

Case study 4.1 vershire company

Business



CASE SUMMARY Vershire Company was a diversified packaging company with several major divisions. In their organization chart, reporting to the divisional general manager were two line managers, vice president in charge of manufacturing and marketing division. These vice presidents headed all division's activities in their respective functional area. The Aluminum Can – which was one of the largest manufacturers of aluminum beverage cans in the United States – division's revenue was growing slightly faster than the industry average. However, most of its customers had several package suppliers to control the quality and price.

To effectively compete with other suppliers and maximize its market share, company had implemented a rigid budgetary control system for both production and marketing departments. PROBLEM STATEMENT 1. Outline the strengths and weaknesses of Vershire Company's planning and control system. 2. Trace the profit budgeting process at Vershire, starting in May and ending with the Board of Directors meeting in December.

Be prepared to describe the activities that took place at each step of the process and present the rationale of each. 3. Should the plant managers be held responsible for profits? Explain! 4. How do you assess the performance evaluation system contained in exhibit 2 and 3? 5. On balance, would you re-design the management control structure at Vershire Company?

ANALYSIS 1. The planning and control system also presents several strengths and weaknesses which are going to be explained in the following paragraph: Strengths of the planning system: Divisional managers are required to predict market conditions and capital expenditures five years in advance and prepare a forecast for the subsequent two years.

This is a good way for the divisions and the company as a whole to anticipate sales, income, and capital requirements that are necessary to make future decisions and remain competitive. * After the forecast is made by the head office divisional managers are allowed to give their input regarding the budget, which enhances the quality of the budget since divisional managers have a more realistic outlook on what sales will be for the coming year. During the visit of the corporate controllers, plant managers have the opportunity to explain their situation and discuss in detail specifics that affect their plants. This will allow for a more accurate and complete budget to be produced. Weaknesses of the planning system: * The initial sales forecast and its underlying assumptions shouldn't be made by the head office as divisional managers are in charge of managing the operations of each division, they should be given the responsibility of making their own.

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