

Cathys clothing case study

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Cathy's Clothing Case Study Business Memorandum Memorandum The New England Regional Manager Coastal District Manager for Cathy's Classic Store
Date: 10/12/2011

Re: Bonus provisions to managers in the Coastal District

Following my agreement with the New Haven and Boston Stores' managers to compensate them on performance grounds with bonuses; I prefer to inform you that the deal is due this month of May. I would like to advise on the financial and strategic considerations in the matter. Concurrently, the expected impact on the concerned managers and financial issues of the District are critical (Drury, 2007). Similarly, I will highlight the advantages and disadvantages of ratifying the proposed bonus plans.

Considerable key factors (both financial and strategic)

While taking financial considerations in implementing the bonus provisions for the Coastal District stores, I will evaluate whether the stores have met their set targets in order to earn the stipulated bonuses (Armstrong, 2007).

Evidently, New Haven and Boston have surpassed their benchmarks. For the month of May, New Haven Store has registered sales of \$628, 000 against the required \$570, 000 hence automatically qualified for the bonus.

Concurrently, for Boston, the 12% of \$549, 500 (sales) is \$ 65, 940 (net income goal required for the month). Fortunately, the store the store registered a net income of \$110, 943. It surpassed the target thus qualified for the bonus.

Another financial factor I would consider in evaluating the proposed bonus plans for Boston and New Haven incorporates the overall performance against expenditure. It is evident that the expenditure in advertising for Boston and New Haven stores are \$5, 300 and \$53, 000 respectively for the
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month of May. This contradicts the ultimate net income, which is \$110, 943 for Boston Stores and \$70, 992 for New Haven Store. I consider such differences and reward any store that spends strategically and sparingly on their daily business operations. Financially, this indicates some sense of responsibility and obedience for the business (Crosson & Needles, 2010). The managers in the performing stores should get some bonuses besides the stipulated ones. The aspects of cost and revenues are critical in the realms of bonus implementation.

Strategic considerations will include customer care and prompt services. I will consider the stores in the realms of their customer attraction endeavors and how they uphold the brand name of Cathy's Classic Clothes. This will be proportional to the value of sales registered per store. This will affect even the Portland Stores, which is not under the scheme. I consider such factors to be influential in decision-making, fair compensation, and motivation of all store managers (Warren, Reeve & Duchac, 2011).

Expected impact on managers' behavior under the proposed bonus structure

I expect the proposed bonus structures to influence the store managers' performances positively in the realms of sales and accountability. Obviously, the store managers will strive to perform better as they uphold the virtues of the responsibility accounting. Conversely, the Portland Store's manager will continue to perform dismally since the store is under no motivational provisions (Armstrong, 2002). The concerned managers will reduce operational costs as they expand sales with cheap but striking strategies. Evidently, the Boston Store's manager has reduced costs remarkably hence registering substantial net income.

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Expected impact on the financial results for the 3 individual stores and the District at large

I expect the proposed bonus structure to reduce the net income since the bonuses will deduct from ultimate net revenue. Since the Boston and New Haven stores' managers have qualified for bonuses, they will demand their pay. Conversely, the Portland Store will remain unmoved financially since its manager is under no bonus plan. Additionally, the Coastal District as a whole will register numerous sales and increased net income. However, the issue of bonuses will reduce the ultimate net income (Crosson & Needles, 2010). It is crucial to agree that bonuses will financially enhance the concerned store and the overall district. This forms the ultimate expected impact.

Advantages and Disadvantages of implementing the bonus plan for May

One advantage of implementing the bonus scheme in my district is the motivational aspects it will have on the concerned managers in the subsequent months. Managers will strive to complete their targets promptly thus work for extra cash. This will improve the performance of the entire district and the company at large. One noticeable disadvantage is the aspects of additional costs to be incurred by the district in compensating the managers of Boston and New Haven stores. The implementation of multiple bonus plans is crucial in avoiding unhealthy competitions among managers and allowing managers to choose bonus plans that suit them

(Bhattacharyya, 2007). Inversely, the plan might disfavor some managers leading to reduced performance. Additionally, the Portland Store's manager might envy other managers in the district, and this might affect the company on personal relations. The plans to use in implementing this bonus provisions involve a stepwise introduction of each arrangement.

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