

Body glove case

[Life](#), [Love](#)



Question 1: For what purpose does Body Glove use its budgeting system? Which purposes are emphasized? The purpose of Body Glove's budgeting system was to project expenses and forecast revenues for the upcoming fiscal year. The budget is used to monitor performance (but not linked to performance based incentives) and detect early warning signals of problem areas. The budgeting system allows the managers of each department monitor their expenses in which budgets have been set for materials, salaries and legal expenses amongst others.

Question 2: Trace the steps in the development of the budget at Body Glove. What are the key events that relate to the timing of the steps in the budgeting process? 1. The budgeting process of Body Glove began in November 1990. The management team estimated sales growth for 1991 and the national sales manager, Kurt, then broken down these forecasts to provide the total projected sales per month per product. 2. Each department was requested to developed monthly projection of key expenses such as materials, salaries, legal expenses, etc. for the upcoming fiscal year.

3. Russ (president of Body Glove) consolidated, reviewed, and discussed them with his managers, suggesting changes if any changes were necessary as some managers were too optimistic with their forecasting. 4. The budget was finalized by the end of December 1990, by Russ. 5. Throughout the fiscal year the budget was used to ensure figures were met and monitor the performance of departments. It was also used to detect early warning signals of problem areas by comparing actual performance on monthly basis and re-evaluate departments not achieving their budget targets. It was not linked to performance based incentives.

The key events that led to the budget being established were the fact that production was scheduled based on historical and pre-book data which meant that they did not have enough inventory and were one month behind getting products into stores, which had two main impacts 1) the cost of inventory stock outs was greater than inventory carrying costs 2) the reputation of the organisation was impacted. The budgeting process meant that managers based their forecasts on a wider scope of information rather than just pre book sales.

Question 3: The case says that Body Glove never prepared a budget prior to fiscal year 1991. How can a company like Body Glove function effectively without a budget, or can it? Body Glove had a great product with the neoprene wetsuits and had gained significant market share through its niche fun life style image which challenged competitors. The business had a small but loyal customer base, and had attained no. 2 market share. Whilst the business had significant growth, I don't believe it ran completely effectively.

An extract from the case state mentions they lost \$1 million in sales due to a shortage of inventory and its forecasts on future sales were not accurate.

Anthony, Hawkins & Merchant (2008, p. 740) assert ' If the total costs in a responsibility budget are expected to vary with volume, as is the case in most standard cost centre's, the responsibility budget may be in the form of a variable budget. Such a budget shows the planned behavior of costs at various volume levels.' If the company was able to better understand its costs, and forecasts for growth it could have made the necessary investments in upgrading the manufacturing operations to meet the

demand. Body Glove's reputation was at stake and in 1990 the company decided to break away from employing 'familyonly' which may have been a sign that they needed some 'fresh eyes' to drive growth.

Question 4: What changes to Body Glove's budgeting and review process would you recommend, if any?

* Body Glove needs to undertake some major strategic planning to ascertain company key objectives and ensure that the budget reflects these plans. * Managers should not be the final people to establish the key figures relating to the budget, this should be done separately based on information provided by previous years data (a board or a strategy department should be in charge of this) to eliminate bias in forecasts

* The president needs to ensure that the goals of the organisation are communicated clearly throughout the company and how each department directly relates to these goals. Calling a meeting with personnel from each department may be important in communicating this information. * Each individual should relate to the budget. For example, the sales forecasts are dependent upon the work of the sales team and therefore should be a motivator for them to perform. Achieving outcomes should relate to performance incentives, this includes managers also.

Question 5: If Body Glove continues to grow and, perhaps, diversifies, what changes will have to be made to the budgeting and review process?

Strategic budgeting is imperative in any organisation. Leland (2003) asserts 'The behavior or capabilities of the large and complex organisation cannot be

fully comprehended by analyzing its individual parts. Because of its complexity, the organisation or system, displays emergent behaviors arising from the relationships among those parts.'

Strategic budgeting is about comprehending the whole organisation in order to understand emergent behaviors. It requires a top down approach, not a bottom up approach and at the present the budget system is not really valued by the organisation. The budget system can be easily modified, managers (whose forecasts will be biased) are setting numbers and the outcomes of the budget are not linked to organisational performance which would leave any manager to wonder what the disincentive is not to meet the results.

A long range plan should be established so that Body Glove can start some long range formal planning, they should also look at a Strategic Human resource approach whereby they incorporate these long term goals into the behaviors and performance of staff.

How do these outcomes relate to an organisation that you are familiar with? Whilst at GSK, each year in February the company would commence the working year with a sales conference where all sales staff would meet and the opening day would include a talk by the managing director on the goals of the organisation. The MD would talk about previous year performance, what worked and what didn't work so well and key learning's.

We were then told of the total operational budget and this was broken down into sales for our various products. As sales teams, our managers would then

discuss with us which Key performance indicators we would be measured by, which was a mix of sales results and behaviors. Throughout the year, our direct managers would often re-communicate the budget to us and we would receive a monthly break down of targets and results.