

COMPANY OVERVIEW

- Ebike have succeeded in the electronic cycle industry due to its competitive advantage of being innovative, very stylish and most importantly, hugely popular with the style conscious 20- to 30-year-old urban market.
- Ebike's core competencies are their designers and marketing team which allowing them to differentiate with the market by being distinctive and deliver value to customers.

Strengths:

- Have gained competitive advantage
- Have become very popular within the urban market.
- Already generating a positive EBITDA
- The companies' strengths lie within the design and marketing team. .

Weaknesses:

- Weak management controls
- Non-existent management information
- Limited set of management accounts
- Limited capital to drive further innovation and growth.

Opportunities:

- Build a stronger connection with customers
- Try and increase market share by reaching out to wider audiences by improving online engagement and reducing marketing costs.
- Improve customer satisfaction and attract new customers.

Threats:

- Market leaders are adding greater value and have generated greater revenues than Ebike.
- There is constant competition
- Recent launch of new bike faced a lot of criticism.
- Competition seem to be producing more innovative bikes which has attracted more consumers.

WHAT MAKES EBIKE'S MANAGEMENT CONTROL SYSTEMS BAD?



From 2017 to 2021 the company have reduced the amount spent on marketing annually. In 2017 Ebike was spending £1,101, whereas in 2021 this value has reduced to £1004 (Appendix 1). This lack of expenditure on marketing may explain why the launch of Ebike's new product received limited press coverage and why they did not receive overly positive feedback from consumers.

In a fiercely competitive environment, a reduction in marketing spending will have adverse effects on market share. Competitors will continue to advertise and promote their product allowing them to increase in popularity and engage with clients which Ebike can no longer access (*The Real Impact of Reducing your Marketing Budget, 2020*).



The company is currently generating a very positive EBITDA; however, this can be misleading as it can be used to conceal damaging information (Appendix 2). EBITDA does not fully reflect a company's ability to generate cash thereby misrepresenting the true investment potential of a company (Guillamón-Saorín & Martínez-López, 2013).



Barry decided to incentivise the sales teams by giving a £20 bonus for every unit sold, in order to increase market share. However, to earn a £20 bonus, the sales department are offering discounts to customers (15%), to increase the number of units sold. The total affect of this would be a reduction in profit.



Revenue/unit has decreased but sales units has increased (see Appendix 3), meaning that the sales team are selling the bikes at discounted prices in order to reach sales targets and earn discounts. Overall, this may have a negative impact on the company.



Finally, the no. of orders returned has increased between 2018 (when Barry arrived) and 2021. This may be due to less money being spent on quality control (Appendix 4). From 2018-2021 the money spent on quality control has reduced by 5.37%. Even when comparing the actual budget for 2021 and the flexed budget you can see that Ebike have underspent on quality control by £76,000 (See Appendix 6). Investing less into quality means that that the overall quality of the products will decrease leading to a greater number of orders being returned. During this period, the number of orders delivered on time has decreased. In 2018 97% of all orders were delivered on time, but in 2021 this value has fallen to 91%. Barry's role within Ebike was to improve its management control systems, however the above data has provided us with evidence to say that his actions/ steps may have had a counteractive effect on the company.

WHAT MAKES EBIKE'S MANAGEMENT CONTROL SYSTEMS GOOD?

- The data shows that Ebike have a greater ROI than their budgeted from the years 2019-2021 (Appendix 5). Before Barry's introduction into the company, the company's ROI was drastically below budget especially for 2017. Having a positive ROI is important to this company because it highlights the management's operating effectiveness and proves that the company can prosper, obtain funding, and reward the suppliers of its funds (G Thomas Friedlob & Franklin James Plewa, 1996).
- Ebike's EBITDA is positively increasing annually (see Appendix 2). EBITDA is important for making comparisons between countries because it removes interest, tax, amortisation and depreciation from the earnings value, as the above many not necessarily be related to core business operations or could be a result of specific accounting treatments (*EBITDA: What is it and why is it important?* | Revolut, 2020). Therefore, an increasing EBITDA is a good proxy for free cash flow and gives you a more accurate and direct view of the company's earnings.
- Some of the management control systems that Barry implemented into the organisation seemed to have worked because it has resulted in a growth of sales, leading to revenue growth (See Appendix 4). The introduction of bonuses for employees and managers may have unintended consequences, and may lead to a myopic view, but nevertheless it has worked to increase overall sales revenue which is a sign of good financial health for the business.
- The company are very popular within the urban market, as their strengths lie in being innovative and creative. This greatly appeals to the target market of 20–30-year-olds, causing an increase in sales.

Conclusion:

The management control systems that Barry has implemented are forms of cybernetic controls illustrated in Malmi & Brown's model. Barry used budgets, financial measurement systems, and non-financial measurement systems to quantify control systems. The procedure is straightforward: the business establishes an aim, which is then analysed against actual results; if there is a discrepancy, the process is modified to achieve the target more commonly known as a feedback loop (Taylor, 2009). However, as seen in the previous slide, many of the management controls put in place have not been working and the business itself seems to be struggling. Barry will need to amend some of the control systems for them to reach their targets, especially focus on product quality and product design as poor quality has a cost. These are core competencies for Ebike and provides them with competitive advantage and therefore they require organization support (VIRO). Overall, the management control system in place may have had a negative effect on Ebike resulting in worsened performance levels.

THE BALANCED SCORECARD (BSC)

- Usually, the main aim of management control systems is cost reduction with a more dominant focus on financial measures. However, the traditional control systems still have many limitations as they seem to be more lagging measures than leading measures of performance.

In addition, traditional systems promote short termism and increase the likelihood of manipulation in results. Managers get overly focused on reaching targets that they may manipulate results to achieve rewards associated with performance measurement systems.

- When designing a BSC a top-down method is adopted, making it clear that financial objectives do not just occur. Having motivated and innovative staff to deliver service leads to an increase in Ebike's customer satisfaction and the potential to reach profit targets. Only then will Ebike meet its financial objectives.

- The basic model of the BSC was first described by Norton and Kaplan (Bostan & Grosu, 2011), allowing managers to move towards a more balanced outlook by using numerous financial and non-financial measures in line with the company's aims within the four areas of measurements: financial, customer, internal process and innovation and learning (Nørreklit & Mitchell, 2014).

- Therefore, using a hybrid measurement systems that contain both financial and non-financial information can give a more holistic focus.

EBIKE BALANCE SCORECARD

	Objectives	Measurements	Targets	Initiatives
Customer	<ul style="list-style-type: none"> 1- Increase the number of people buying electric bikes from Ebike 2- Improve brand image 3- increase market share 	<ul style="list-style-type: none"> 1- Calculate customer satisfaction by doing surveys and polls 2- Brand awareness 3- Market Share 	<ul style="list-style-type: none"> -To ensure that customer satisfaction will improve, as currently users don't have a very good impression of the business and its products. 	<ul style="list-style-type: none"> -Start to implement a rewards programme/ loyalty scheme. -Once LG Capital have purchased Ebike they could expand in the UK, to other geographical locations.
Financial	<ul style="list-style-type: none"> 1- Generate significant revenue from the product line 2- Maximise profitability for every unit sold. 3- To satisfy shareholders. 4- Achieve a greater ROI. 	<ul style="list-style-type: none"> 1- Improve revenue growth on product lines that need improving. 2- improve costs per unit. 3- Using measures that add value 4- Measure ROI. 	<ul style="list-style-type: none"> -Steadily increase profit and revenue in order to meet and exceed the market average and be the no. 1 in the industry. 	<ul style="list-style-type: none"> -Ensure targets are achievable and are in line with the strategic aims of the organisation. Having targets that are unachievable targets can further demotivate employees.
Internal Business Process	<ul style="list-style-type: none"> 1- Reduce the annually increasing variable costs. 2- To decrease the no. of orders returned 3- Increase quality checks conducted on each product 	<ul style="list-style-type: none"> 1- Question every aspect of the business and question if it really adds value. 2- Work out the percentage of orders returned 3- By making quality a target by benchmarking to set a standard which all other products can be compared against. 	<ul style="list-style-type: none"> -Economies of scale. -Continuously checking the costs within the company. - Try and keep the number of order returned to below 2%, to ensure maximum earnings can be generated from a sale. 	<ul style="list-style-type: none"> -Value chain Analysis - Reconsider the values and mission statement of the company, as they are currently are not producing stylish or innovative product in accordance with customers.
Innovation, Learning & Growth	<ul style="list-style-type: none"> 1- To try and gain competitive advantage. 2- Find ways to be more innovative 3- To value staff and their wellbeing and optimise the workforce. 	<ul style="list-style-type: none"> 1- Benchmarking and trying to create something which your competitors don't possess, making it harder to replicate. 2- VIRO 3- Reducing the number of days staff are off sick, doing appraisals. 	<ul style="list-style-type: none"> - Record the number of training days staff attend to learn the necessary skills required - Put in place an effective method of controlling and measuring staff sickness levels 	<ul style="list-style-type: none"> -Training days/ Workshops - Carry out an analysis on staff optimization levels. - Provide incentives to ensure staff work to their full potential

WHY THE BALANCE SCORECARD WOULD IMPROVE OVERALL PERFORMANCE OF EBIKE

- ❖ A balanced scorecard approach aids management in conveying the company's objectives and connecting performance measures to the company's mission and strategy. This can be difficult as individuals tend to pursue their own goals, often at the expense of the company, becoming a concern throughout many organizations. The balanced scorecard method aids businesses in developing measurements that are in sync (Frigo & Krumwiede, 2000).
- ❖ Usually, the resources that an organization has been imitable, meaning that competitors in the same market can replicate them. However, Being able to put your resources into use and making them advantageous for your company means that they become core competencies and become more difficult to copy, therefore allowing the company to gain competitive advantage thus improve their overall performance.
- ❖ Using both financial and non- financial measure in the balanced scorecard approach, managers are less likely to misrepresent/manipulate financial results. Financial measures encourages short termism as employees only work hard for a short duration in the hope of getting the related incentives. Therefore, by adding non-financial measures which measure future success it may encourages people within the organization to have a long-term approach in mind rather than short term.
- ❖ Using the Balanced scorecard allows the strategy to be communicated throughout the organization. Usually, many employees of an organization don't understand the strategy. Therefore, the balanced scorecard communicates the strategy throughout the business.
- ❖ The Balanced Scorecard is generated from the top down, meaning that links between different departments objectives have been established allowing employees to see their effect on the strategic performance of the business.

APPENDIX

Appendix 3:	2017	2018	2019	2020	2021
Revenue/unit £'000	1501.95	1487.05	1399.07	1324.97	1304.99
increase in sales volume (Actual Units)	-	28%	17.50%	12%	7.53%
Revenue Growth	-	26.73%	10.55%	6.07%	5.90%

Appendix 4:	2018	2019	2020	2021
Orders returned	3.50%	4.50%	6.80%	7.10%
Increase/decrease in quality control	2.94%	-1.37%	-5.91%	-3.94%

Appendix 5:	2017	2018	2019	2020	2021
ROI	-23.02%	1.51%	16.77%	17.58%	18.66%
Budgeted ROI	-	2%	12%	14%	-16%

Appendix 6:

Appendix 1:	2017	2018	2019	2020	2021
% increase/decrease in marketing costs	-	3.00%	-4.50%	-3.88%	-3.55%

Appendix 2:	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000
EBITDA	413	2156	3179	3582	4222

	Yr Ending Oct 2021 Actual £'000	Yr Ending Oct 2021 Budget £'000	Yr Ending Oct 2021 Flexed Budget £'000	Yr Ending Oct 2021 Variances
Units	18089	17,500	18089	
Sales	23606	23275	24058	452
Variable Costs	9913	9625	9949	36
Production Overhead	4536	4554	4707	171
Depreciation	2320	2502	2586	266
Quality Control	780	828	856	76
Product Design	993	1036	1071	78
Marketing	1004	1062	1098	94
Administration	2158	2167	2240	82
	11791	12148	12557	766
Operating Profit	1902	1502	1553	-349

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