



ASSIGNMENT 2

WRITTEN REPORT

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Introduction

Amana Ltd is a company based in England, with several shops in different areas, selling souvenirs to tourists. In 2020 with the Covid19 pandemic, the company suffered an impact on its profit. The following work presents a control report of Amanda Ltd in 2020, this is used for a management control to go and analyse the company's performance and its deviations. This is aimed at analysing where the company has losses and what strategies need to be implemented to improve profitability and support its decision-making processes.

Another point that real addressed is the evaluation for Mr. Amana, who would like to expand his market in online platforms, on whether to go and create his own independent website or go and use Amazon's existing platforms.

PART 1

Question 1

Amana Ltd. monthly control report:

Items	Cost per unit	Original (£)	Flexed (£)	Actual (£)	Variance	F/UF
Units		100,000	80,000	80,000		
Selling price	25	25	25	20	5	UF
Revenue		2,500,000	2,000,000	1,600,000	400,000	UF
<i>Variable costs:</i>						
Materials	2.5	250,000	200,000	280,000	(80,000)	UF
Labour	4	400,000	320,000	440,000	(120,000)	UF
Overhead	1.5	150,000	120,000	120,000	0	N-V
Contribution	17	1,700,000	1,360,000	760,000	600,000	UF
Fixed overheads:						
Warehouse rental		200,000	200,000	170,000	30,000	F
Insurance		100,000	100,000	100,000	0	N-V
Fulltime supervisor salary		50,000	50,000	35,000	15,000	F
Profit		1,350,000	1,010,000	455,000	555,000	UF

Calculations

Units: 80,000; 80,000.

Revenue: $(80.000 \times 20) = 1,600,000$; $(80.000 \times 25) = 2,000,000$

Variance: $1.600.000 - 2,000,000 = -400,000 \text{ Uf}$

Variable cost:

Material: $200,000 - 280,000 = -80,000 \text{ UF}$

$(2.5 \times 100,000) = 200,000$

Labour: $320,000 - 440,000 = -120,000 \text{ UF}$

$(4 \times 80,000) = 320,000$

Overhead: $120,000 - 120,000 = 0 \text{ No-variance}$

$(1.5 \times 80,000) = 120,000$

Contribution: $1,360,000 - 760,000 = 600,000 \text{ UF}$

Fixed cost:

Warehouse rent.: $200,000 - 170,000 = 30,000 \text{ F}$

Insurance: $100,000 - 100,000 = 0 \text{ No variance}$

Supervisor salary: $50,000 - 35,000 = 15,000 \text{ F}$

Total Variances: **555,000 UF**

Question 2

A control report is used in the company to show the company's deviation and activities. The following represents the control report for Amana Ltd in the year 2020 showing the original budget, the flexible budget, and the company deviations in that year.

The flexible budget is a tool that helps to identify the difference between a company's planned and actual budget. The components of the flexible budget include revenue, variable costs, and fixed costs. This helps companies in their decision-making processes (Atrill, 2015).

This report shows that Amana Ltd recorded an unfavourable variance in variable costs, net profit, and net sales, while indicating a favourable variance for fixed costs, this indicates a disconnect between budgeted reports and actual results.

Analysing the first point of the report we see that Amana Ltd experienced a reduction in the number of units estimated in 2020, according to Hooman (2018) the number of units sold directly affects the revenue generated by the companies. With the effects of the pandemic in 2020, Amana Ltd management did not anticipate the effects caused by the pandemic on the tourism industry, due to the restrictions and change at a global level (Milesi-Ferretti, 2021). With more restrictions on travel, the number of tourists dropped dramatically. Due to these unimaginable changes, Amana Ltd may have considered the number of tourists visiting the country in that year and the number of units to be sold to be higher than the actual number, leading to a decrease in expected revenues in that year.

Another factor highlighted in the report is that Amana Ltd decreased its prices from \$25 to \$20 in 2020. But also, sales price per unit directly affects the revenue generated by the company (Hooman, 2018). The company's price reduction in 2020 could be a strategy to attract more tourists to generate higher revenue and be able to have a competitive advantage in the market. But despite the price reduction on products, Amana failed in this strategy, it should think of other strategies to try to have higher profits.

In the year 2020, another unfavourable fact for Amna Ltd are the variable costs, this expresses that the budgeted cost was lower than the actual production cost of the company, this resulted in a negative effect.

According to Drury (2020), variable costs can define the total expenditure incurred in the entity that directly influences sales revenue, because the level of production in an entity varies with 4 variable costs.

This means that increasing the level of production also leads to an equivalent increase in variable costs. Analysing the report of Amana Ltd, there were variances for material and labour costs. This could be because Amana changed suppliers of its materials, or that shipping costs increased due to the restrictions caused by Covid-19 (Turney, 2020).

For the fixed costs of the company Amana Ltd, it had a favourable direction, i.e., it obtained a lower cost than it had anticipated. This favourable direction can lead to increased profits for the company. According to Drury (2020), fixed costs do not vary with activity levels and remain the same regardless of changes in production. These fixed costs are incurred regardless of whether production generates sales or not. At this point, the company, having a positive influence on this factor, might try to revert to these so and direct these funds into other activities to try to increase its profit.

Ultimately, Amana Ltd needs to assess the causes of the variances and then use them to design more effective strategies to improve its performance.

Question 3

Looking at the monthly report of Amana Ltd, there are areas where the company needs to take action to harden improvements. The highlighted areas are variable costs and return on sales.

The first area that should be improved by Amana's CEO is that of sales units, where there is an unfavourable variance between actual and budgeted sales units.

This irregularity resulted in Amana Ltd having a decrease in the production level and price of the units. According to Drury (2020) the decrease in productivity can be related to unsuitable material 5 and insufficient equipment, which may be of unsuitable quality. Thus, an unfavourable variation may be the consequence of using unsuitable material which results in translation with lower efficiencies and not as the predetermined ones.

Therefore, Amana's CEO must go and evaluate and consider integrating effective tools and technologies into production to ensure that a better production process is achieved. This can be achieved by adopting the right technologies to ensure efficient production (Drury, 2020).

Another important factor is that the production of high-quality products would also result in higher sales prices since these products would be of a certain value and unique in the market. This can be implemented with the Premium Price marketing strategy, which is based on setting a higher selling price than competitors in the market (Abhishek, Tahmid, & Feisal, 2018). This leads a company that sets a premium price to make the same profit from the sale of one unit as from the sale of ten units at a low price. Bringing in more profit with the production of a few units.

Another area of concern that the CEO should examine is variable costs, i.e., a strategy should be considered to help control variable cost levels. In this report by Amana Ltd we see that in variable costs are compressed material costs, labour costs and other variable overheads.

The first point is the cost of materials, here the company's administrators should go and consider how they can find strategies to control these costs. As Drury (2020) points out, cost control is one of the most important functions in business management. Precisely that having a cost control system allows you to know how costs are created within your company and thus be able to control them to increase profits. Another importance of cost control lies in the fact that it also provides useful elements for setting sales prices for your products (Drury, 2020).

As was pointed out earlier, unfavourable variation due to material costs can be attributed to high material prices and/or their unsuitable quality and performance. Based on this, the CEO should consider purchasing materials from different suppliers, who can offer that material at a much cheaper price for the company. This leads to a lower material price that will reduce the level of variable costs and an increase in the profit margin (Atrill, 2015).

The CEO of Amana Ltd with regard to the quality of materials, again they should go for the supply of high-quality material from specific and reliable suppliers. The high quality of materials is linked to the production of quality products in-house because it minimises variable costs (Colin, 2012).

Another area that needs to be improved by the CEO is that of labour costs. Increasing this cost can be related to many causes, one of which could be that workers are not qualified or that the workforce for those jobs is not efficient.

According to Atrill (2015), this factor can be reduced through the introduction of two strategies. The first strategy is for the CEO and company management to evaluate their recruitment process, in which they must consider the recruitment of qualified employees who spy use the available tools and materials in order to have an efficient workforce. The second strategy of Amana's CEO should be to go and train and develop its existing employees, i.e. those within the company walls. It should go and present training

and refresher courses for all employees on their respective roles to go and reduce all costs of inefficiency and also the costs of hiring new employees.

Through these strategies, the CEO should go on to increase the efficiency of the workforce, thereby minimising labour costs and maximising company profits.

PART 2

Today, any product and service can be purchased online from anywhere and in any way. Today, the online network is the place where distribution sees the addition of a new channel for positioning, promotion, and sales (McCall, 2021). Most customers today use online services, this has provided companies with a great opportunity to grow their market and promote their business efficiency.

Mr. Amana's decision to shift 50 per cent of their sales from the offline route to the online route is an excellent opportunity to exploit. His company's branches in Brighton, Birmingham city centre and Manchester city centre would only be able to cater for a fraction of the customer base. Although these Amana shops provide a base of customer loyalty, the customer potential is very limited.

Another fact for the company is that the expenses associated with these physical shops are very high, switching to online platforms will lead to savings for these expenses. By doing so, the company will also compete in markets outside the UK, such as the US and Europe, and increase its customer base.

Mr Aman has two options to consider when moving into the online world. The first is the creation of a dedicated online shop that can guarantee the sale of 100,000 units per year, at a cost of £150,000 for installation, £50,000 for upgrading and £35,000 as an annual recurring cost. The second option is to use Amazon's website, which guarantees the sale of 65,000 units each year, resulting in a running cost of £50,000.

An initial analysis indicates that Mr. Amana's business will help his business generate more sales when creating a website than when using Amazon's online channel. However, analysing the cost development well, this is higher when creating a website than when using Amazon's platform.

When deciding on the choice of Mr Amana, it is important to consider several factors involved, which are relevant costs, market visibility and marketing expenses.

Relevant costs' can be defined as any cost relevant to a decision (Drury, 2020). The website has higher relevant costs than those implied by Amazon. The relevant cost of creating a website is higher than that of involving Amazon. For the creation of the website there is a cost of £ 235,000 in the first year, but for subsequent years there is a relative cost of £ 85,000. Where, on the other hand, the relevant cost is £50,000 8 per year for the use of Amazon's online shop. This shows that the channel offered by Amazon is more profitable than setting up a website, although there is a difference in units sold.

Another factor, besides cost, that Mr. Amana should consider is the current brand visibility in the UK, Europe and the US and the marketing expenditure that would be required to increase brand awareness

in these markets. Its visibility is very limited, as it is only through offline shops in a few locations in the UK. Here using Amazon will play a key role in this.

Amazon is a leader in e-commerce and has developed a good reputation from many customers around the world. Amazon has high access and visibility due to its large share and presence in the UK, European and US markets, having operated in these markets for several years (Chaffey, 2022). This for Mr. Amana is a major help factor because it would increase the visibility of his business in these markets, without having to go to additional marketing expenses, as in the case of the website that companies would have to support with their own resources. So, the cheapest solution for Mr Amana is to start with using the Amazon platform for a few years to build up his reputation and brand awareness, perhaps once the company has achieved this it could move on to creating its own website. So, it is also important for Mr Amana to consider this option for a year or two.

A negative factor that the Amazon platform presents is the fact that using it exposes Mr. Aman in the seller space to strong competition. Since there are many sellers in the Amazon platform who can compete with the same product at different prices. Another negative factor for using the Amazon platform is that the company is also subject to a lack of control over return policy and pricing, which negatively affects its business operations. These could be some of the problems that Mr. Amana will have to face, so it is important that once he has stabilised in the market, he tries to find a solution, which for example could be to open his own website.

Conclusion

The report prepared showed that Amana Ltd had unfavourable changes in variable costs and sales revenue. Instead, it had a favourable variation in fixed costs. The assessment is that company must go and introduce strategies that can avoid these variations and where they are favourable also try there to implement strategies that can achieve a higher profit. In sales revenue, company may not have considered the effects of covid19. Amana Ltd also lowered the price by \$5 to attract customers, but this strategy was not seen to yield a profit. Instead in variable costs, Amana Ltd must go and consider strategies to improve material costs and labour costs. The suggestions given in this report are that the CEO and the administrative body must go and focus on suppliers and the quality of materials, i.e., try to find a supplier that provides lower cost but high quality materials. On the other hand, on labour costs, the suggestions were to try to get people within the company with specific qualifications for those jobs and to go and train employees within the company to have a much more effective workforce.

Amana Ltd must go through all these improvement strategies to improve its business efficiency, which also translates into higher internal profit.

Another point addressed is that Mr. Amana would like to switch to online sales. For this he must weigh up the choice between two options, the first being to open his own website, and the second being to rely on an Amazon platform for online sales. The best solution for Mr Amana is to rely on Amazon's platform. This is because when analysing the raised costs, we see that the website has higher costs than Amazon. Another factor why Mr. Amana should rely on Amazon's platform is for the visibility and reputation of his market in the areas where he is going to expand. Amazon has extensive visibility in

these areas of the world, which will help Mr Amana's 10 business to emerge and develop a good reputation in the online shopping sphere. For Mr. Amana, it will also have an economic business advantage to choose Amazon's platform, as it will save on marketing costs.

A final suggestion for Mr Amana is to think about setting up his own website, after a few years with Amazon and having established himself in the marketplace, to have much more control over his own brand in terms of online sales.

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