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ASSESSMENT 2

REPORT

of Amana Ltd

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Executive summary

This work has aim to analyse the business environment of Amana Ltd. The information will be presented as a budget with the help of which it will become clear whether the previous management decisions were correct. The solutions presented in numerical version will be analyzed recommendations will then be presented.

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Report of Amana Ltd

Introduction

Budgeting is the state of current resources as a result of a company policy and the implementation of plans from the past. It is also a process of planning for the desired results in an organization. This includes designing the future by applying effective methods and practices. Budgeting consists of planning, decision-making and control. (Atrill and McLaney, 2009) The most important decisions should be included in the long term. Each long-term strategic plan can be divided into short-term plans for each element of the business. These elements are budgets. This is monthly control report showing original budget, flexed budget and variances.

1. Monthly control report of Amana Ltd

Items	Cost per unit	Original (£)	Flexed (£)	Actual (£)	Variance	
Units	100,000	100,000	80,000	80,000	0	no change
Selling price	25	25	25	20	5	5UF
Revenue	2,500,000	2,500,000	2,000,000	1,600,000	400,000	(400,000)UF

Variable costs:						
Materials	2.5	250,000	200,000	280,000	-80,000	(80,000)UF
Labour	4	400,000	320,000	440,000	-120,000	(120,000)UF
Overhead	1.5	150,000	120,000	120,000	0	no change
Contrubuiton	17	1,700,000	1,360,000	760,000	600,000	(600,000) UF

Fixed overheads:						
Warehouse rental		200,000	200,000	170,000	30,000	30,000 F
Insurance		100,000	100,000	100,000	0	
Fulltime supervisor salary		50,000	50,000	35,000	15,000	15,000 F
Profit		1,350,000	1,010,000	455,000	555,000	555,000 UF

1.1 Amana's performance during the year 2020.

A company's profit is determined by its costs and revenues. The amount of output sold is represented by revenue. The total cost of a good or service is the sum of all necessary investments. Materials, salaries, power, transportation, and other costs may be included. The profit can be calculated once all of the data is in the budget. Analyses for different eras of the business can also be done.

Reduction on selling price

One of the main factors determining the income in the business is the price of the product. Price is the sum of money exchanged for goods and to determine it, the manager can follow different strategies.

First is to reduce the selling price, but the amount of sales needs to increase. Revenues should increase from more sales. What is important for this strategy is that the amount of sales must increase. Otherwise, the expected effect of higher revenue will not be realized. In the specific example with the budget of the company Amana the number of units sold has remained the same as in the previous period. This has led to reduced sales. Reducing the price by £5 has led to a 25% reduction in revenue, even more the profit of the company is decreased by 50%. This clearly shows that this decision was not correct at that time.

On the other hand, if the price reduction is caused by strong competition, the profit can be satisfactory. Given this, if the price was not reduced, it was unlikely that these sales would take place. This can be one of the methods to maintain the company's market position. In a situation of high competition high price is unacceptable. The first thing that can be done to combat competition is lower prices. In order to preserve the client mass, this can be considered a good solution at some point. In view of the competitive market, the reduced price can be considered as a decision that brings revenue at the moment.

Increase in cost of materials

In order for the company to be competitive on the market, it must offer quality services and goods. This implies a higher cost for obtaining the materials. The quality keeps the price high. In order to build a brand aimed at market recognition and a large customer base, maintaining high quality is key. Maintaining quality is completely justified, but at the moment this has a bad effect on profits. It is clear from the budget that the price of materials has increased compared to the previous period. This has a negative impact on the final results for the business. The managerial decision in this situation can be considered incorrect. In the previous period the price of materials was lower and now it has risen.

The change of two factors in the company's budget has a negative impact on the results. Decisions to take into account changes in the prices of two or more items in the budget can have a strong impact on profits. Therefore, it is important to make

changes in a preliminary study of possible changes caused by price changes. The case of the Amana company, both decisions have a negative impact. as a result, profits fell by 50%. Selling price was reduced in order to increase revenue but this did not happen. This decision is not a sustainable strategy.

1.2 Recommendations to Amana's CEO on areas of improvement.

The recommendations that the Amana manager can use include:

- To reduce the selling price in order to increase the profit is working strategy but should have in mind that an increase in sales is possible
- optimize the price of raw materials by looking for a good delivery strategy, new suppliers
- investment in production improvement – automation, in order to reduce the cost of production
- online sales - offering the products to more customers on the world market.

2. Analysis of Mr Amana's decision to go online - own online shop or sell on Amazon.

Mr. Amana should set up own online shop, because through this he will build own brand recognizable in online market. (Atrill and McLaney, 2009) Consumers are increasingly attracted to purchasing a variety of products online. E-commerce is also used by businesses to place orders for supplies, track delivery, and distribute merchandise. The Covid crisis put a lot of pressure and push on businesses to restructure and reorganize faster than normal. (Atrill and McLaney, 2009) Increased global competition and technological advancements have had a significant influence on the sorts of organisations that survive and succeed, as well as the corporate structures and procedures used.

(Ivan Priambodo, 2020) Online commerce is preferred by customers because it offers better service, saves time, greater accessibility. Also, in a situation of social isolation, online shopping remains the only possible way to obtain the necessary products. For business, the factors that can be improved by the online store are: better reporting, less costs, increased sales, reaching more customers, expanding the global market, building strong relationships with customers and suppliers.

As positive features for selling your own site are:

- own vision that characterizes the business
- brand recognition and recommendation
- full control of the content, vision, presentation, design and ethics of the company.
- little competition - the attention of customers will be engaged only in the products presented on the online store.
- reaching more customers worldwide

The negative impact of online sales may include:

- price for building and maintaining a site is high
- presenting the product to a smaller group of customers compared to Amazon's customer base
- building trust in products over the well-known Amazon market
- lack of support

An important factor for business is determining the price of the product.” A price strategy is a long-term framework for setting basic prices, whereby an initial price is set for a product together with the proposed direction of price movements across the product lifecycle” (Joaquín A. and Maria S. 2017) Therefore, many factors such as competitive prices, the market and costs must be taken into account in determining the price.

In case of creating your own online store - As we can see from the attached tables with different prices for the product - the price is crucial for the success of the business. If the chosen price is less than 2.35 per unit, then the business will be at a loss as the initial investment is large. It is these calculations that must be taken into account by the manager in order to avoid bankruptcy.

Own online shop				
Expenses	235000	235000	235000	235000
Units	100000	100000	100000	100000
Price	1	2.35	5	25
Profit	100000	235000	500000	2500000
Balance	-135000	0	265000	2265000

Amazon shop				
Expenses	50000	50000	50000	50000
Units	65000	65000	65000	65000
Price	1	2.35	5	25
Profit	65000	152750	325000	1625000
Balance	15000	102750	275000	1575000

On the other hand, in the case of the of sales in Amazon, the loss of business is almost impossible because the initial investment is much smaller. In all cases the profit is positive.

Based on what has been mentioned so far, it is clear that the most important factor in determining the price of a product is the sum of all costs of production, management, logistics and sales.

The next important factor in assessing the state of the business is determining costs. (Atrill and McLaney, 2009) In order to achieve a certain goal, it is necessary to invest resources, most often expressed as cash - this is the essence of the costs in the company. The smaller they are, the bigger you will earn. That is why every manager strives to reduce them. By including in the budget a plan for optimizing production, reducing delivery costs and logistics.

The most important thing for a company is the relationship between costs and profits. When costs are zero and revenues are zero, this moment is called break even point. From the specific example, we can easily calculate that we will reach break even point at a price of £ 5 after selling 47,000 of the units produced. After this moment, the profit for the company will only start to rise, because we have covered all our expenses. Any income remains free and is credited as net profit.

In conclusion, choosing your own online store at first glance seems unprofitable, but after the calculations it becomes clear, that it is important the correct formation of the price. In this case, the costs will be higher, but the profit will be justified. As a growing business, the goal of greater profits is completely focused. Own online store offers more sales, which is equivalent to more profit.

All the important factors set out in the different budgets such as formation, costs, risk assessment, and decision making make up a company's budgeting. Through it, the manager sees the state of the company, whether past decisions have yielded results. Through budgeting, a path is drawn to follow the business from now on. It can be clearly stated that the basis on which the manager stands is budgeting.

CONCLUSION:

In summary, a reduction in the selling price can be interpreted as a struggle to maintain a market day in a competitive environment. From this point of view, the decision can be described as saving. On the other hand, every growing business aims at greater sales in the future. Here, reducing the price can be considered an incorrect decision because the profit is halved. The other factor that has a negative impact on the final results is the increase in the price of materials. So the two factors overlap and the effect is greater. It is important to change one by one in order to prevent possible overlap by various factors.

Budget as a modern instrument for effective finance, control, and execution. The direction of the budget variances is a requirement for recognising the issues. Adequate measures must be taken to avoid losses. Budgeting, as a management tool, establishes current planning rules and norms for the expenses of an enterprise's production operations, controlling the achievement of strategic goals through time. In this way, it motivates the company's employees by disclosing each employee's unique participation and responsibility in the achievement of corporate goals.

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