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Using management accounting to lengthen the time frame of managers

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Key findings:

- Focus on a company's separate profit centres, discrete transactions and monthly budget achievement indicates it has a short-term orientation.
- Profitability arises over the long-term 'customer life cycle'. So managers and salespeople need to have lengthened time frames, redefined conceptions of effective performance and a focus on long lasting customer relationships.
- Building and maintaining long lasting customer relationships requires information gathering and use in a systematic process that can be measured.
- Changing the behaviour of employees to match these requirements involves challenging existing practices, attitudes and methods of communication.
- Performance indicators during the change should focus on both the process and the results, and employees and managers need to be trained in their use.

Introduction

In making decisions, managers normally consider the future consequences of the several alternatives they can choose from. In the early 1980s, management accounting was criticised for having a relatively short-term orientation. Traditional financial performance measures and management control, relying on ROI and the profit centre organisation, had emerged with an excessive focus on short-term financial performance. US executives, especially, were accused of focusing too narrowly on short-term performance (Kaplan 1984, p. 408-409). Since the beginning of the 1990s, several concepts have been developed that imply both a more long-term and a more external approach to management accounting and management control¹. Examples are the Balanced Scorecard (BSC), target costing, strategic cost management and lifecycle costing. Evidently, there is a move away from 'hard' financial measures and towards non-financial measures, including effectiveness of sales performance, customer satisfaction and customer loyalty (Roslender and Hart 2003).

Most of the criticism of traditional management accounting and control, which primarily concerns its short-term orientation, is of Anglo-Saxon (mainly American) origin. As compared to other Western countries, the Netherlands is classified as a country with a strong long-term orientation². Values like thrift (saving), perseverance, respect for tradition and fulfilling social obligations are important in countries with a strong long-term orientation. In place of a shareholder perspective on performance that dominates traditional management accounting, many North European countries adopt a stakeholder perspective in which consensus-seeking is important³. These consensus societies have a tradition of continuous consultation, negotiation, persuasion, co-operation and deliberation (Hofstede and Soeters 2002, p. 2). As a consequence, the emphasis traditionally is not exclusively shareholder-oriented; a multi-stakeholder perspective is more common, which implies a stronger long-term orientation.

Most car dealerships have a short-term orientation. The ambition of the managing director of Van den Udenhout (VdU), a large Dutch car dealer, to lengthen the time frame of his managers was the reason to start this research project (see case study 1 for more information about VdU). The Dutch cultural setting, in combination with VdU's managing director's ambition, provided an excellent environment in which to explore how new concepts that imply a more long-term approach to management accounting can help to lengthen the timeframe of managers.

In this interventionist research project an academic researcher and the managers of the car dealership worked together as a research team to investigate the question of how the time frame of the company's managers can be lengthened, and how management accounting can help to achieve this (see author information for more on this). The start of the project was the managing director's invitation to the academic researcher to hold a workshop for VdU's management team concerning the question of how their time frame could be lengthened. He was worried about the weak long-term focus of his managers. After the workshop, it was decided to develop an interventionist research project concerning the relationship between management accounting and the time frame of managers. The project was organised in three stages: one: diagnosis, two: design and three: implementation. The diagnosis was based on 18 interviews with managers and other key employees of VdU using a questionnaire developed by the academic researcher and based on management accounting concepts that aim to strengthen an organisation's long-term orientation (see diagnosis section). The diagnosis was the starting point for the design stage of the project in which the research team developed solutions to lengthen the organisation's time frame (see design section). Finally, the research team organised workshops and individual meetings with managers and salespeople to familiarise the organisation with the new way of working (see implementation section).

Diagnosis

Explanations for the short-term orientation of VdU

Like most car dealerships, VdU is organised in profit centres: sales (new and used cars), service, finance and insurance, bodyshops and leasing. The profit centres all have their own yearly budget, which is split up into 12 monthly budgets. Each month, how far the budget has been achieved is monitored. The profit centre managers focus on the achievement of their (usually ambitious) budget every month.

Transactions are the most dominant unit in measuring performance in VdU. Important figures are: the number of cars sold (by the sales department), the number of hours sold (by the service department) and the number of new contracts (by the leasing department). Often profit is also expressed per transaction. As a result profit centre managers focus on transactions, because many transactions make them achieve their monthly targets.

1 Simons 1995, Langfield-Smith 1997, Goold and Campbell 1987, Kaplan and Norton 1992, Shank and Govindarajan 1992.

2 Hofstede 2004; Hofstede and Soeters 2002, p. 10-11.

3 Looise and Paauwe 2001; Boselie, Paauwe and Jansen 2001.

Long-term performance of car dealerships

The most important asset of a car dealership that affects its performance in the long run is its customer relationships. An elaborate and growing network of loyal customers is the basis for a car dealership's future performance. However, maintaining long-lasting customer relationships and expanding the customer network is an effort that is hardly appreciated within VdU. For the salespeople, only sales volume matters and whether cars are sold to incidental or to loyal customers does not make a difference.

This is surprising, because incidental customers hardly generate any profit for the company. Throughout the car dealership industry, the profitability of the different departments varies considerably. Profits of the sales departments are very low and in many car dealerships they are even loss-making. Profits on service, bodyshop and financial products are much better. As a result of fierce competition in the market, it is almost impossible to increase the profitability of selling cars. Using a longer-term perspective, selling a car should be seen as an essential element in an ongoing customer relationship that also includes sales of the car dealership's more profitable products and services.

VdU already has a strong focus on customer satisfaction. Its most important supplier (the importer representing the Volkswagen and Audi manufacturer in the Netherlands) periodically surveys customer satisfaction and reports the results of these surveys to VdU. VdU's managing director already has the habit of discussing these customer satisfaction ratings with managers of the profit centres and agreeing with them on activities to improve customer satisfaction, when necessary. However, in general car dealerships' customer relationships have become looser. As a result of the long maintenance intervals of modern cars, the average customer visits VdU much less frequently. Furthermore, all the product information concerning cars that customers want is nowadays available on the internet, which makes them less dependent on the car dealership. Continuous attention to customer satisfaction is therefore important, but it is no longer enough to maintain long-lasting customer relationships.

Design

Redefining (the unit of) performance

To ensure sustainable profitability, VdU needs to develop from an organisation that is driven to maximise the profitability of its separate profit centres to one that maximises profitability across the whole business. The dealership's salespeople have the most intensive customer contacts in the dealership but to date their performance evaluation has been mostly based on the volume of cars that they sell and, to a lesser extent, customer satisfaction. With regard to the profitability of the company as a whole, the underlying assumption has been that satisfied customers who buy a car at VdU will 'automatically' also buy all their other automotive products and services at VdU, but this is no longer the case.

Therefore, the research team redefined an effective salesperson's performance as follows:

'Nowadays, an effective salesperson maintains a large number of customer relationships, who repeatedly purchase as many automotive products and services (cars, service, bodyshops and financial products) as possible at VdU.'

Although transaction profitability and profit centre profitability remain important, the main focus should be on customer profitability. This is a drastic change for the salespeople with two important aspects. First, salespeople have to learn to maintain long-lasting customer relationships instead of just losing interest in a customer after selling them a car. Secondly, salespeople have to learn to sell the other company services which are more profitable, in addition to selling cars.

To realise the research project's ambitions, each salesperson now has their own portfolio with approximately 700 customers. They have to contact all their customers periodically to keep in touch and to make sure that these customers repeatedly purchase all their automotive services at VdU.

This redefinition of the dealership's performance faced the research team with a challenge:

- to develop a tool to register customer information that enables salespeople to maintain their customer network
- to provide the salespeople with a tool to plan their activities in periodically contacting all their customers
- to provide managers with new management information that enables them to supervise salespeople in maintaining customer relationships

- to teach salespeople and their managers that the definition of their performance has changed
- to train sales managers and salespeople in the execution of their new tasks in maintaining customer relationships
- to really change their behaviour.

To face these challenges, a new information system was developed in co-operation with a consultancy firm. This system, named 'PCRM'⁴, provides the salespeople and the managers with the tools and information that they need. The PCRM system developed is unique in the Dutch car dealership industry. Existing CRM systems only focus on selling cars and do not include the other, more profitable, services that car dealerships provide, whereas this system contains information about all VdU's services.

An essential tool for salespeople: customer information

Since the spring of 2009, salespeople have had to contact the customers in their customer portfolio periodically, usually by phone. In practice this means that salespeople contact all their individual clients at least once a year. In addition, they make contact a couple of weeks after the purchase of a car, three months before the expiration of the car's warranty, and whenever there is a customer complaint or an indication that the customer wants to buy a new car. During all these contacts, the salesperson has to discuss all the possibly relevant services that VdU has to offer. In order to do so, the salesperson needs customer information and this is the first component of the PCRM system.

The PCRM system contains several customer sheets for each individual customer. From this information the salesperson can see which car the customer owns, whether the car is serviced by VdU, how much money the customer has spent in the service department and whether the car is insured, financed or leased at VdU. In addition, the salesperson has the opportunity to add and review the information that they are required to gather. For example, sometimes the salesperson knows when the customer intends to buy their next car or when their leasing contract expires. In those circumstances, it is the task of the salesperson to register this information and to contact the customer proactively, ensuring that the customer will remain a customer of VdU.

Planning and management tool

The PCRM system also provides the salespeople with a tool to plan their activities in contacting customers. At the beginning of each month, the system lists all the customers

that need to be called. Both the salesperson and their manager can see how much progress has been made in executing the planned calls.

The changing role of the service department

The service department plays a key role in improving customer loyalty. Although customer satisfaction is not enough on its own, it is certainly an essential element in ensuring customer loyalty. Continuous attention to customer satisfaction is not new to VdU's service departments and its managers.

The service department is also potentially a rich source of useful information for the sales department. In talking to a customer, the service department often gathers a lot of information that is interesting to the salesperson in whose portfolio the customer falls. Examples of information gathered by the service department that is relevant to the salesperson are:

- that the costs of repairing the ten year old car owned by a loyal customer exceed the value of the car, which might be an opportunity to sell a new car
- that the customer says that they need a new car, but is unable to pay for it at the moment - which is an opportunity to both sell and finance a new car
- that the body of the car is damaged (which is an opportunity to generate work for the bodyshop department as well as the service department).

All this information is interesting for the salespeople who are expected to maximise customer profitability in their customer portfolio. Part of the change is that the people who work for the service department are expected to log into the PCRM system and add the information that they have concerning, say, a customer's intention to buy a new car or damage to the body of a customer's car. Registering this information in the PCRM system automatically sends an email to the salesperson in whose portfolio the customer belongs. Then the salesperson is expected to contact the customer to sell the product or service that the customer might need.

Unfortunately, there is a lack of discipline in the service department to register this kind of essential information. Improving the registration of relevant customer information for the sales department by the service department is an important ambition of VdU's management for the near future.

4 'PCRM' is an acronym for both 'Personal Customer Relations Management' system (because it provides the salesperson with personal information concerning the customers in their portfolio) and for 'Patch Customer Relations Management' system, because Patch Marketing is the consultancy firm that built the information system.

Implementation

Changing the behaviour of salespeople and sales managers

Redesigning the tasks of salespeople and development of the PCR system took a lot of time and energy. However, changing the behaviour of salespeople and their superiors was by far the research team's most serious challenge. In the period from April to December 2009, it organised:

- A workshop for all the salespeople to explain what was expected from them.
- Two workshops for sales managers to discuss how their role as the salespeople's supervisor had to change, and to discuss the new definition of 'performance'.
- Meetings with individual sales managers for VdU's commercial manager (the direct superior of all the sales managers) and the academic researcher.
- Individual meetings with the salespeople for one of the sales managers and the academic researcher, concerning the extent to which the salespeople succeed in doing the planned calls, which could be checked via the management information in the PCR system, and the contents of their discussions with customers during the calls.

Summaries were written up of the individual meetings with the salespeople, including the actions that they were expected to complete in the months after these meetings, and the salespeople were asked to review and sign them. The signed summaries were filed and will be used for the salespeople's yearly performance appraisal interviews.

During the team's efforts to change the behaviour of the company's managers and salespeople, several difficulties were encountered.

From 1 May 2009 the PCR system scheduled the phone calls that the salespeople had to make to individual customers in their portfolio and table 1 shows the percentages of planned calls that VdU's salespeople actually executed. It indicates that the vast majority of planned calls are actually executed and that the organisation has become more disciplined in completing the calls during the second half of 2009. The managing director is of the opinion that percentages of less than 95% are unacceptable. The table highlights that VdU has made considerable progress in maintaining customer relationships more systematically, but that more effort is needed to execute all the scheduled phone calls.

Inability to plan calls

Traditionally, car salespeople work in the showroom and are instantly available to help the showroom's visitors. Although showroom traffic has become much less intensive, it is still relevant and, more importantly, it remains unpredictable. Generally, salespeople are not used to planning their own work; they are used to reacting to what is happening in the showroom. For many salespeople, it turned out to be very difficult to deal with what they were being asked to do. In particular they struggled to find sufficient blocks of time to call customers and to register the customer information that they obtained in the PCR system. There was always something to do in the showroom, and the length of any available block of time between talking to showroom visitors was insufficient. The research team concluded that the salespeople found it difficult to stay focused on systematically maintaining customer contacts. In the larger showrooms, this was solved by allowing salespeople to work in a separate office, without a view of the showroom, for a couple of hours each week to execute all the scheduled phone calls. In the smaller showrooms, it has remained difficult to deal with this problem.

Table 1: The execution of planned phone calls to maintain customer relationships

Location	Calls executed: 1 May – 1 July 2009	Calls executed: 1 May – 1 Dec 2009	Number of executed calls
Audi – Den Bosch	46%	90%	3,402
Commercial vehicles	33%	84%	1,170
VW – Den Bosch	85%	99%	10,600
Boxtel	9%	92%	925
Oss	65%	86%	4,343
Zaltbommel	12%	82%	1,608

The need to change attitudes

Before the internet era, customers needed salespeople to become informed about VdU's products and stocks, especially of used cars. VdU has excellent stocks and facilities and car salespeople were used to a situation in which these attracted the customer to the showroom. The salespeople's attitude was, and still is, quite passive therefore: they wait until the customer takes the initiative to get in touch with them and then they do their best to sell a car – and forget to sell the other, more profitable, services of the dealership. As a consequence of the change that was initiated, the salespeople were required to take the initiative by systematically maintaining customer relationships, instead of passively reacting to the customers' visits. They were required to change their attitude. It was surprising to find that most of VdU's older (and more successful) salespeople agreed with the analysis and quite smoothly realised the change. The salespeople who resisted the change grew up in the internet era and found it difficult to approach the customers more proactively.

The economic crisis

VdU has succeeded in remaining profitable despite the economic crisis, but like all car dealerships VdU has been affected by it. In fact the crisis proves that the changes initiated are essential: by maintaining good customer relationships a car dealership ensures that its customers spend money in its service department, and not in a competitor's service department, if they cannot afford a new car. This makes the company more 'robust' in the face of severe economic circumstances.

Nevertheless, the economic crisis creates pressure to focus on the short-term. Managers and salespeople focus on avoiding making a loss in the short run, which is what they should do, and this distracts their attention from the more long-term objectives, such as maintaining and enlarging their customer portfolio, which is what they also need to cover. The financial crisis makes organisations nervous and is an incentive for short-term commercial initiatives.

The long run requires patience

Most of the salespeople, who work for VdU, are very results oriented, which is essential if they wish to perform well at selling cars. Most of them are also impatient. This combination hinders the introduction of changes. Systematic maintenance of customer relations leads to results in the long-term. Increased customer loyalty as a result of periodical customer contact, leads to a higher sales volume after a period of one year or more. The number of

customers in a salesperson's customer portfolio who also buy other services at VdU will rise gradually and slowly. Many salespeople do not have enough patience to continue calling their customers and handling their complaints consistently. It took a lot of attention from the research team and the sales managers to keep the salespeople working on maintaining their customer relationships. It is expected that the salespeople will become motivated as soon as they have experienced their first successes as a result of their efforts.

Performance indicators

Performance indicators are vital in realising the change. In this project, performance indicators play two important roles: some indicators express the results that the organisation wants to achieve and others are concerned with the processes that salespeople should execute to achieve these results.

The results indicators are:

- the number of customers in a salesperson's customer portfolio
- the retention rate in buying cars in a customer portfolio
- the number of customers in a customer portfolio who purchase more than just a car at VdU:
 - the number who are also customers of the service department
 - the number who purchased an extended warranty (because an extended warranty ensures a continuation of customer loyalty in the service department)
 - the number who purchased a financial product (finance and/or insurance) at VdU.

Originally, the sales volume and gross profit on cars were the dominant performance indicators and formed the basis for the salespeople's yearly performance bonuses. Starting in 2010, the new performance indicators are the parameters for the bonus. The results indicators are more oriented to the long-term than the old indicators, because they inform VdU's managers about a salesperson's success at selling cars and services during the complete customer life cycle and not just about their success in realising single car sales transactions.

These indicators all concern VdU's results. On the basis of their training and experience, salespeople know how to achieve the performance that has traditionally been expected from them; a good and experienced salesperson knows how to maximise the number of cars that he sells. However they are not used to achieving high customer loyalty defined as 'the extent to which a customer repeatedly buys all automotive products and services at VdU'.

In addition, indicators that concern a salesperson's activities in maintaining customer relationships are now used. Process indicators have been introduced that express whether a salesperson actually contacts the customers, as scheduled by the PCRM system. VdU's managing director now considers denying the sales bonus for 2009 to salespeople who score low on the new process indicators.

Training sales people

The process indicators were used as starting points for discussions between the salespeople, the academic researcher and one of the sales managers. The purpose of these discussions is to help the salespeople to develop new skills that enable them to be successful in maintaining customer relationships and improving customer loyalty. Important questions that were asked of the salespeople during these discussions were:

- Did you succeed in contacting all the customers as scheduled?
- Did you register the customer information that you gathered (such as the customer's intention to buy a new car or their opinion concerning VdU's financial services) in the PCRM system?
- Do you need help in learning how to discuss the services of VdU that you were not used to selling?
- Does your manager provide you with sufficient help to work on customer relationships?

The conclusions of these discussions are summarised in short reports and agreements are made about future actions in maintaining customer relationships. The salespeople are asked to sign these reports which are then filed and used for later evaluations of the salesperson's performance. If necessary, one of the sales managers provides training in communicating with customers and how to increase customer loyalty. As soon as the salespeople are focused properly on maintaining customer relationships, the emphasis on the process indicators can be loosened and focus on the (revised) results indicators can be increased.

Conclusions

Recognition of the 'customer life cycle' is a way to lengthen VdU's time frame. This requires managers and employees to change their focus from realising single transactions to maintaining long-lasting customer relationships. To maintain customer relationships, the people who work for the dealership need to systematically use, register and utilise customer information. In communicating with clients, VdU's employees should be continuously alert to information concerning customers' needs that may lead to future transactions. Salespeople now have the obligation to register and utilise information that indicates whether customers will buy a new car, visit the service department or require a loan or insurance. Therefore periodically calling customers and registering customer information has become obligatory for all of VdU's salespeople. At the moment, the focus of sales managers is on the salespeople's discipline to execute all the planned phone calls. A few (very experienced) salespeople are already convinced that systematically working on customer relationships is beneficial but the successes of the new approach will become evident to the whole organisation by the end of 2010. Since salespeople are usually results-oriented, the expectation is that by then sales managers can loosen their emphasis on discipline and pay more attention to the quality of phone calls and other forms of communication with customers. The biggest challenge is to change employees' attitudes in communicating with customers; these need to change from passively reacting to the customer's requests to proactively taking the initiative on the basis of customer information.

'Performance' needs to be redefined from profit centre and transaction profitability to customer profitability. All employees need to be familiar with this revised view on performance. Management accounting plays an important role in achieving the changes. First, performance indicators that express how many products an average customer buys at VdU emphasise that customer loyalty is important. Secondly, these indicators are used as a starting point in ensuring customer relationships are better maintained. Thirdly, process indicators support the change process towards actively maintaining and enlarging a customer network by indicating whether the customers are actually contacted according to the schedule.

Case study 1: VdU - Van den Udenhout (www.udenhout.nl)

Activities	Car dealerships – profit centres: <ul style="list-style-type: none">• Sales new cars• Sales used cars• Service• Finance and insurance Bodyshops Leasing
Brands	Volkswagen Audi Volkswagen commercial vehicles
Locations	In the South of the Netherlands: Den Bosch, Oss, Zaltbommel and Boxtel
Ownership	VdU is part of 'Pon', one of the largest family-owned companies in the Netherlands, employing more than 10,000 people (www.pon.nl)

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