TEXAS McCombs
The University of Texas at Austin
McCombs School of Business

**BA 385T – Financial Management – Accounting Portion – Fall 2023**
**Instructor – Brian Lendecky (Brian.Lendecky@mccombs.utexas.edu)**

**Class #7-#11 – Wednesday September 13 through Wednesday September 27**
**Topic #4 – Performance Measurement: Variance Analysis**
**Article – "Congress Should Be Required to Vote Yearly On An 'All-Inclusive' Budget" (Class 8)**
**Article – "Will This Customer Sink Your Stock" (Class 10)**
**Article – "Minding the Store: Analyzing Customers, Best Buy Decides…" (Class 11)**
**Case – None**



## Variances

At the beginning and during a period the budget provides a plan for managers to follow in making decisions and directing an organization's activities.

At the end of the period, what other purpose does a budget serve?

What is a variance?

Variances tell us how much and why we were over or under budget.

The terms "favorable" and "unfavorable" relate to financial statements.
F =
U =

However, a U can be a good thing non-financially. For example, Ford could have an unfavorable direct material price variance but that could be from buying better quality direct materials.
(The opposite can also be true, where a F can be a bad thing. We'll see later.)

## Standard Costing

What is a standard? (Below are two definitions from two different textbooks.)

1. A standard cost is a budget for the production of one unit of product or service. It is the benchmark in the budgetary-control system.

2. A standard is a carefully determined price, cost, or quantity. A standard is not necessarily developed from history, many are developed from engineering studies or benchmarking. A standard is "what should be" not necessarily "what was".

What is benchmarking?
The continuous process of comparing the levels of performance in producing products, services, and/or executing activities against the BEST levels of performance in competing companies or companies having similar processes.

What are two advantages of using standard costs (aka zero-based) instead of just using historical costs (aka incremental) for budgeting purposes?
1.
2.

So what is the difference between the term "budgeted cost" and "standard cost"?

1. Budget is the broader term.

2. A budgeted cost need not be based on standards. For instance, a budgeted cost could strictly be based on historical data (which might include past inefficiencies). But, if standards are used for the budget, the words are the same.

**I'm going to use them as synonyms in these notes.** I'm going to say all of our companies use standards for the budget.

## Static and Flexible Budgets

What is a static (or master) budget?
A budget based on the level of output planned at the start of the budget period.

What is a flexible budget?

1. A flexible budget is prepared at the end of the period
2. Variable costs change in proportion to units produced.
3. Fixed costs CAN change if the relevant range changes.

**Longhorn Company example**

1. Longhorn Company manufactures and sells jackets. Longhorn sells exclusively to distributors, who in turn sell to independent clothing stores and retail chains.

2. For simplicity, we assume that Longhorn's only costs are manufacturing costs; it incurs no costs in other value-chain functions, such as marketing and distribution.

3. We assume that all units manufactured in September are sold in September. Therefore, all raw/direct materials are purchased and used in the same budget period, and there is no raw/direct material inventory at either the beginning or the end of the period.

4. There are also no work-in-process or finished goods inventories at either the beginning or the end of the period.

5. Longhorn has three variable-cost categories. The budgeted variable cost per jacket for each category is:

| Cost Category | Variable Cost per Jacket |
|---|---|
| Direct material costs | $60 |
| Direct manufacturing labor costs | $16 |
| Variable manufacturing overhead costs | $12 |
| Total variable costs | $88 |

6. The number of units *manufactured* is the cost driver for direct materials and direct manufacturing labor. The relevant range for the cost driver is from 0 to 12,000 jackets.

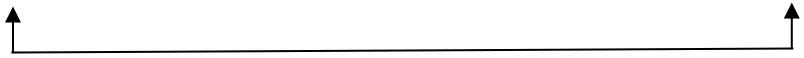
7. Budgeted and actual data for September are:

| | |
|---|---|
| Budgeted fixed manufacturing costs (for production between 0 and 12,000 jackets) | $276,000 |
| Budgeted selling price | $120 per jacket |
| Budgeted sales | 12,000 jackets per month |
| Actual sales | 10,000 jackets per month |

8. Longhorn's operating managers select machine-hours as the cost-allocation base for allocating variable manufacturing overhead costs because they believe, on the basis of the planning process, that machine-hours is the only cost driver of variable manufacturing overhead. On the basis of an engineering study, Longhorn estimates it will take 0.40 of a machine-hour per jacket.

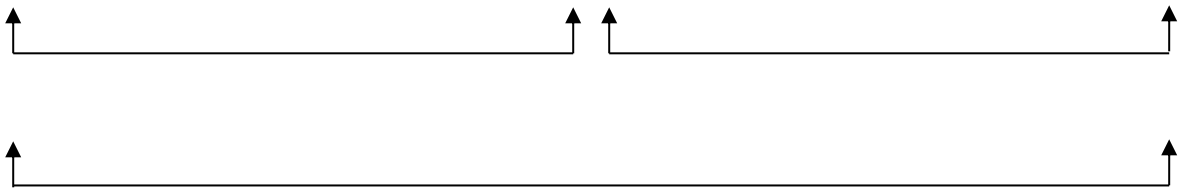
9. Actual machine hours used per jacket were 0.45. Actual variable manufacturing overhead costs were $130,500. Actual fixed manufacturing overhead costs were $285,000.

| | **Actual Results** | Static/Master Budget Variances | **Static/Master Budget** |
|---|---|---|---|
| Units (jackets) sold | 10,000 units | | 12,000 units |
| Revenues (budget = $120) | $1,250,000 | | $1,440,000 |
| Variable Costs | | | |
| Direct Materials (standard = $60) | $621,600 | | $720,000 |
| Direct Labor (standard = $16) | $198,000 | | $192,000 |
| Variable Manuf. Overhead (standard = $12) | $130,500 | | $144,000 |
| Fixed Manufacturing Overhead Costs | $285,000 | | $276,000 |
| Operating Income | $14,900 | | $108,000 |



Static Budget Variance

| | **Actual Results** | Flexible Budget Variances | **Flexible Budget** (aka "Allowed" or "Actual Budget") | Sales Volume Variances | **Static/Master Budget** |
|---|---|---|---|---|---|
| Units (jackets) sold | 10,000 units | | | | 12,000 units |
| Revenues (bud = $120) | $1,250,000 | | | | $1,440,000 |
| Variable Costs | | | | | |
| DM (std = $60) | $621,600 | | | | $720,000 |
| DL (std = $16) | $198,000 | | | | $192,000 |
| VMOH (std = $12) | $130,500 | | | | $144,000 |
| Fixed MOH Costs | $285,000 | | | | $276,000 |
| Operating Income | $14,900 | | | | $108,000 |

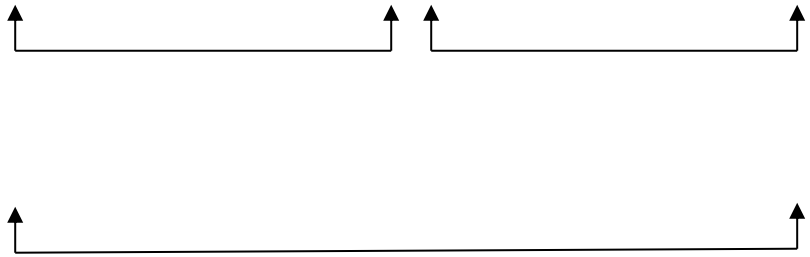


$93,100 U
Static Budget Variance

*some companies call this the sales price variance

Actual Direct Materials (inputs) quantity = 22,200 square yards
Actual price =$28 per square yard ($621,600 from actual column on last page / 22,200 actual square yards used given above = $28)
Actual jackets (output) = 10,000 units
Standard Direct Materials (input) quantity allowed = 2 square yards per jacket
Standard price = $30 per square yard
($720,000 from static budget column on last page / 12,000 jackets in that budget / standard of 2 square yards per jacket = $30) ***OR***
($600,000 from flexible budget column on last page / 10,000 jackets in that budget / standard of 2 square yards per jacket = $30)

| | **Actual Results** | **"As If"** | **Flexible Budget** |
|---|---|---|---|
| | Actual Quantity<br>Actual Prices<br>(at actual output<br>of 10,000 jackets) | Actual Quantity<br>Standard Prices<br>(at actual output<br>of 10,000 jackets) | Standard Quantity<br>Standard Prices<br>(at actual output<br>of 10,000 jackets) |
| Direct Materials | | | |



$21,600 U
Flexible Budget Variance

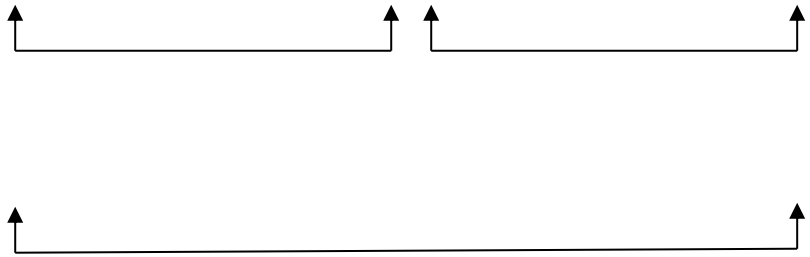
Possible Causes of DM Price Variance

Possible Causes of DM Efficiency Variance

Actual input (hours) quantity = 9,000 hours
Actual price =$22 per hour ($198,000 from actual column two pages ago / 9,000 actual hours worked given above = $22)
Actual output (jackets) = 10,000 units
Standard Direct Labor (input) quantity allowed = 0.8 hours per unit (jacket)
Standard price = $20 per hour
($192,000 from static budget column two pages ago / 12,000 jackets in that budget / standard of 0.8 hours per jacket = $20) ***OR***
($160,000 from flexible budget column two pages ago / 10,000 jackets in that budget / standard of 0.8 hours per jacket = $20)

| **Actual Results** | **"As If"** | **Flexible Budget** |
|---|---|---|
| Actual Quantity | Actual Quantity | Standard Quantity |
| Actual Prices | Standard Prices | Standard Prices |
| (at actual output | (at actual output | (at actual output |
| of 10,000 jackets) | of 10,000 jackets) | of 10,000 jackets) |

Direct Labor



$38,000 U
Flexible Budget Variance

Possible Causes of DL Price Variance

4. Inaccurate budget (ex. from change orders)

Possible Causes of DL Efficiency Variance

2. Unskilled workers – Training (HR or Operations)
3. Careless supervision – VP of Production/Manuf./Ops.
4. Lower quality materials – VP of Supply Chain
5. Faulty machines – VP of Maintenance/Engineering
6. Poor design of process – VP of Engineering
7. Inaccurate budget (ex. from change orders)

Our Longhorn Company example said no beginning or ending materials inventory. What happens if that is not the case?

ABC Bakery Inc. makes cakes.
Actual DM (inputs) quantity bought = 12,500 pounds
Actual DM (inputs) quantity used = 10,250 pounds
Actual price =$1.42 per pound of direct material
Actual output (cakes) = 2,000 units
Standard inputs (DM) quantity allowed = 5.00 pounds of direct materials per cake
Standard price = $1.40 per pound of direct material

| **Actual Results** | **"As If"** | **Flexible Budget** |
|---|---|---|
| Actual Quantity<br>Actual Prices<br>(at actual output<br>of 2,000 cakes) | Actual Quantity<br>Standard Prices<br>(at actual output<br>of 2,000 cakes) | Stand. Quantity<br>Standard Prices<br>(at actual output<br>of 2,000 cakes) |

Direct Materials

*also known as Purchase Price Variance (PPV)

**Overhead Costs and Variances**

We've already discussed the first two cost categories, direct materials and direct labor. Now let's discuss the third cost category, overhead.

As you will see overhead (OH) variances for a service company or manufacturing overhead (MOH) variances for a manufacturer will differ from the direct labor and direct material variances. This is due to:

1. Cost Behavior
    a. DL and DM consist only of variable costs.
    b. OH consists of variable and fixed costs.

2. Cost assignment
    a. DL and DM are direct costs. That means they can easily be traced back to the unit of production (ex. jackets).
    b. When comparing actual vs. budgeted DM and DL we think in terms of units of DM (ex. square yards of fabric, tomatoes) or DL (ex. hours).
    c. MOH or OH is an indirect cost (by definition). It cannot be easily traced to a unit of production (ex. jackets) or service.
    d. When comparing actual vs. budget MOH or OH we think in terms of the cost-allocation base, not units (ex. machine hours, labor hours, units, etc.), unless of course the cost-allocation base is units.

**Developing Variable Overhead Cost Rates**

We learned how to calculate the variable overhead (VOH) or variable manufacturing overhead (VMOH) rate in our last topic when we discussed the Wilkerson case:

Step 1 – identify the variable overhead costs in the cost pool (*the numerator*).
From the fact sheet in our Longhorn Company example:
($12 VMOH standard per jacket)(144,000 budgeted jackets per year) = $1,728,000 total budgeted Variable Manufacturing Overhead (VMOH) costs for the year

Step 2 – Select the cost-allocation base to use for allocating the overhead costs in the cost pool (*the denominator*).
From the fact sheet in our Longhorn Company example:
(144,000 budgeted jackets per year)(0.40 standard machine hours per jacket) = 57,600 standard machine hours for the year

Recall – the fact sheet states Longhorn believes machine hours to be the sole cost driver for variable manufacturing overhead (VMOH) costs.

Step 3 – Compute overhead allocation rate per unit of each cost-allocation base.

$$\frac{\text{Standard/budgeted overhead dollars for the year in the VMOH cost pool}}{\text{Standard/budgeted cost allocation base total for the year}}$$

In our Longhorn Company example:

$$= \quad \text{VMOH costs per machine hour (not per jacket)}$$

Actual output (jackets) quantity = 10,000
Actual machine hours used per jacket = 0.45 (from fact sheet)
Standard machine hours used per jacket = 0.40 (from fact sheet)
Actual Variable Manufacturing Overhead (VMOH) costs = $130,500
Flexible budget VMOH costs = $120,000 ($12 per jacket from fact sheet x 10,000 jackets)

| | **Actual Results** | **"As If"** | **Flexible Budget** |
|---|---|---|---|
| | Actual Quantity* | Actual Quantity* | Standard Quantity* |
| | Actual Rate* | Standard Rate* 30 | Standard Rate* 30 (calculated last page) |
| | (at actual output | (at actual output | (at actual output |
| | of 10,000 jackets) | of 10,000 jackets) | of 10,000 jackets) |
| Variable Manufacturing Overhead Costs | | | |

(various managers)

$10,500 U
Flexible Budget Variance

* of the cost-allocation base (aka the input). In this example it's machine hours (not square yards, not jackets produced, not labor hours, etc.)

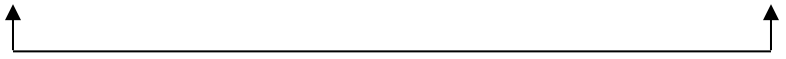
VMOH Rate Variance
Difference in rate, not price (lower than budgeted VMOH cost per machine hour)
F because numerator lower (total $) or
F because denominator higher (machine hours)

Reasons for a VMOH Efficiency Variance
1. Poor design of process – VP of Engineering
2. Careless supervision – VP Production/Manuf./Ops.
3. Unskilled workers – Training (HR or Operations)
4. Poorly maintained machines – VP of Maint./Eng.
5. Lower quality direct materials – VP Supply Chain
6. Inaccurate budget (ex. from change orders)

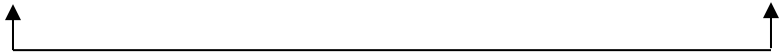
Actual fixed manufacturing overhead (FMOH) costs for month = $285,000 (from fact sheet)
Budgeted FMOH costs for month (flexible budget is same as static budget because output level does not matter) = $276,000 (from fact sheet)

| **Actual Results** | **"As If"** | **Flexible Budget** |
|---|---|---|
| Actual Costs | N/A | Budgeted Costs |

Fixed Manufacturing Overhead Costs



Fixed Overhead Spending Variance



$9,000 U
Flexible Budget Variance

Note – if desired, further analysis of fixed manufacturing overhead costs could compute an additional variance called the Production-Volume Variance (commonly referred to as "over-absorbing" or "under-absorbing" fixed overhead). This variance is beyond the scope of this class.

| **Summary of Variances** | **Level 1** | **Level 2** | | | **Level 3** | | |
|---|---|---|---|---|---|---|---|
| | Static Budget Variances | Sales Volume Variances | Flexible Budget Variances | Total Level 2 Variances | Price Variances | Quantity Variances | Total Level 3 Variances |
| Revenue | $190,000 U | $240,000 U | + $50,000 F | = $190,000 U | Level 3 is N/A for revenue because we don't individually sell the inputs (DM, DL, and OH), we sell the output (ex. jackets), which we break down next in these notes. | | |
| Costs | | | | | | | |
| Direct Materials | $98,400 F | $120,000 F | + $21,600 U | = $98,400 F | $44,400 F | + $66,000 U | = $21,600 U |
| Direct Labor | $6,000 U | $32,000 F | + $38,000 U | = $6,000 U | $18,000 U | + $20,000 U | = $38,000 U |
| Variable MOH | $13,500 F | $24,000 F | + $10,500 U | = $13,500 F | $4,500 F | + $15,000 U | = $10,500 U |
| Fixed MOH | $9,000 U | $0 | + $9,000 U | = $9,000 U | $9,000 U | + N/A | = $9,000 U |
| Total Costs | $96,900 F | $176,000 F | + $79,100 U | = $96,900 F | $21,900 F | + $101,000 U | = $79,100 U |
| Operating Income (Revenue line minus Total Costs line) | $93,100 U | $64,000 U | + $29,100 U | = $93,100 U | | | |

| Variance | $ Amount | Percentage | Cause |
|---|---|---|---|
| Total Sales Volume Variance | $64,000 U | <69%> | From selling 2,000 less jackets (output) |
| Flexible Budget Variance for Revenue | $50,000 F | 54% | From increasing sales price of each jacket by $5 |
| Direct Material Price Variance | $44,400 F | 48% | Five possible reasons |
| Direct Labor Price Variance | $18,000 U | <19%> | Four possible reasons |
| Variable MOH Rate (aka Price) Variance | $4,500 F | 5% | Beyond scope of this class |
| Fixed MOH Spending (aka Price) Variance | $9,000 U | <10%> | Beyond scope of this class |
| Sum of DM, DL, and Variable MOH Quantity Variances | $101,000 U | <109%> | Same six baseline possible reasons |
| Total | $93,100 U | <100%> | |

Failure to hit the 12,000 jacket sales target isn't the biggest problem. It is the sum of all the quantity variances, 109%!
Remember, the same reason is probably causing the direct material, direct labor, and variable manufacturing overhead quantity variances!

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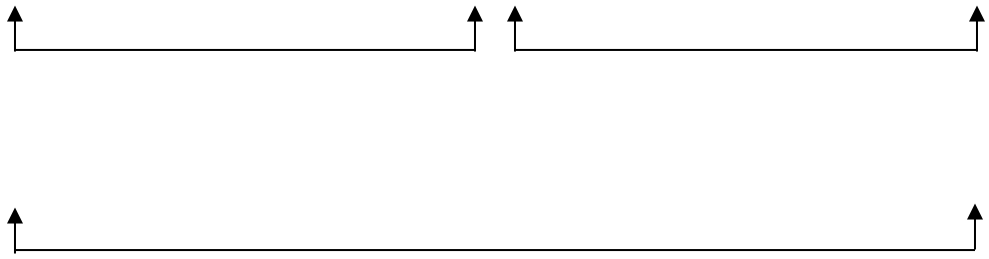
From: xx
To: Lendecky, Brian
Subject: Your class was my internship

… my project was essentially variance analysis. Literally the topic we took weeks going over was my entire project. I used your class notes copiously to get the reported variance analysis from their FP&A/Cost Accounting team to line up with my output. What was the static budget, the flex budget, the no-name budget 1, the actuals, etc. and how did they all compare? I used your compiled sheet that lists out how to calculate the different variances and I used that for at least 3 weeks of my 10-week internship. In the end, I was able to help the company better understand what was causing their average +/- $1.1M variance to plan. I could split up whether it was quantity or price on the cost side and sales mix, sales quantity, market-share, or market-size on the revenue side and tell the whole story by business unit and/or by product to call out what was really driving variance and what team it might be attributed to.

| **Bevo Energy Drink Inc.** | Selling $ per unit | Var. Cost per unit | CM per unit | Sales Volume in units | Sales Mix | Contribution Margin |
|---|---|---|---|---|---|---|
| **Budgeted data for October** | | | | | | |
| Wholesalers | $13.37 | $12.88 | $0.49 | 712,000 | 80% | $348,880 |
| Retail | $14.10 | $13.12 | $0.98 | 178,000 | 20% | $174,440 |
| Total | | | | 890,000 | 100% | $523,320 |
| **Actual Results for October** | | | | | | |
| Wholesalers | $13.37 | $12.88 | $0.49 | 756,000 | 84% | $370,440 |
| Retail | $14.10 | $13.17 | $0.93 | 144,000 | 16% | $133,920 |
| Total | | | | 900,000 | 100% | $504,360 |

| | **Actual Results** | **Flexible Budget** | **Static Budget** |
|---|---|---|---|
| Wholesale | Actual Quantity Sold (total) | Actual Quantity Sold (total) | Budg. Quantity Sold (total) |
| Retail | Actual Sales Mix | Actual Sales Mix | Budg. Sales Mix |
| Total | Actual CM* per unit | Standard CM* per unit | Standard CM* per unit |



*Note – if the salesperson is a profit center manager, this will be contribution margin. If the salesperson is a revenue center manager, this will be sales price.

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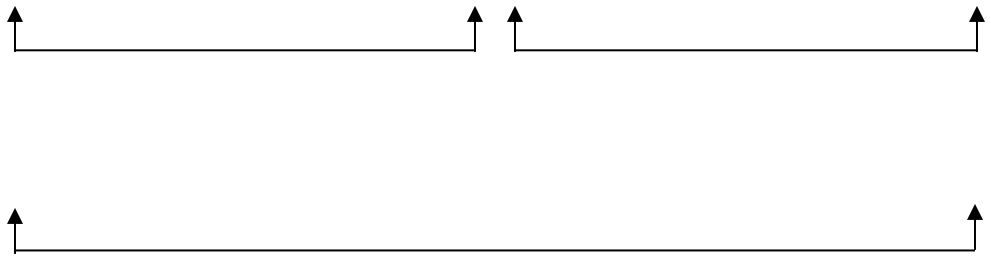
| | **Flexible Budget** | **No Name I** | **Static Budget** |
|---|---|---|---|
| | Actual Quantity Sold (total) 900,000 | Actual Quantity Sold (total) | Budg. Quantity Sold (total) 890,000 |
| | Actual Sales Mix .84, .16 | Budg. Sales Mix | Budg. Sales Mix .80, .20 |
| | Standard CM per unit .49, .98 | Standard CM per unit | Standard CM per unit .49, .98 |
| Wholesale | 370,440 | | 348,880 |
| Retail | 141,120 | | 174,440 |
| Total | $511,560 | | $523,320 |



$11,760 U
Sales-Volume Variance

Here is a transcript of Wynn Resorts' CEO Steve Wynn from the 2Q11 earnings call about customer segmentation (WYNN's earnings calls were usually entertaining, he didn't hold back).

Update from 2/6/18:
*Las Vegas casino mogul Steve Wynn, besieged by sexual misconduct allegations and widening scrutiny of his financial empire, resigned Tuesday as CEO of his company.*

*"It is with a collective heavy heart, that the board of directors of Wynn Resorts today accepted the resignation of our founder, CEO and friend Steve Wynn," the company said in a statement, attributed to board director Boone Wayson. "Steve Wynn is an industry giant. He is a philanthropist and a beloved leader and visionary. He played the pivotal role in transforming Las Vegas into the entertainment destination it is today."*

*Allegations of sexual misconduct against Wynn prompted Nevada's powerful Gaming Control Board to launch an investigation last week, a move that put further strain on the billionaire's finances.*
*The bad publicity surrounding Wynn, 76 and with a net worth of about $3.6 billion, has already cost him $463 million, according to published reports. Wynn said late Tuesday that such publicity has been too overwhelming to continue in his current role.*

Stephen Alan Wynn
Chairman & Chief Executive Officer, Wynn Resorts Ltd.
"And a much higher rate. We did not lower our rates like some of our competitors did. We've come to the conclusion here, incidentally, I'd like to add this parenthetically, having tried this before and failed, we don't want to make the mistake again. This place is not set for price cutting. We lower the price, we can fill the rooms in an instant because they're such fancy rooms. But we get people that carry their beer in from 7-Eleven, move their own bags, and don't eat in our fine dining. We can't use them. This is not a place for folks that have that kind of economy mentality. This is a place for people who expect superior service, higher quality food, beverage and everything else. And so we price our property accordingly and we stay there. And if we lose some occupancy, well, we'll adjust our expenses accordingly. But we don't lower the price. It doesn't work for us. We tried it, and it's a failed strategy, not only for us, I think for everybody. That's the overview I can give you on that. Q4 looks great. And now that we're getting through July, it gets better again. But we're not doing bad. I mean, July – I took a look, we're making $1mm a day. I think that's great. Anything over $20mm makes me real happy in July."

LAS VEGAS, Feb. 21, 2017 /PRNewswire/ -- Wynn Resorts today was once again honored as the highest ranking casino resort on FORTUNE Magazine's 2017 World's Most Admired Companies list in the hotel, casino and resort category, ranking number three out of 12 internationally distinguished hospitality companies. Wynn Resorts ranked first overall in the category of Quality of Products/Services among all international hotel companies. The company also received high marks for Innovation, People Management, and Quality of Management. Wynn Resorts, Limited is traded on the Nasdaq Global Select Market under the ticker symbol WYNN and is part of the S&P 500 Index. Wynn Resorts owns and operates Wynn and Encore Las Vegas), Wynn Macau, and Wynn Palace, Cotai.
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I tell my undergraduate students that the Wynn casino might not care about young college students like yourself, but does anybody want to take a guess how many meetings at TicTok have started with "we really need to find a way to gain a foothold in that key late-40s, balding, out-of-shape, accounting professor demographic"?

INTERNATIONAL
Herald Tribune

# Sprint Nextel defends decision to terminate customers who call customer service too much

**The Associated Press**
Tuesday, July 10, 2007

**KANSAS CITY, Missouri:** Sprint Nextel Corp. is not apologizing for its decision to drop customers it determined were calling customer service too often.

The third-largest U.S. wireless provider sent letters to about 1,000 subscribers June 29, saying the company's records showed they had made frequent calls for help with questions about billing and other account information.

"While we have worked to resolve your issues and questions to the best of our ability, the number of inquiries you have made to us during this time had led us to determine that we are unable to meet your current wireless needs," the letters said.

The customers were told their service agreements were being terminated, they would not owe anything on their final bill, and the company would waive early termination fees. They also were told to switch to another wireless provider by July 30 if they want to keep their phone number.

In debate on the Internet, Sprint's move has attracted criticism that the company is penalizing consumers for trying to get what they paid for, or that the frequent calls are more a reflection of poor customer service by Sprint itself.

But Sprint officials said Monday this is not a case of someone being flagged by a computer program, and that an internal review lasting six months to a year focused on the types of problems the callers had and what information they were seeking.

"These accounts have been researched very carefully," Sprint spokeswoman Roni Singleton said. "We feel strongly that the decisions we made, we stand by them. These decisions weren't made lightly."

Singleton said the targeted subscribers each made an average of 40 to 50 calls a month to customer service. She would not say how that compared with the overall number of calls logged by the customer service department in a given month.

Singleton said the review also found that the subscribers often were calling about the same problems over and over after Sprint officials felt they had resolved the issue. She said some callers were repeatedly asking for information from other customers' accounts, which customer service workers are not allowed to divulge.

"If the average person is calling less than once per month and these people are calling 40 or 50 times more, that takes away from customer service," Singleton said. "Our priority is to improve the customer experience."

Officials at competitors AT&T Wireless and Verizon Wireless said that while they may terminate customers who are abusive toward customer service operators or violate other terms of their service agreements, they do not terminate customers because of customer service calls.

"We have never severed ties with customers in a mass mailing like this," said Verizon spokeswoman

Cheryl Bini Armbrecht.

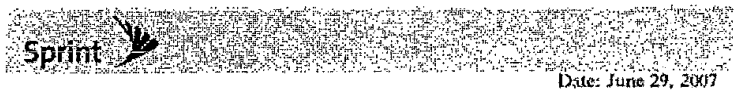
CIBC World Markets analyst Tim Horan said in a research note to investors that he did not see anything alarming with Sprint's decision.

"Sprint has taken a number of steps to improve the 'quality' of its customer base and we view this measure in the same light," Horan wrote.

Sprint, which has about 54 million subscribers, has been trying to upgrade its customer base, tightening credit requirements and attempting to attract customers who will spend more each month on data services, such as Internet browsing, music downloads and streaming video.

During the most recent quarter, the company said it gained just 600,000 new customers, while AT&T and Verizon gained 1.2 million and 1.7 million, respectively.

Earlier this month, Sprint unveiled a new marketing campaign aimed at highlighting its network speed and capabilities, an attempt to distance itself from earlier marketing campaigns that were criticized as unfocused and confusing.




Date: June 29, 2007

Re: Account:

Dear

Our records indicate that over the past year, we have received frequent calls from you regarding your billing or other general account information. While we have worked to resolve your issues and questions to the best of our ability, the number of inquiries you have made to us during this time has led us to determine that we are unable to meet your current wireless needs.

Therefore, after careful consideration, the decision has been made to terminate your wireless service agreement effective July 30, 2007. This will allow you to pursue and engage with another wireless carrier.

Rick Watson
CEO and Founder of RMW Commerce Consulting
Twitter - Oct 26, 2021

UPS Beats Earnings and Offers Marked Contrast to FedEx Performance

The #UPS Q3 Earnings Call highlighted what a disciplined company looks like - one which has clearly prioritized and optimized for higher-margin SMB small parcel volume.
Note from Lendecky – not every customer is the same! Sales-Mix Variance vs Sales-Quantity Variance!

Finally higher revenue, profit, while decreasing direct labor hours and trailerloads is a study in focused, prioritized execution.

These metrics tell the story:
- Revenue up 9.2% to last year.
- Profit grew 22.6% - US SMB up 10.9% y/y (one of most profitable segments) — all SMB segments growing.
Note from Lendecky – not every customer/segment is the same! Sales-Mix Variance vs Sales-Quantity Variance!
- Eliminating 10% of daily trailer loads y/y by improving cube utilization.
- Decrease in direct labor hours/day 5.1%.

They threw sand in the face of #FedEx when they said:
- “there are higher labor costs and we are managing it”
- Will control volume entering network to eliminate “chaos costs”.

Contrast that with FedEx:
- higher labor costs means we can’t hire, which means we had tons of unexpected costs.

UPS on parcel volume:
“We used to think every package was the same. We don’t think that anymore.”
Note from Lendecky – Sales-Mix Variance vs Sales-Quantity Variance!

…

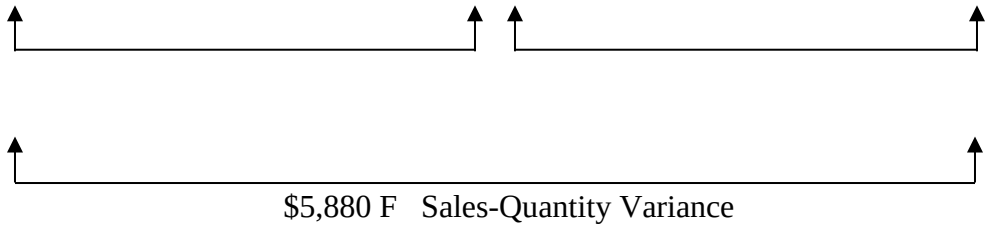
| **Bevo Energy Drink Inc.** | Selling $ per unit | Var. Cost per unit | CM per unit | Sales Volume in units | Sales Mix | Contribution Margin |
|---|---|---|---|---|---|---|
| **Budgeted data for October** | | | | | | |
| Wholesalers | $13.37 | $12.88 | $0.49 | 712,000 | 80% | $348,880 |
| Retail | $14.10 | $13.12 | $0.98 | 178,000 | 20% | $174,440 |
| Total | | | | 890,000 | 100% | $523,320 |
| **Actual Results for October** | | | | | | |
| Wholesalers | $13.37 | $12.88 | $0.49 | 756,000 | 84% | $370,440 |
| Retail | $14.10 | $13.17 | $0.93 | 144,000 | 16% | $133,920 |
| Total | | | | 900,000 | 100% | $504,360 |

**Additional Information**
1. Budgeted industry market size = 3,560,000 units
2. Actual industry market size = 4,000,000 units

**From last page**

| **No Name I** | **Static Budget** |
|---|---|
| Actual Quantity Sold (total) 900,000 | Budg. Quantity Sold (total) 890,000 |
| Budg. Sales Mix .80, .20 | Budg. Sales Mix .80, .20 |
| Standard CM per unit .49, .98 | Standard CM per unit .49, .98 |

| | **No Name I** | **No Name II** | **Static Budget** |
|---|---|---|---|
| | Actual Market Size | Actual Market Size | Budg. Market Size |
| | Actual Market Share | Budg. Market Share | Budg. Market Share |
| | Budg. Sales Mix .80, .20 | Budg. Sales Mix .80, .20 | Budg. Sales Mix .80, .20 |
| | Standard CM per unit .49, .98 | Standard CM per unit .49, .98 | Standard CM per unit .49, .98 |
| Wholesale | | | |
| Retail | | | |
| Total | | | |



$5,880 F Sales-Quantity Variance

Another former student's story about market-share and market-size variances…
In 2018 I had a full-time MBA student who owns a food truck. He said there is a website that estimates how many people will be at ACL Music Festival, Trail of Lights, Eyore's birthday, various festivals, etc. Then after the event the website lists how many people actually went. My former student said he went and sought out the website after my class on sales variances. He told me with the information on this website he is able to calculate is market-share and market-size variances. He said calculating this information has been a great piece of information in running his food truck. Calculating his market-share vs market-size variances per event tells him if his F or U Sales Quantity variance was due to the event (more or less people showing up) or from his performance at the event (menu, food quality, marketing, word-of-mouth) against the other food trucks at the event.

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Another student…

From: xx
To: Lendecky, Brian
Subject: Re: Our discussion after class

…what makes it more challenging is that we don't know how the competitors are doing. There is a secondary rental market that cannibalizes the sale of our equipment that is doing great (we are not involved in rentals). And the little sales feedback I get is qualitative about a specific order and lacks a macro industry view. We need to get a better feel on how much work we are winning/losing. We have a relatively high quote-to-order ratio, but an unknown actual demand-to-quote ratio (aka Level 4 analysis). We stop at your so-called Level 3 analysis. So, I am going to try and add the Level 4 analysis because I think breaking out our Sales Quantity Variance into Market-Share and Market-Size Variances will be extremely beneficial to our executive team. I will keep you posted.

(Note from Brian Lendecky – the follow-up e-mail simply said "I think I just secured a promotion." 😊 )

**Wrap-up – How and why does management use variances?**

For managing the business:

1. The goal of variance analysis is for managers to understand why variances arise, to learn, and to improve future performance.

2. General Rules for Analyzing Variances (key word here is "general")
    a. Investigate all significant variances, whether favorable or unfavorable.
    b. examine trends
    c. recurring
    d. consider the total picture

3. For Performance Evaluation:
As we've seen simply seeing a U or F shouldn't be used for performance evaluation. What is important is the reason behind the U or F.

4. From a Full-Time MBA student two weeks after taking our Final Exam. The e-mail included a picture of Bernie Sanders.

-----Original Message-----
From: xx
Sent: Wednesday, May 17, 2017 10:50 AM
To: Brian Lendecky <Brian.Lendecky@mccombs.utexas.edu>
Subject: Performance Management

Hey Brian,

I'm sitting in the Senate Committee on the government budget as part of the D.C. Campus class. Man, could these guys use your class! If I heard correctly, it sounds like 18 agencies don't even report budget discrepancies - no control.

That's Bernie Sanders in the attached picture. He sounds exactly the same in person.