PLEASE NOTE: These are rough notes only, intended to help you think through the case.

Exam solutions are expected to be in fully developed sentence and paragraph form.

Vershire:

Issues

Is the budget process effective and efficient at achieving corporate goals

Are the responsibility centers properly defined: sales & plant

KSF

Customer Service
On-time Delivery
Quality: NOTE - all manufacturers have basically same quality. Can't let it slip!
Cost

Background

Can division is one division of Vershire
It is one of the largest mfgrs of aluminum cans in the US
Sales growth slightly outpaced industry: indicating that they must be doing better on the KSFs
Lots of competition: over 100 other manufacturers of aluminum cans
5 companies have 88% of market
Buyers can easily purchase elsewhere
Impossible to differentiate one's business, other than on quality, customer service, deliver
(Must consider… who controls these things?)
If customers are not happy, they will just go elsewhere
A number of small customers, but contracts are negotiated by Coke or Pepsi, so
buyers have a lot of "clout"

Suppliers also have a lot of "clout" - as there are 4 main suppliers of aluminum products
(2 also make cans)

STRENGTHS: Meeting key success factors; good reputation; strong market share, internal communica
WEAKNESSES: Cumbersome budgeting process; may not be as e&e as desired
OPPORTUNITIES: Might be able to increase market share
THREATS: Competition; lack of differentiation; negotiations with coke/pepsi

Financial Analysis

Costs of Manufacturing Cans

Raw Materials	64	
Labour	15	79
Marketing / Admi	9	
Transportation	8	
Depreciation	2	
R&D	2	21
	100	100

Since maket is very competitive, cannot become profitable by raising prices; have to compete on cost c
So, who controls these costs? What do these costs tell us about the structure at Vershire?

Current Management Control System

The Can Division has two line managers: VP of Manufacturing & VP of Marketing

Budget is primary tool to direct each division's efforts to common corporate objectives.
Budget process is yery time consuming - driven from bottom up, and from top down,
with various reviews along the way.

Sales:	***Sole responsibility for price, sales mix, and delivery schedules***	
	Involves review by field, division, and headquarters	
	Focus of corp review is to ensure that assumptions were uniform	
	and targets were reasonable and achievable	
	Goals:	improve divisions competitive position
		evaluate actions taken to increase market share
		consider capital expenditures
		improve cost efficiency, product quality, delivery methods, service : KSFs
	Once set, & all are satisfied, budget becomes a fixed objective & each district is resp	
		for its own portion
Manufacturing:	***Responsible for plant operations and plant profits***	
	Sales budget is broken down by pant, then by price, volume & end user	
	Each plant budgeted gross profit, fixed expenses, and pretax income.	
	Profit is sales budget less budgeted variable costs and fixed overhead budget	
	Plant's engineering dept determined standard costs & cost reduction targets	
		budgeted cost reductions; unfavourable variances from standard, fixed cos
	Before finalizing, controller staff visited each plant for 1/2 day (e & e ?)	
		Plant manager could discuss unique factors; controller could discuss wheth
		budget was in line with corp goals - and provide support to plant
	Plant budgets submitted to division head office, then to general manager	
		Plants might be asked to make adjustments if not in line with corp goals
	Once set, plant manager is responsible for this budgeted profit, even if sales level fall	
Issues:	Once set, plants and sales are held to their budgets	
	It is up to them to work out any issues that might arise between themselves.	
	EXAMPLE: Customer with rush order	
		Sales manager is responsible to get product to customer
		Plant has to comply with needs of sales
		Customer is always primary concern
Evaluation:	Variance analysis sheets used to track results	
	Plant managers required to explain any variances	
	Fixed costs examined to ensure plant managers carried out their various programs	
Rewards	Only "capable" managers were promoted - based on profit performance	
(So, who cares…	Compensation packages tied to achieving profit budgets	
	Efficiency charts highly publicized, even though there is inherent unfairness in compari	
		plants that produced different products, requiring different set up times
	Some plants ran internal competitions to increase e&e	

	Responsibility Centers						
		Sales: Revenue Centre					
		What exactly do the sales people do????					
			More like order takers, don't really generate new business				
		Plant: Profit Centre		SHOULD THIS BE EXPENSE CENTRE ONLY?			
			Look at the cost breakdown: who controls these costs?				
			In a "mature market", who REALLY controls sales?				
			Who, REALLY controls revenue & market share?				
Recommendations:							
	Are there things that could be improved upon?						
		MUST STATE AN OPINION AND SUPPORT WITH CASE FACTS!					
	Budget Process	Is the budget process effective? Is it efficient?					
		Would a more flexible budget help - or hinder?					
		Focuses on KSF & Customers					
		What do YOU think?					
	Responsibility Ce	Centralized or Decentralized?					
		Keep as is, or make any changes?					
		What happens with investments in this case?					
		Must always keep in mind the type of industry and the type of market					
		What do YOU think?					