of the reps' forecasts to come up with our own. One advantage of this procedure is that we can develop forecasts in more detail, by product lines."

"Then you're recommending that we abandon our mathematical approach to forecasting and go to a survey method. Is that right?" the president asked.

"Not necessarily. I am trying to give you an idea of the different approaches we can use and let you make the decision," Newman replied.

"Whoa! I have trouble with that. You're supposed to be the expert in market analysis, not us. We hired you to tell us what you think we should do. I want a recommendation from you without any equivocation," Pat Michaels firmly told Cori Newman what was expected of her.

Newman was inwardly shaken by Michaels's aggressive position but tried to maintain her composure. She replied, "Very well, you'll have my recommendation in writing Monday morning." After exchanging the usual parting words, she returned to her office to begin what would be a hectic weekend.

She mulled over the other forecasting alternative that she had not been allowed to present at the meeting. She had been about to tell her bosses that she could develop another mathematical model based on data other than employment. She would have to do a lot of statistical work to locate and validate such a series of information, but, after all, that was her job.

Cori Newman wondered if she should recommend continued use of a forecasting method with which management was familiar or if she should recommend switching to the survey of customers' buying intentions system.

Question:

1. What forecasting method should Cori Newman recommend that Precision Tools adopt?

CASE 12-3 AEROSPACE SYSTEMS, INC. (A)

Budget Reduction Policy

As Ted Sowinski, the chief executive officer of Aerospace Systems, Inc., stood before the fax machine, his face noticeably hardened as he read the message from NASA being emitted from the contraption's innards. Everyone in the room was aware of the subject of the incoming message, and all fell silent. They knew from Sowinski's face that the news was bad. Their contract for building a new space probe vehicle had been canceled, a victim of the budget cutbacks by the federal government.

This serious setback to the company's future was not unexpected. The board of directors had discussed the matter thoroughly at its last meeting and had directed management to institute immediate budget reductions throughout the company that would offset the revenues that would be lost because of the potential contract cancellation. Management was ordered to submit to the board its plan for those budget reductions at the next board meeting, which was to be held the first Wednesday of the following month, 22 days away.

As Sowinski took the message from the machine, he directed his assistant to assemble all of the company's divisional vice presidents for a meeting the next morning. The sole agenda was to be the execution of the budget reductions.

Bill Rooney, vice president of the company's electronics division, returned to his office after the budget meeting with the president and the other vice presidents. Despite his highly emotional protest, he had been firmly directed to reduce the budgets for his division by approximately 20 percent. He had contended that it was totally irrational to cut the budgets of the company's one division that was still profitable and whose revenues were growing. The other executives had been in no mood to hear his case. Some had even told him that he could cut costs without hurting revenues. It struck Rooney that everyone in the room seemed to think they knew more about his division than he did. Nevertheless, he

was stuck with the order and knew that any appeal to higher echelons would be not only ineffective but also career suicide.

Rooney directed his assistant to call a meeting of all the division's department heads. The agenda: cutting their budgets.

Michiko Takanaga, manager of sales operations for small consumer electronics, returned from the meeting furious. She had been ordered to reduce costs for her department by $12 million. The method by which she was to do it was left largely to her.

Most of the meeting had been devoted to how best to accomplish the reductions while doing as little damage as possible to ongoing profitable operations. Some of the department heads thought that they would concentrate on getting rid of marginal workers. Everyone agreed that the key to meeting the budget mandates was cutting payroll costs and the resultant lowering of the costs of the benefit package, payroll taxes, and workers' compensation insurance. The total benefit package offered by the company to all employees amounted to 32 percent of payroll. FICA taxes plus workers' compensation cost 17 percent of payroll. The department generated revenue of $85 million in 2000, with a total budget of $76 million. Total payroll was $18 million. The department had 331 employees, 91 of whom were sales reps. The sales reps' average compensation was $76,000 a year. Field-selling expenses for 2000 were $2.9 million, of which travel, lodging, and meals accounted for about $2 million, with the rest going for entertaining customers.

Takanaga decided to confer with her assistants about how the budget reductions should be done. She could just slice everything 20 percent across the board, but that seemed irresponsible to her. She believed that it was her job as manager to make some difficult decisions, and this one was certainly going to fall into that classification.

Since being ordered to do it, she had thought of little else but how she could make the budget reduction. She realized that just about all of the reductions would have to come out of payroll and the resulting savings in the benefit and tax package. Previous budget squeezes had reduced administrative overhead items to bare bones.

One alternative Takanaga was contemplating was terminating enough sales reps so that the entire $12 million reduction would be from payroll costs and benefit packages. Naturally, she thought of trying to keep the best producers and letting the marginal ones go, but she suspected that she would be cutting into some reps who were good, solid performers even though their records placed them in the lowest quartile of profit producers.

Another alternative was to try to get the sales reps to accept a pay cut sufficient to allow everyone to keep his or her job. She knew that would be a difficult selling job. How could she get a rep who was making $100,000 a year to accept $80,000 just so she wouldn't have to fire anyone? But then she realized that strange things do happen. One offshoot of this thought was to offer to keep the reps who would otherwise be fired if they would accept, say, a 40 percent pay cut. A rep who was making only $60,000 a year might work for $40,000 if it meant keeping his job and benefits package.

The problem weighed so heavily on Takanaga's mind that she talked of little else that evening as she dined with a friend who was a sales manager for a large business machines manufacturer in Japan. He was of the opinion that she would have to redesign the entire sales force so that the sales job could be accomplished with fewer reps. "You'll have to redesign the territories, replan your call patterns, stop calling on some people, use the telephone a lot more, hire some cheaper help for inside selling, get rid of your expensive sales reps, and hire new ones for a lot less money. You're going to have to work like the devil to find a cheaper way to cover your customers."

Takanaga was not sure that her friend's plan could be done. A flat across-the-board reduction of all budgets appealed to her. After all, any damage done could easily be blamed on top management's mandate to cut the budgets.

Question:

1. What advice would you give Michiko Takanaga on how she should reduce her departmental budgets?