

Vershire

Business



The case puts its focus on Vermeer's aluminum can division. The Dillon has plants throughout the United States, each serving its geographic region. Its customer ranges from soft drink bottlers to small and large breweries. The Versifier Company holds the largest share in aluminum beverage can market in US and they are growing faster than its industry average.

The major issue that the company faces is that customers in the industry are not reluctant to switch to another supplier if certain standards in quality and service are not met.

Versifier's main problems are its planning, internal control, and placing responsibilities on the correct managers. Planning System The first issue in planning system is that initial sales forecast is not made by divisional managers who are responsible for the operation management of each division. Rather, the sale forecast uses assumptions derived entirely from corporate headquarters' analyses.

Such assumptions include inventory carryovers, packing trends, and etc. The forecasting method also lacks a decentralized mindset which is vital when there are different markets and customer preference.

By using a centralized system, the company's decisions do not accommodate for these differences. This would greatly hinder the company's performance in sensitive markets that require more attention to socially acceptable practices. Lastly, the plant managers are responsible for the budgeted profits since their performance is evaluated based on their plants' profit.

However, they do not possess full control on those profit components, Sales budgets are made by the district sale managers who are less knowledgeable on the logistics of the plant than the plant managers do. This may result in unfairly budgeted profit numbers. Plant managers should not be responsible for profits. One of the main tasks of the plant manager is to create a manufacturing budget that will dictate the expenses of the plant.

Meanwhile, the sales department holds control over the sales budget less budgeted variable costs and fixed cost," it does not make sense to hold the plant managers responsible for profit.

With only full control of the expense portion, plant managers do not have any say in the sales budget. If the sales department develops a poor sales budget with illogical priced goods, it would greatly affect profit performance. Furthermore, unforeseeable problems that arise must be adapted to. The budget created cannot be changed on the go, which may cause unexpected increases in expense since they were not accounted for. With customers as the first priority, a sales manager has the power to force a container to be shipped, regardless of how it would affect profit performance.

Assessment of the evaluation system The performance evaluation system for a plant (Exhibit 2) mainly focuses on net profit, which is calculated by subtracting expenses from sales. Plant managers have no direct control over the variances regarding sales and these are primarily marketing departments' responsibilities. Furthermore, the variable costs are based on sales volume rather than production level. The variances regarding these costs would be extraneous as plant managers have no control over the sales.

Thus, the tries of the evaluation system are irrelevant to the actual performance of plant managers and the effectiveness of plants.

The individual plant level reports (Exhibit 3) contain more details regarding the variances stated in Exhibit 2. As the variances in Exhibit 2 are unreliable to measure the performance of plant managers, these details are pointless to be used as references of the performance evaluation. Also, the division level reports (Exhibit 3) are comparing plants that produce different products requiring different setup times.

Therefore, the manufacturing efficiencies re not reliable, either. By using this evaluation system, the plant managers may be penalized by the deficit of marketing department, which is not plant managers' obligation.

On the other hand, they may be overcompensated when sales volume exceeds expectation. RECOMMENDATIONS 1 . Decentralized System

Divisional managers should be authorized to make their own sales forecast and receive approval from the head office directly so that the accuracy of the forecast will be improved.

This would also improve the efficiency of reviewing and adjusting the edged.

2. Split the responsibility of profit performance Instead of placing the whole responsibility of profit on the plant managers, the company should divide it into revenue and expenses.

Since sales managers have been given tasks that influence the performance of sales, they should be given the responsibility of maximizing revenue. Plant managers are tasked with cost standards and cost reduction. Their

responsibility should be to optimize the plant's resources and reduce expenses in areas possible.

Promotion and incentives will be given to managers based on their performance in the factors that they can control. This way, the company will be maximizing their profit and also accurately compensating the managers for their performance. 3.

Improve comparisons of manufacturing manufacturing efficiencies between plants and divisions, diminishing the effect of products difference and setup time difference between plants is necessary. Plants and divisions with higher manufacturing efficiency should be compensated so that both managers and employees are motivated to work harder.