Accounting as a Tool for Sales Management

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ACCOUNTING AS A TOOL FOR SALESMANAGEMENT

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In the modern industrial enterprise the Sales Manager is confronted with multitudinous problems concerning marketing policy, yet, too frequently, he must solve these problems without adequate statistical and cost information. In our highly competitive economy, a Sales Manager can no longer establish sound marketing policy or develop sound sales programs without a foundation of complete statistical and accounting information.

Both the Controller of the company and the public accountant should be of great help to the Sales Manager in formulating a progressive and profitable sales program. The accountant must develop logical financial reports based on the needs of the sales department. Such statements should be developed to portray the true picture of the specific problem and do not have to follow the standard profit and loss statement form. The accountant must also interpret these statements in order to give sales management the knowledge needed to make a correct decision.

Every well managed industrial enterprise has a good cost accounting department with adequate personnel to keep close control of production costs and, usually, a budget control section assigned to assist the manufacturing managers to keep within their budgets. Very few accounting departments maintain a separate section which specializes in sales accounting. Isn't it just as important to furnish the Sales Manager with the same quality of information as is furnished the production department? The answer to this lies in the Controller's office. He should establish a "sales and distribution accounting" section under a supervisor who will devote all of his time to such problems.

Pricing

One phase of the Sales Manager's work is to develop a sales price which will give the company an adequate profit and still sell the product on a competitive price level.

The Controller can devise a formula which will meet such requirements. One such formula for setting prices is built on the basis of costing the product on the capacity basis.

First, establish a standard cost procedure based on normal capacity production. Thus, the factory burden will be prorated to normal capacity production, and prices established will not be set too high even if operations are on a sub-normal basis. For example, if normal operations consist of one shift per day and will cost $1,150,000 in direct labor and factory burden at this standard is $2,000,000, then a 174% factor will be used for pricing purposes. If production drops to 80% of normal capacity and direct labor is $920,000 with overhead continuing at the amount of $2,000,000, the actual factor would be 217%. However, in order to keep prices competitive and to retain a price which will increase volume, the standard of 174% factory burden would continue to be used.

Direct selling expenses will be established for each type of product and a cost per unit, or dollar of sale developed based on normal selling effort. Assume that each territory requires two salesmen, one office clerk, plus travel expense. On this premise, total direct selling costs amount to $575,000, or 5% of total capacity sales of $11,500,000. Therefore, in pricing the product, 5% of the sales dollar constitutes direct selling cost. If actual sales are less than capacity, this standard would continue to be used for establishment of prices to keep a price which will generate additional volume.

Other general burden costs can be set as a percentage of the sales dollar on the basis of selling normal capacity.

Add a profit to be computed giving effect to current tax rates, working capital requirements, and return on investment. To determine the profit required, assume a capital stock structure of $3,000,000 and a dividend of 8% on the capital, which results in a required payment of $240,000. Profit required to maintain working capital and provide for expansion amounts to $360,000, which, added to the dividend requirement, results in a total required profit of $600,000 after taxes, or $1,200,000 before taxes (effective tax rate, 50%). To establish the price of the product:

Profit required		$1,200,000
Factory burden		2,000,000
Other fixed burden		2,000,000
Total		5,200,000
Variable:		
Material		30%
Labor		20%
Direct selling		5%
Total		55%
Fixed expense	$5,200,000	
(Selling price-variable)	45%	$11,500,000
Units produced		1,150,000
Selling price per unit		$10

The profit and loss statement would be prepared on the actual basis compared with the actual sales at standard expense factors, the differences being losses due to sub-standard volume.

Sales Analysis

Through the use of mechanical equipment sales can be analyzed in any combination desired. The procedure must be carefully thought out to develop all information which might be required.

Sales should be analyzed:

1. By product
2. By discount structure
3. By class of trade
4. By distributor
5. By territory
   (a) By product, discount structure, and class of trade
6. By salesman
   (a) By product, discount structure, and class of trade

Having prepared these sales analyses, reports can be prepared to show a comparison with the budget, and with previous years' activity. These reports can easily be prepared in graphic form for visual presentation to sales and other management groups. Studies in graph form can be easily used in sales meetings and readily understood by the individual salesman.

Profit Analysis

Although sales analyses are prepared for management use, they still do not give the whole picture. These same reports should be converted into the following profit statements, each one being carried through to show the net profit:

1. Profit statement for each product, or group of products
2. Profit statement by product group and by discount structure
3. Profit statement by territory, and by product and discount structure within the territory
4. Profit statement by salesman, by product

In statement (1) the profit should be analyzed to show whether each product, or product group, is giving a fair return on the investment required to produce the product. It is no great task to break down the invested capital as to the amount allocable to any specific product or group. This is an important analysis as those products not returning a fair profit in relation to the required capital should either be eliminated or priced to give a fair return.

These statements should also be prepared comparing actual operations with the budget and with the previous year's operation.

Another important profit study is a statement prepared using actual sales, with expenses being computed at capacity factors as outlined in the section headed "Pricing". The operating profit so determined would be the profit if all factors were at standard. The excess of expenses over standard would be deducted from the operating profit to arrive at the actual net profit.

Budgets

The logical place for the Sales Manager to receive assistance in preparing his annual sales forecast is the Controller's office. By preparing analyses similar to those described in previous paragraphs the Controller can furnish all of the pertinent data required to prepare the sales forecast. With this information, and giving consideration to probable future economic factors, it is possible to project sales for a one, two, and five year period. Plans can then be intelligently laid for the company's growth.

Other Analyses

An analysis should be regularly prepared on order handling and order writing costs. The cost of handling an order includes the actual writing of the order, processing it through production and inventory control, traffic department and credit department, and any clerical cost in preparing shipping documents. This

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The Controller should make periodic trips to the various sales offices to be thoroughly familiar with the problems being encountered in the field. He must be sales minded and as thoroughly familiar with the sales problems as he is with the production and cost problems. His accounting organization must be set up to provide a specialist in sales accounting as well as production accounting if he is to fulfill his duty to provide a competent and efficient staff organization.

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We welcome the news of our CPA members who are active in the A.I.A. Marguerite Reimers and Marguerite Gibb are serving as Chairmen, respectively, of their State Society's Bulletin and Library Committees. Other AWSCPA members who have been named to A.I.A. Committees are: Kathryn A. Reynolds, New Haven; Rosemary Hoban, Detroit; Elinor Hill, Passaic; Corinne Childs, Tulsa; and Hester E. Erb, Chicago.

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