The STET Case

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The STET company manufactures and sells sports and casual wear. Its headquarters are located in Paris. Founded in 20n-11, the company started to sell a single type of sportswear: track suits. A few years later, a second product line was developed: golf shorts. In 20n-1, the general management decided to launch a third product line: parkas made of a new kind of gore-tex, and for which the market seemed very promising. Most of STET's clients are sports outlets, spread all over the country.

Due to the evolution of its business activities, the firm has experienced tremendous changes, especially in terms of management control processes. This function was initially managed by an administrative manager assisted by two employees. As a result of the development of new product lines, the company has undergone important organizational restructuring. By the year 20n, the company is organized in three functions having each specific missions and goals:

- **Production**: this department corresponds to the single plant of the company, which is located in Jura. It includes a procurement department and two workshops
- **Sales**: this department is composed of a team of salespersons, who spend most of their time prospecting and visiting clients
- **Headquarters**: this includes general management, purchasing, finance and human resources departments

The diversification in terms of products and markets, as well as the firm's growth and its organization by services located in different areas and having different constraints and goals, have lead to a rationalization of the management control process. This rationalization effort has lead the general management to clearly restate the strategy and goals of the company. Therefore, the primary goal of the general manager is to guarantee STET's perenniality in a context of increased competition and unstable markets. Increasing profitability is consequently his number one priority, especially after the alarming results of year 20n. The operating result/turnover ratio (13.1%) is far below the target. Accordingly, the general manager has set a new target of 18% for 20n+1. This will not be reached easily even if the parka market seems very promising. In terms of strategy, the general management has decided to position the company on the middle-range segment as the market is not ready to accept high selling prices. For this reason, it is essential for the company to keep down its costs.

However, if it is the general management's task to formulate the overall strategy, operational managers benefit from sufficient latitude to manage their own department. They can choose and implement, according to their means, the suitable action plans, as long as they remain coordinated one with each other. Also, the general manager has asked the management controller to implement a budgeting process that is consistent with those principles. According to this process, operational managers have to prepare a first draft of their budget and submit it to the general management.

Today is late September 20n. Operational managers are about to prepare their budgets for the coming year (20n+1). A special meeting has been set for late October to discuss the budget.

Case methodology

You are organized in three groups corresponding to the three functions of the firm (Production, Sales, Headquarters). Each function has to prepare its own budget before presenting it to the general management.

To do this, each group has first to:

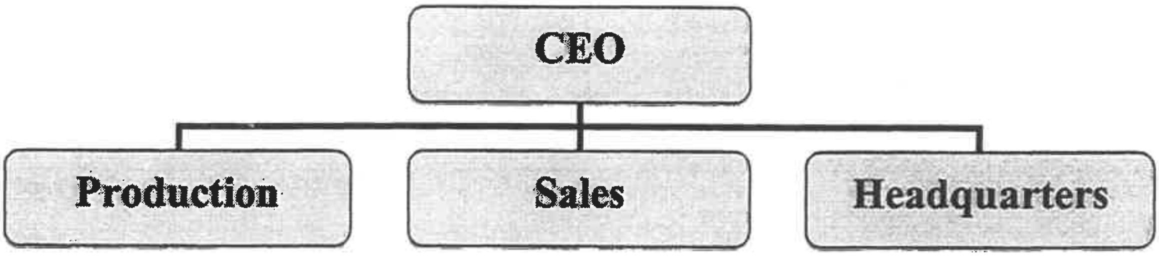
- Elaborate its action plans for 20n+1. To facilitate this task, a first reflection has already been done. This corresponds to the various scenarios described in the specific text of each function
- Coordinate itself with the other two groups, so as to guarantee that its decisions are compatible with the information held and decisions made by the two other functions
- Prepare a global and monthly budget for its department

Second, the budgets of the three functions have to be consolidated in order to elaborate the firm's global budget and the firm's cash budget.

For simplification reasons, it will be considered that all increases in price, all new hiring and/or firing, and all investments are effective on January the 1st of the incoming year.

APPENDIX 1

Organization chart



- Procurement
- Cutting workshop
- Assembly workshop

- Finance & investments
- Human Resources
- Purchasing

APPENDIX 2

Financial statements for the year 20n

INCOME STATEMENT (in euros)

REVENUES	
Sales[1]	**36,175,000**
OPERATING EXPENSES	
Cost of material consumed	6,031,250
External services (rent, energy, telephone, etc.)	4,410,137
Wage expenses	18,688,239
Depreciation and amortization expenses	1,038,178
Tax expenses	244,000
Other operating expenses	1,021,410
Total	**31,433,214**
OPERATING INCOME	**4,741,786**
Financial expenses	288,110
PRETAX INCOME	**4,453,676**
Income tax expenses	1,484,559
NET INCOME	**2,969,117**

[1] Sales for the year 20n include :

- Golf shorts : 500,000 units sold at € 20.1 each
- Track suits : 500,000 units sold at € 35.2 each
- Parkas : 125,000 units sold at € 68.2 each

BALANCE SHEET (in euros)

ASSETS		LIABILITIES & STOCKHOLDERS' EQUITY	
Current assets		**Liabilities**	
Cash	185,130	Accounts payable	1,913,000[2]
Accounts receivable	7,670,000[3]	Accrued expenses and other liabilities	3,531,581[4]
Inventories	3,909,870[5]	Bank loan	2,335,000[6]
Other current assets	216,660[7]		
Noncurrent assets		**Stockholders' equity**	
Office equipment	990,000	Contingent liabilities	162,000[8]
Motor vehicles	165,000	Paid-in capital	1,900,000
Machinery	1,490,000	Retained income	4,785,079[9]
Total	14,626,660	Total	14,626,660

[2] Accounts payable includes textile and supply kits bought at the end of year 20n and to be paid in 20n+1:
- Textile bought in October € 582,666
- Textile bought in November € 582,666
- Textile bought in December € 582,666
- Supply kits bought in November € 82,500
- Supply kits bought in December € 82,500

[3] Accounts receivable includes November and December sales:
- November sales € 3,580,000
- December sales € 4,090,000

[4] Accrued expenses and other current liabilities include:
- Income taxes payable in March € 1,484,559
- Wage expenses € 1,343,000
- Salespersons commissions € 34,780
- Collected VAT € 669,242

[5] Inventories are composed as follows :
- 79,000 units of golf shorts
- 5,000 units of track suits
- 75,000 units of parkas

[6] The long-term debt due within one year is equal to € 686,000
[7] Other current assets correspond to VAT to be deducted
[8] Under French GAAP, contingent liabilities include allowances for uncollectible accounts
[9] Net income for the year 20n is equal to € 2,969,117