CIMA
Chartered Institute of Management Accountants

Case study

How management accounting delivers long-term focus

Van den Udenhout (VdU – www.udenhout.nl) is a large Dutch group of car dealers and its managing director (MD) was worried. Although VdU performed quite well in terms of profits, sales volume and customer satisfaction, he believed the basis for future performance was very weak. In daily practice, the managers and salesmen of VdU focused on monthly targets – profit and sales volume– and profit figures were reported retrospectively, excluding any projections about future performance. VdU was very vulnerable to external circumstances, such as the popularity of its models and economic circumstances. The MD had the ambition to change the managers' and employees' focus on the dealership's most important asset – its network of customer relations. The underlying vision is that customer loyalty secures long run financial performance.

The MD's concerns resonated with other criticisms of traditional accounting –too much orientation on the short term. Since the beginning of the 1990s, several new management accounting concepts had been developed that focused on the long-term and external orientation. Examples include customer profitability analysis, non-financial performance measures and the balanced scorecard. Inspired by these concepts, the MD, some of the managers and the CIMA sponsored academic researcher/author of this case study, decided to implement some of these new concepts in order to lengthen the time frame of VdU's managers.

The most important change was each individual sales personnel now had their own customer portfolio. To enable sales personnel and their managers to optimally utilise this customer portfolio, a number of tools were introduced. These include:

- a protocol for managing customer relations
- a CRM-system to deal with customer information
- performance indicators that quantify their activities to improve customer relations.

The protocol prescribed that at least once a year, the sales personnel were to contact their individual customers. In doing so, the CRM-system supported the sales by enabling them to register the gathered customer information – such as the intention to buy a new car or complaints about the service department. The CRM-system also provided sales with an overview of all the products and services that a customer purchased at VdU, including insurance, finance, service and bodyshop. The new performance indicators showed whether sales personnel had actually contacted all their customers according to the new protocol.

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Many activities were organised to help sales adjust to the new requirements of VdU's senior management including:

- workshops and presentations about the new vision concerning the maintenance of customer relations
- individual meetings of members of the project team and sales personnel.

In addition, workshops and individual meetings were also held for managers of the sales personnel. After about six months, the performance indicators concerning the maintenance of customer relations showed the vast majority of the sales personnel contacted their customers, as defined in the protocol.

However, there were considerable differences between the dealerships in the maintenance of customer relations. In one of the dealerships, the approach was very prescriptive. Sales personnel simply contacted the customers in their portfolio by phoning on time and discussing the issues with their customers. In another dealership, the mentality was more proactive. The sales personnel of this dealership not only behaved according to the protocol, they also developed their own initiatives to improve their relations with customers in their portfolio. Some even took care of all customer complaints, even when the complaints did not concern the sales department. Another sales person ensured that their customers visited the showroom each time they came to the dealership for service. In this dealership there were numerous initiatives beyond the scope of VdU's protocols to improve customer relations.

When introducing the change, all of VdU's dealerships, the protocols, performance indicators, information systems, workshops and individual meetings were the same. All the activities senior managers usually do to realise a change were executed. However, the dealerships differed considerably in the success of the change. These differences cannot be explained by the accounting information or the way in which this information was introduced.

The exchange of more fine-grained information explained the differences between the dealerships. In the dealership which most successfully adapted to senior management's new vision, there was a continuous and informal exchange of fine-grained information. The project team's office was next to the dealership. The MD and the members of the project team informally discussed their ideas in the corridor, during lunch and at the coffee machine. The result was a shared understanding of senior management's revised vision, which eventually led to the definition of new protocols, a new customer information system and new performance indicators. This shared understanding was also facilitated by sales personnel being able to develop their own initiatives in line with the new vision.

Many new concepts in management accounting assume there will be a causal link between accounting indicators and targeted results. For example, the underlying assumption of the balanced scorecard is that high performance on non-financial performance indicators will lead to high financial performance. This case proves the relationship between actual behavior of sales personnel at work floor level and a complex goal as maintaining customer relations is often too complex to communicate via an accounting system – even if the whole organisation is trained extensively in using the system. To realise complex purposes, less formal and less structured forms of fine-grained information exchange are essential.