in the price of the products, the total revenue for the company dropped. The low demand in the market led to the drop in the price of products, and this adversely affects the revenues generated. With the drop in total revenue, it is expected that the company manages its expenses so that net profits are positive for the period.

From the analysis, the cost of materials, which is a variable cost, increased by \$40000, which is a negative performance as it shows an inability to negotiate for better terms during the supply of raw materials. The cost of labour also increased by \$40000, and this is also a negative trend for the company. There is a need for the company to manage their labour costs to remain with positive profits (Mitchell, 2019). However, the overheads reduced by 30000, which was a positive performance and this boosts the ability to make profits. It is evident that with the increased cost of labour and materials, the contribution declined, and this is a negative performance for the company. There is a need to ensure that this situation is reversed so that the company can create value for its owners.

For the fixed overheads, there was no change in the insurance costs for the company. However, the warehouse rental costs reduced by \$30000, which was a positive trend. Additionally, the supervisor salary reduced by \$15000, and this is also a positive trend considering that the costs for the period reduced. This is regardless of the fact that these costs were initially fixed.

The analysis shows that there was improvement in some areas while there were also some areas where the performance deteriorated. There is a need to evaluate the overall impact of the deviations

for the period. This is achieved by evaluating the profit for the period. The following is the summary of the total profits for the company;

	Original	Flexed
Total revenue	2500000	1600000
Less: Variable costs	790000	840000
Gross profits	1710000	760000
Les: Fixed overheads	350000	305000
Total profits	1360000	455000

The analysis shows that the gross profits for the company was less than what was planned originally. This is considering that the total revenues for the period declined as the price and quantity sold dropped. Additionally, the variable costs for the company increased, and this further worsened the gross profits for the company (Clowes & Scriven 2010). However, the fixed overheads were less than what was originally budgeted. Regardless of this, the total profits for the period were less than the planned profits. The reason is that the drop in the amount of fixed costs was not significant enough to enable the company to generate targeted profits.

Overall, the company performance has been adversely affected by the Covid 19 pandemic. The cost of materials has been on the rise, and the sales, on the other hand, have dropped. Regardless of reducing prices of the final goods, companies are not able to stimulate demand enough to achieve planned sales. There is a need to evaluate the budget and find areas where improvements can be made to ensure that the company continues to operate regardless of the pandemic. If the trend continues, the company will make negative profits, which can be dangerous for the company.

Recommendations

First, it is evident that reducing the price of souvenirs does not lead to a significant change in demand. The company reduced prices by \$5 but did not significantly increase the total goods sold. There is a need to increase the price by a small amount, like \$2.5, since this is not likely to adversely affect the quantities sold. Instead, the company will be able to increase the total revenue for the period and increase the chances of generating higher profits.

The company needs to negotiate on the prices of materials, so as to reduce the cost of sales. The suppliers of materials need to understand that the demand in the market has fallen due to the pandemic, and the prices for final products has fallen with the declining demand. The suppliers can thus be willing to reduce the cost of materials so that Amana can continue doing business (Shim & Siegel, 2009). This means that the challenges faced by the company in the market needs to be shared with the suppliers leading to a mutual benefit between these stakeholders.

The cost of labour also increased during the pandemic, and this shows that there is potential for improvement in this area. One of the strategies companies in the tourism sector have embraced is reducing the number of employees in the sector so as to reduce costs. Amana may take a different approach where it can encourage the employees to take a pay cut so that when business recovers, their salaries can be increased (White & White, 1963). This can ensure that some employees do not have to lose their jobs. The company needs to freeze the hiring of workers and instead focus on automating some activities so that the labour costs are reduced. If the labour costs are reduced, then the potential of generating higher profits is increased.

It is evident that the warehouse rental costs declined regardless of it being a fixed cost. With the reduced number of customers and demand in the market, there is a need to further reduce this cost. The company needs to stop renting some warehouses and instead keep fewer warehouses that match with the demand in the industry. Having huge stock that is slow-moving in the market is not desirable. The company has been planning online sales, which can further help in dealing with this issue. Such a system can ensure that supplies are sought when there are orders to be fulfilled. This can lead to a reduced need for storage; hence warehouse costs would decline significantly.

While there was a decline in overheads at the company, there is also a need to find ways of reducing these expenses further. This is considering that the business will continue to strain as long as Covid 19 pandemic remains and lockdowns are in place. As the company recovers, the overheads can be restored to ensure that management benefits from the company efforts.

Summary

As the company enters the online market, it needs to develop tactics that will stimulate demand and reduce expenses. The company can consider engaging in price discrimination where those who are willing to pay the highest price for products are charged such a price, and a lower price is charged to those who are willing to pay less. The company also needs to think about promoting

local tourists so that they can buy the company products. Not all buyers for the company come from foreign countries, and this is why there is a need to promote the products locally hence generate sales from the local market.

Part B

Integration to online platform

Companies have shifted their sales online in order to make sales during the pandemic period. The reason for this move is that regardless of the lockdowns, the transport sector in some parts is working hence it is possible to deliver goods to the customers regardless of where they are in the world. While this is not a permanent solution, it can help businesses recover and continue to serve its target customers. Selling online is complex as there can be risks involved. A company has to choose between selling on its website and selling on the websites that offer the platform, such as Amazon. The case for Amara is evaluated to find out whether the company should invest in its site or should use that of the third party (Probert, 1997). The costs and benefits need to be considered in making the decision. In both cases, the company has targeted closing down several of its branches, and this will reduce the storage costs for the company, as well as labour associated with running these branches. In addition to this, other factors influence the decision that is made by the company.

The following is the summary of the benefits and costs for the two options;

	Setting own shop	Selling on Amazon
Annual revenue	2000000	1300000
Costs		
Setting delivery network	150000	0
Upgrade current website	50000	0
Salary for IT programmer	35000	0
Amazon fulfilment fees	0	50000
Total benefits	1765000	1250000

It can be observed that in terms of costs and benefits analysis, setting up own shop is more advantageous than selling on Amazon. There are many costs that are involved in setting up an online shop. This includes having to set up a delivery network, upgrading the current website so that more sales can be held on the site, as well as paying an IT officer a salary so that they can

manage the website. These costs can prevent the company from investing in own website (Belew & Elad, 2017). However, the company makes higher sales once the system is set up. This leads to higher revenue generation for the company. Assuming the price for the products remains at \$20, the company would generate \$1765000 as compared to \$1250000 when the company sells on the Amazon website.

Sales through Amazon

Selling on the Amazon website, on the other hand, has some benefits for the company. First, the set-up costs are not needed, which means that the company would only pay Amazon fulfilment fees of \$50000. The challenge is that the sales on Amazon are estimated to be lower, considering that there are other companies selling their products on the site. Another problem is that there might be price fluctuations because of the competition in the site, making Amara Ltd to sell at a lower price. This would further reduce the revenue for the company as the price falls (Barrow, 2011). It is thus clear that the company would derive fewer benefits if it chooses to sell the products through Amazon.

Comparison between Amana's own website and Amazon

Based on the analysis, Amana Ltd would choose to develop its site where it can sell its products. This is if the available information is correct and more sales will be generated on the site. It also applies only if the projected costs are the only costs associated with the company website. The problem is that there may be other problems that would arise, which may make the company consider using Amazon. First, the company website would need a lot of marketing since many people are not aware whether the company sell its products online. This is unlike Amazon, where many companies sell their products without the need to incur any marketing costs. It is also important to note that the company would be expected to meet the efficiency of delivery like Amazon to make sales to the customers. Developing a new supply network can lead to inefficiencies that lead to customer dissatisfaction, especially if there are delays. Since Amazon has already an existing network that already delivers goods worldwide, it is cheaper to work with the company (Holtzman, 2013). Important also is the fact that Amazon can enjoy lower costs of delivery considering its economies of scale. The company can put many products together in a single package and deliver to customers in a certain region, and this means the cost of delivery of such products is shared among the products in the whole package. If customers find it expensive

to buy through the company website, they may end up seeking for products on sites such as Amazon.

The company has ignored other factors when using its website. It does not consider the need for a return policy, and this is crucial in ensuring that the rights of the customers are secured. There are customers who may return goods if they are not satisfied with the same. If such returns are not made, the company may have a damaged reputation, and this can reduce the sales that are made on the website. The company needs to negotiate with various partners to ensure that it is possible for customers to make payments once they place their orders. This means that there is a lot of work that remains to be done and can be more costly for the company.

Summary

The best alternative is for Amana limited to upgrade its website and make sales through the site. This is considering that more sales can be achieved from such a choice, as compared to selling through Amazon. The high costs of setting up the site are less than the benefits that are associated with selling at own site. This is possible with the assumption that there are no other additional costs that will be borne by the company in the process of running its website and ensuring that orders are delivered. If that is the case, the company can maintain its integrity and promote its brand where customers can rely on the products. However, the company can consider Amazon if there are other costs that are not predicted in the current situation.

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