Answers

Section C

Clear Co

(a)				
Variance calculations				
	RLE	**ICL**	**Total**	
AQAM	4,130	960	5,090	
AQBM	3,764.79	1,325.21	5,090	
BQBM	3,750	1,320	5,070	
	$	**$**	**$**	
Standard contribution (W1)	2,400	2,500		
Mix variance	**876,504F**	**913,025A**	**36,521A**	
Quantity variance	**35,496F**	**13,025F**	**48,521F**	
Alternative quantity variance calculation:				
For quantity variance, could work out weighted average standard contribution and use that instead:				
Total contribution ($)	12,300,000			
Budgeted total sales quantity	5,070			
Weighted average contribution ($)	2,426.04			
Quantity variance ($)	**48,521F**			
(W1) Standard contribution				
	RLE	**ICL**		
	$	**$**		
Selling price	3,000	3,650		
Variable costs	600	1,150		
	2,400	**2,500**		

(b)

The sales mix contribution variance measures the effect on contribution of changing the mix of actual sales from the budgeted sales mix.

The sales quantity contribution variance measures the effect on contribution of selling a different total quantity from the budgeted total quantity.

(c)

Possible additional calculations					
Actual compared to budgeted revenue	**RLE**	**ICL**	**Total**		
	$	**$**	**$**		
Actual sales revenue	11,977,000	3,264,000	15,241,000		
Budgeted sales revenue	11,250,000	4,818,000	16,068,000		
Difference in revenue	**727,000**	**-1,554,000**	**-827,000**		
Percentage terms	**6.46%**	**-32.25%**	**-5.15%**		
Sales volume variance	**$**	**$**	**$**		
(AQ-BQ) x standard contribution	**912,000F**	**900,000A**	**12,000F**		
Selling price variance					
(AP-SP) x AQ	**413,000A**	**240,000A**	**653,000A**		
Total sales variance					
(AP - standard variable costs) x AQ	9,499,000	2,160,000	11,659,000	*Actually received*	
Budgeted units x standard contribution	9,000,000	3,300,000	12,300,000	*Expect to receive*	
	499,000F	**1,140,000A**	**641,000A**		

Sales performance

When comparing budgeted revenues to actual revenues, it can be seen that ICL has under-performed this year, with revenues being 32.25% lower than budgeted. This is a result of both lower sales volumes and a lower selling price for ICL, which has resulted in an adverse sales volume variance of $900,000 and an adverse sales price variance of $240,000. The main reason for this is probably the merger that took place during the year, which resulted in Clear Co's now biggest competitor subsequently reducing prices for ICL and presumably capturing a bigger slice of the market as a result. Even though Clear Co's actual price for ICL was $250 less than budgeted, its sales volumes still fell by 27% so it was apparently unable to match the competition.

Looking at the mix of sales between RLE and ICL at Clear Co, there is an adverse mix variance of $36,521. This is because, whilst the sales of ICL were lower than budgeted, the sales of RLE were higher than budgeted. Since RLE has a lower standard contribution than ICL, this produced an adverse mix variance. This shift in sales mix could be partly attributable to the fact that the RLE procedure is for people aged over 40 and there is an increasingly ageing population in Zeeland. Clear Co has had to lower its price to make these sales of RLE but again, this is probably due to increased pressure to reduce prices resulting from the merger.

Another factor which it is not possible to quantify from the information provided, but which will invariably have had an impact on sales of lens treatments overall, is the increased availability of laser treatments to customers. Given that 90% of customers are now eligible for the less complex laser treatment, this side of the business may well have grown at Clear Co.

Overall, the sales volume variance is favourable for Clear Co because of the increased sales of RLE. However, to achieve this, prices have been reduced, resulting in a significant adverse sales price variance of $653,000. These results are disappointing and Clear Co may have to rethink its strategy moving forwards.

Hammocks Co

(a)

To make a profit long-term

In order to make a profit the long term revenues need to be higher than the long term costs.

The weekly revenue per guest is $2,000 in the 20X7 budget, the 20X7 actual results and the 20X6 actual results which is not in line with inflation. This means that revenues per guest are falling in real terms.

However all staff costs have increased by 2% which is caused by inflation.

Overall this means that the profit per guest, based on the limited figures available is falling.

The repair costs, allowing for inflation have been set at the same level as 20X6. The actual for 20X7 appears to be better than budget, but as repairs are likely to be incurred on an ad hoc basis, this does not necessarily indicate an improvement. The 20X6 repair costs are higher than the competitor's but it is difficult to compare because Hammocks Co have more rooms so we are not comparing like with like. On a repair per room basis Hammocks has slightly lower cost at $163 per room compared to the competition's $164 per room.

Due to the secure long-term contracts which Hammocks Co offers its staff, staff costs are fixed costs in the management accounts. This means that in order to be profitable, these costs need to be covered by the contribution per guest. Although there is not the data to calculate the contribution per guest per week, the higher level of guest occupancy level in 20X7 (both budgeted and actual) is a positive indication. Hammocks' occupancy level per room was 81% compared to the competitor's 77% (all based on double occupancy) indicating that performance is good.

To create customer loyalty

There are a number of indicators to show that Hammocks Co have created a loyal customer base.

Firstly compared to their main competitor Hammocks Co receive more revenue, charge a higher price per guest per week and have better occupancy rates. This indicates good customer satisfaction.

Secondly the ratio of staff to guest is higher than the competition; 1.5 compared to 1.3 in 20X6 (actual in 20X7 is slightly higher due to a lower occupancy rate than budgeted and the fact that staff numbers are fixed). As this is a seasonal business this is may simply be a blip.

Finally, the comments on TripEvent are very positive about the level of service and standard of cleanliness and maintenance. However it should be noted that the entire customer experience is not positive. Complaints like the administrative errors and unchanging menus could be a warning sign of possible erosion of customer loyalty.

(b)(i)

A balanced scorecard approach to performance management is important to Hammocks Co because it will provide management with a set of information which covers all relevant areas of business performance. At present Hammocks Co considers performance from a financial and customer perspective. These perspectives are important but they do not allow a wide enough consideration of all of the factors that should be considered in this business.

Introducing the balanced scorecard will:

- Ensure that all internal systems and processes support the customer and financial objectives. For example, in decision-making there is little point in buying a new IT system that does not either improve customer experience or reduce processing costs.
- Encourage full integration between all departments. Errors in invoicing or sending specific requirements are system or internal process errors. While a customer might not choose a holiday resort for its excellent administration, they may refuse to use a company again if they receive poor service. Thus neglecting one aspect of the scorecard can impact on customer satisfaction and longer term financial performance.
- Make sure important elements are assessed and expected performance levels quantified and/or qualified. This this means that performance can be measured, explained, compared and where necessary, control action can be taken. The errors

that occur at Hammocks Co are spoiling the company's reputation, but there is no evidence that any action is being taken.

Note: Only TWO were required.

(b)(ii)

Internal business process

Goal: To have an effective and efficient administration.

The feedback on TripEvent indicates that the only guest complaints relate to administrative issues prior to the guest arrival and not operational issues at the resort. In fact the actions of the resort staff with the speedy resolution of bedding issues and the organising of a complimentary transfer seems to have diverted trouble. Therefore measures need to be focused on the weaker area which is the administration.

Measures:

1. Number of times that a guest request is not received at resort prior to their arrival/number of requests made.

This will measure the number of times the guest experience is not seamless from booking to arrival.

2. Average number of corrections to booking due to an administrative error.

This measures inefficient use of staff time and potentially increased customer frustration.

Innovation and Learning

Goal: To match leading competitor's facilities

The comment on TripEvent shows that even loyal customers are noticing that rivals are including more innovative facilities at their resorts. Although the true strength of Hammocks Co lies in the quality of the service it is important that the facilities' appliances and service offerings are updated to compare favourably with that of its rivals.

Measures:

1. Number of in-room appliances offered by rivals but not by Hammocks Co.

The measure will ensure that Hammocks Co consider what is included within the guest rooms by comparing to external factors.

2. Number of new items offered on the menu each month.

This should ensure that the chefs consider the latest trends in fine dining and do not ever appear stagnant from the point of view of the customer.

Marking Scheme

Clear Co

			Marks	*Marks*
(a)	**(i)**	Calculation of sales mix contribution variance	4	
	(ii)	Calculation of sales quantity contribution variance	4	
				8
(b)		Explanation of what sales mix contribution variance measures	1	
		Explanation of what sales quantity contribution variance measures	1	
				2
(c)		Calculations	4	
		Discussion of sales performance	6	
				10
Total marks				**20**

Hammocks Co

			Marks	*Marks*
(a)	Discuss the performance of Hammocks			8
(b)	**(i)**	Two advantages of using the Balanced Scorecard	3	
	One goal, two performance measures for:			
	(ii)	Internal business processes	4.5	
	(ii)	Innovation and growth	4.5	
				12
Total marks				20