A MANAGEMENT CONTROL MODEL DESIGNED FOR A DISTRIBUTION COMPANY

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Generally, the concept of management control is associated to the production companies more than to the distribution ones. That is why, the research team considers that creating a management control model for the distribution companies should interest especially the practitioners. In this paper we will present the steps to be followed in the elaboration of a management control model based on the targets set by the company and on the reports that must be prepared for showing the way those targets are achieved. The model proposed will be elaborated based on the identified activities performed in a distribution company and on its responsibility centers.

KEY WORDS: Management control, distribution, performance, reports, responsibility centers

Introduction

Generalizing a reflection on strategy and management control within the Romanian companies is rather recent. The environment changes and especially the changes in the nature and the dimensions of the markets due to the globalization and normalization raised real questions for companies, generated a strategic thinking and made the appearance of an efficient management control compulsory.

The main mission of the management is to integrate as well as possible the external and internal complexity especially by searching for a temporary balance between coordination and anarchy by elaborating procedures and organizational structures that take into account the expectations of the personnel. But this mission won't be fulfilled unless the system called *enterprise* is subject of control.

The managerial accounting corresponds to the adoption of a new way of structuring the expenses in order to obtain a cost of a specific object such as the functions, processes, activities and in the end the finished goods produced and sold. The costs obtained are useful for the managerial decisions concerning the markets, distribution or the analysis and the evolution of the operational processes such as, for instance, the productive processes. Each cost method involves an accounting modeling of the company, a simplified face of the reality we wish to follow and control. This reality corresponds to operational acts that target producing a good or a part of it that fulfills the clauses of a distribution relationship (Sole, 2006).

Nowadays, the economic reality is characterized by uncertainty and strong competition asking from the entities that want to survive the same concern about their mission and vision, their stability in time, their adaptation to the changing conditions. How can you know if the entities follow the correct direction in order to achieve their targets; if they didn't miss their aim; if the instruments they use were well selected and applied? The answer has to be checked in control in general and in management control in particular.

The management control is a domain that interests the managers as they want to find out if the targets were achieved, with what effort, with what failures, why, who is responsible? How do you have to act in the future? We try to answer these questions in this article, which is concerned with the distribution and its characteristics, wishing to obtain adequate solutions.

Literature review

The concept of management control and the models of presentation for specific types of companies was studied by other authors throughout the time.

Mann R., Mayer E. (1996) have presented in their work a new concept of management: management control. Their work was based on a case study for a production company.

Bruggeman W., Everaert P., Levant Y. (2005) were among the first researchers that presented an innovative “method of cost modeling”: the time-driven ABC method. In this article they presented examples of time equation and they could even formulate a rule to be used in order to build these equations in general. Their case study was conducted within a distribution company and they consider it is a research as they were pioneers.

The impact of the financial structure on decisions was studied by Saulpic & Tanguy (2004) on the example of burgundy wine merchants.

Research methodology

In order to explore real-world implementation of a management control model, we used the fundamental research (for the literature review) and we conducted case study research at distribution companies. A case study is the most appropriate research method to explore the reasons for a particular accounting practice (Scapens, 1990; Otley & Berry, 1994). As such, this case study represents a preliminary investigation of an innovative management control model, which is intended to generate ideas for testing at a later stage.

Since the purpose of our study was to learn from practice, we conducted interviews. Rather than assuming that the existing literature had covered all aspects of management control models we tried to uncover new concerns as much as possible. Therefore, the direction that every interview took was unique. Complete access was given to the activity databases. The authors approached these companies because of a business contact between one of the authors and the company. In a sense, these companies selection was not random, although it helped tremendously to overcome one of the biggest practical difficulties of conducting case study research, i.e. gaining access to companies (Baxter & Gua, 1998). These companies are attractive because they are some of the biggest companies in its area.

Management control for the distribution companies

Do the entities in the distribution area in Romania have a management control organized as a distinct department with functions and relationships with the other departments?

We can give a negative answer without being afraid to be wrong. However we still have to admit that some objectives of management control are achieved by other departments, without being identified as the attributes of the management control. As a consequence we can only suggest the organization of a distinct department that will have to pursue, analyze and report the information needed for the support of the managerial decisions concerning the achievement of the targets fixed on a short term as a step in reaching the strategic objectives. For this we consider that the information related to the costs is welcomed as it allows the computation of margins and results both at the level of the entity, groups of products and clients. As the generally accepted objective of each entity is customer’s satisfaction it is normal for the management to have complete information about the clients they interact with.

As a consequence, we suggest two types of analysis adapted to the distribution companies especially because of the diversity of customers they operate with. A first analysis is a global one, at the level of the entity and on the warehouses, connected to achieving the performances: turnover, cost of sales, gross margin, profit or loss, breakeven point, standard and real.

For this, a model of such a report could be presented in the following manner:

Table 1. The report for the global/warehouse analysis

ElementS	Real	Standard	DIFFERENCES		CauSeS
			-	+	
1. Turnover	X	X´			
2. Cost of sales	X	X´			
3. Gross margin (1 -2)	X	X´			
4. Other variable expenses	X	X´			
5. Total variable cost	X	X´			
6. Margin on total variable cost (3-4)	X	X´			
7. Fixed expenses	X	X´			
8. Profit or loss (6-7)	X	X´			
9. Profit or loss/Turnover	X %	X´%			
10. Gross margin/Turnover	X %	X´ %			
11. Margin on total variable cost/Turnover	X %	X %			

The data source for fulfilling this report can be: the budgets network, the financial and managerial accounting. If the total of the expenses according to their nature is offered by the financial accounting, for function and behavior classification we have two options, meaning: a development of the financial accounting or the managerial accounting as suitable. The situation presented is also functional at the level of the warehouses, because each warehouse corresponds to a center of profit, so it can present an elementary profit or loss account.

In case an entity is split into different area, the report will be fulfilled for the total company and for areas. The effect is connected to the adapting the price politics to the specific of each area in the circumstances of achieving the objective of global and zonal profitableness.

At the level of the groups of products, the computation and analysis of the profitableness imposes detailed information concerning the full cost, which are rarely, but not impossible, computed in the distribution.

As the cost of goods sold can be easily computed, the managerial accounting has to focus on the other expenses in order to find a reasonable absorption rate.

In this case the recommended situation could include the information presented in Table 2:

Table 2. The report for the analysis of the profitableness on groups of products

ElementS	Real	Standard	DIFFERENCES		CauSeS
			-	+	
1. Turnover on groups of products	X	X ´			
2. Cost of sales on groups of products	X	X´			
3. Gross marginon groups of products	X	X´			
4. Other expenses	X	X´			

5. Full cost	X	X´			
6. Profit or loss on groups of products (3-5)	X	X´			
7. Gross margin ratio (3/4 x 100)	X	X´			
8. Profit or loss ratio (6/1x100)	X	X´			

Nowadays, the literature presents two types of enterprises (Kotler & Armstrong, 2005):

- some orientated towards the competition;
- other concentrated on clients.

Obtaining a good product with a low cost is not everything; finding the right customer for your product completes the process. The concept of the client profitability splits the performance obtained by the economic entity in categories of clients or groups of clients, building a hierarchy. It starts from the premises that there are not profitable products, only profitable customers and not all the customers bring the same profit. It is necessary to delimitate the part of the profit that corresponds to each client or each group of clients in order to identify properly the consumers which participate the most in profit obtaining and to formulate some future strategies for the profit maximization. And the use of the financial reports cannot be avoided. Manufacturing a product only generates costs while selling it determines the profit.

"Our client our master" should be the guiding line of the companies nowadays. "The scope of an enterprise consists in creating and keeping the client" (Lynch, 2002). The companies owe their prosperity to the customers that choose their products.

By the profitability analysis on customers the customers which contribute in a more significant measure to the enterprise profit can be identified, as well as the customers who are completely not profitable (Curpăn, 2007). According to the "20-80" rule it is possible for 80% of the company's profit to be provided by 20% of the total number of customers. Sherden proposed to change this rule with the following: "20-80-30", first 20% of customers (according to the value of their orders) contribute with 80% to the enterprise profit and half of these profits are used to cover the enterprise losses generated by the last 30% of the not profitable customers (Sherden, 1994).

In the case of the analysis of the profitability of clients appears the problem of computing the cost on client. What does this cost include? The elements would be: the cost of goods sold, the specific cost for the customer (transport, sales agent expenses, telephones, service etc.), the administrative expenses quota. All this components offer the possibility to compute margins and results, allowing a management through margins. Such a report of the profitability of clients is presented in Table 3.

Table 3. The report for the analysis of customers' profitableness

ElementS	Client A	Client B	Client C	Total FOR THE ENTITY OR FOR THE AREA
1. Turnover	X	Y	Z	X+Y+Z
2. Cost of goods sold	X	Y	Z	X+Y+Z
3. Gross margin (1-2)	X	Y	Z	X+Y+Z
4. Costs for the client . client visits . telephones . transportation . invoicing	X	Y	Z	X+Y+Z

5. Client cost (2 +4)	X	Y	Z	X+Y+Z
6. Margin on client (3 – 5)	X	Y	Z	X+Y+Z
7. Administrative expenses quota	X	Y	Z	X+ Y+Z
8. Full cost for the client	X	Y	Z	X+Y+Z
9. Profit or loss for the client (1-8)	X	Y	Z	X+Y+Z
10. Gross margin ratio (3/1x100)	X%	Y%	Z%	average
11. Margin on client's ratio (6/1x100)	X%	Y%	Z%	average
12. Profit or loss Ratio (9/1x100)	X%	Y%	Z%	average

The grand total of the report has to correspond to the totals on entity or area. The report above has to include all the discounts allowed for the customers according to certain criteria, such as: faithfulness, seriousness, satisfaction, etc., in order to analyze the impact of discounts on the profit and thus on the future price politics.

The analysis on areas and distribution channels can be made for all the types of entities but especially for the ones that activate in the en-gross sector.

M. Ristea et al. (2007) proposes another model for the customer analysis.

Table 4. Customer profitability analysis

	The net turnover specific to the client "I" (assessed based on the sale price of the products)
-	Cost of sale specific to the client "I" (based on the products costs)
=	Gross margin (commercial) on sales
-	Specific costs to the clients (for example the marketing costs with the client "I")
-	Indirect costs allocated to the turnover (for example cost for maintaining the enterprise on market segments)
=	Profit/loss obtained from the commercial relationships with the client "I"

Such a formula should not be applied to all the situations. As the literature shows (Dumitru, 2006), "Exhaustive allocation of all the costs on the whole clients portfolio is very risky, preventing the managers to make right decisions. For example, the decision to renounce to a client, which apparently is not profitable based on a complete analysis of costs can determine the disappearance of a descendent spiral, in which the lost turnover not to be covered by a comparable reduction of costs. For this reason it is necessary to understand well how an enterprise operates, starting from the cause-effect relations, in order to have a just repatriation of costs on the costs objects. Cost objects can be products, services provided to the clients, costs with enterprise maintenance on a market segment".

CONCLUSIONS

The management control becomes a necessity for the entities including the ones with a distribution activity, because in spite of the characteristics everybody's objective is to assure and control the performance. The way to deploy the management control depends on everybody's knowledge about the quantity and quality of the information asked by the managers.

The reports that communicate the information to the managers have to be flexible, prepared in due time, adapted to the requests even if you cannot use a standard format (which could create problems).

The content of the reports is very broad, including both the financial and nonfinancial (qualitative measures) side of the business. An efficient management control keeps under pressure the entity and helps it to enroll and stay on the right course, in order to arrive to the point it aims.

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