Accounting for Customers: The Impact of Contextual Factors and Implications for Management Decision-Making

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Abstract

Normative commentaries in the accounting literature have hinted at the potential of customer accounting (CA) information to aid management decision making and also have prescribed a number of factors that may impact the use of CA information. This study identifies and provides evidence of a number of these organisational decision-making implications, as well as factors that influence the use of CA practices, by drawing upon in-depth interviews in fourteen Australian organisations. The main decision-making areas that CA practices were identified as providing useful information for were customer service management, customer retention, customer pricing, performance evaluation and allocation of marketing resources. The industry/market characteristics of cost differentials, revenue differentials, multiple products and competition and the organisational characteristics of market orientation, size of customer base, and company size were evidenced as having an impact upon the use of CA practices. Based on the study’s findings a preliminary contextual model is developed that will be advanced and tested in the future.

Keywords: Customer accounting, Management decision making, Field study, Industry characteristics, Organisational characteristics.
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1. Introduction

Accounting for customers (i.e., customer accounting (CA)) appears to be gaining support as an acknowledged approach amongst the suite of recognised management accounting techniques. This is evidenced by its description in many widely used management accounting texts, the increased number of commentaries in the academic literature (Foster et al., 1996; Hartfeil, 1996; Smith and Dikoli, 1995), and the number of CA software packages that are now provided by accounting software companies such as Oros, ACCPAC and SAP. Furthermore, a 2002 Australian study found that 77% of the companies surveyed used, to varying degrees, at least one of four different CA practices (Guilding and McManus, 2002). Despite these commentaries and descriptions, limited empirical evidence exists that provides support to these suggestions or to the impacts that CA information has on management decision making.

CA dimensions can be traced to management and marketing philosophies such as total quality management (TQM), the balanced scorecard, customer relationship management and relationship marketing. For example, the TQM literature highlights the importance of seeking improved quality performance by monitoring lost customers (Feigenbaum, 1983; Zink, 1995). From the management area, one of the four balanced scorecard performance dimensions concerns a focus on customers and the need to monitor customer satisfaction and customer retention rates (Kaplan and Norton, 1992; 1996). From a marketing perspective, a central tenet of the relationship marketing philosophy concerns building long-term relationships with profitable customers (Christopher, Payne and Ballantyne, 1991; Gronroos, 1994). The attention that CA has received from a marketing perspective and also the strength of its association with other widely promoted management and marketing techniques and philosophies appears to be disproportionate to the level of empirical research attention directed to CA. This factor provides the major underlying motivation for this study.

This study aims to develop CA research by providing evidence of the organisational decision making implications and the industry and organisational level characteristics that influence the use of CA practices. As noted above, most writings on the subject of CA are normative commentaries whose conclusions, suggestions and comments have not been examined empirically. So this paper is also motivated by a lack of corroborating evidence supporting these comments. In conjunction with McManus and Guilding (2009), this is one of the first studies to use interview methods to investigate CA in practice, identify factors that influence the use of CA and develop a contextual model to be further examined in future research. Therefore, this study also attempts to fill a gap in the literature by contributing to the development of a theory surrounding CA.
The remainder of the paper is structured as follows. The next section provides an overview of the most pertinent accounting based literature. This is followed by a description of the research methods, research design, field study sample and the analytical approach adopted. The subsequent section provides a discussion of the interview findings together with links to the literature. The final section provides a description of the study’s limitations and potential areas for future research.

2. Customer Accounting Literature

As previously noted, the considerable interest shown in the marketing literature for customer focused philosophies, such as relationship marketing, lies in stark contrast to the management accounting literature’s interest in customer focused philosophies and associated managerial techniques. There is very limited empirical research-based evidence concerned with the role management accounting may play in organisations that embrace a customer-centric approach. One exception to this is McManus’ (2007) case study analysis of the construction of a segmental customer profitability analysis system in a telecommunications company (a practice also commented on by Cooper and Kaplan, 1991c; Juras and Dierks, 1993; Noone and Griffin, 1999; and Quain, 1992). A second exception is Guilding and McManus’ (2002) study that appraised the incidence of CA usage and the antecedents of CA adoption. Guilding and McManus identified four distinct CA practices: customer profitability analysis (CPA), segmented customer profitability analysis (SCPA), lifetime customer profitability analysis (LCPA) and customer valuation analysis (CVA). Of these techniques, they found SCPA to be the most widely adopted, and noted a positive association between market orientation and CA.

Most of the management accounting literature concerned with CA comprises normative commentaries that provide a description of the nature and potential of CPA (eg. Foster and Gupta, 1994; Foster and Young, 1997; Chenhall, 2003; Luft and Shields, 2003). Other commentaries have extolled the virtues of CPA to support business decisions (Bellis-Jones, 1989), identify customers that are loss generating (Ward, 1992), assist resource allocation decision making and provide support for management control (Guilding, Kennedy and McManus, 2002). Other commentaries and teaching cases have introduced and expanded the idea of SCPA (Cooper and Kaplan, 1991(a); Quain, 1992; Hartfeil, 1996), LCPA (Foster and Gupta, 1994, Cooper and Kaplan, 1991(b)) and CVA (Foster et al., 1996).

In addition, the CA related construct of customer satisfaction has received attention in the accounting literature with inconsistent results reported of a significant relationship between customer satisfaction and financial performance. Ittner and Larcker (1998) found significant relationships between customer satisfaction and customer retention, revenues and revenue changes within one large telecommunications firm, yet only a significant relationship between customer satisfaction and revenue for a financial services firm. Similarly, Banker, Potter and Srinivasan
(2000) reported mixed results for the association between customer satisfaction and financial performance in a single hotel firm. They found that while one customer satisfaction measure, average likelihood of return, was significantly related to hotel profits and revenues, a second measure, average complaints, was not. Smith and Wright (2004) found that in the personal computer industry higher customer loyalty (seen as a proxy for customer satisfaction) is related to higher average product price, sales growth and return on assets.

On the other hand, the marketing literature concerned with marketing orientated customer accountability constructs appears endless in comparison. CA related constructs such as customer satisfaction, customer loyalty, customer profitability and customer retention, to name but a few, have received considerable attention from marketing researchers. A large body of research has focused on the antecedents and consequences of customer satisfaction (Anderson, Fornell and Lehmann, 1994; Oliver, 1997), the relationship between customer satisfaction, customer loyalty and profitability/performance (Edvarsson, Johnson, Gustafsson and Strandvik, 2000; Hallowell, 1996; Reichheld and Sasser, 1990; Reichheld, Markey and Hopton, 2000; Storbacka, Strandvik and Grönoos, 1994), the link between customer loyalty and increased profitability (Berry and Parasuraman, 1991; Perrien, Paradis and Banting, 1995; Sonnenberg, 1994; Zeithaml, Parasuraman and Berry, 1990) and customer loyalty and retention (Bearden and Teel, 1982, Ennew and Binks, 1996; LaBarbera and Mazursky, 1983).

3. Research Method

3.1 Field Study Sample

The sample for the study comprised 16 marketing/sales, accounting/finance and general managers drawn from 14 companies representing a broad cross-section of industries that included tele-communications, mineral processing, banking, insurance, manufacturing, and sporting clubs. Initial contact was made via e-mail and telephone of a random sample of 36 Brisbane and Sydney ACMAD (Australian Centre for Management Accounting Development) members and professional contacts of the researchers. Of those contacted, two advised that they were unable to participate due to time constraints and 20 failed to respond. A copy of the interview schedule was mailed to those managers who consented to being interviewed (Baxter and Chua, 1998) and a meeting time was established. An overview of the interview sample is provided in Table 1 and in the subsequent text, interviewees will be referred to by the letter assigned in the first column of the table.

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>CA Stage</th>
<th>Type of CA Analysis/Reason for Non-Adoption</th>
<th>Interviewee’s Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>Mineral Processing</td>
<td>Adopted</td>
<td>Cost analysis</td>
<td>Sales Support Manager</td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>Adoption Status</td>
<td>Analysis Type</td>
<td>Key Position</td>
</tr>
<tr>
<td>---------------</td>
<td>---------------------------</td>
<td>-----------------</td>
<td>-------------------------------------------------</td>
<td>---------------------------------------</td>
</tr>
<tr>
<td>Company B</td>
<td>Tele-communications</td>
<td>Adopted</td>
<td>Segmental customer profitability analysis</td>
<td>Accounting Manager</td>
</tr>
<tr>
<td>Company C</td>
<td>Printing</td>
<td>Adopting</td>
<td>Contribution analysis</td>
<td>Financial Controller</td>
</tr>
<tr>
<td>Company D</td>
<td>Insurance</td>
<td>Adopted</td>
<td>Ad hoc customer accounting</td>
<td>Finance Manager</td>
</tr>
<tr>
<td>Company E</td>
<td>Electricity</td>
<td>Adopted</td>
<td>Gross margin customer accounting</td>
<td>Marketing Manager</td>
</tr>
<tr>
<td>Company F</td>
<td>Hotel/Casino</td>
<td>Not adopting</td>
<td>Other priorities</td>
<td>Gaming Administration Manager</td>
</tr>
<tr>
<td>Company G</td>
<td>Accounting</td>
<td>Adopted</td>
<td>Customer profitability analysis</td>
<td>Director of Management Accounting</td>
</tr>
<tr>
<td>Company H</td>
<td>Manufacturing</td>
<td>Not adopting</td>
<td>Job costing</td>
<td>Regional Sales Manager</td>
</tr>
<tr>
<td>Company I</td>
<td>Construction</td>
<td>Not adopting</td>
<td>Project costing</td>
<td>Accountant</td>
</tr>
<tr>
<td>Company J</td>
<td>Banking</td>
<td>Adopted</td>
<td>Ad hoc customer accounting</td>
<td>Management Accountant</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Senior Marketing Manager</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Senior Product Manager</td>
</tr>
<tr>
<td>Company K</td>
<td>Australian Rules Football Club</td>
<td>Adopting</td>
<td>Revenue analysis</td>
<td>Operational Manager</td>
</tr>
<tr>
<td>Company L</td>
<td>Returned Servicemen’s Leagues Club</td>
<td>Adopting</td>
<td>Revenue analysis</td>
<td>General Manager</td>
</tr>
<tr>
<td>Company M</td>
<td>Australian Rugby Union Club</td>
<td>Not adopting</td>
<td>Resistance to change</td>
<td>General Manager</td>
</tr>
<tr>
<td>Company N</td>
<td>Manufacturing</td>
<td>Not adopting</td>
<td>Job costing</td>
<td>General Manager</td>
</tr>
</tbody>
</table>
3.2 Interview Schedule

The interview schedule (an abridged version is provided in Appendix A) was designed to gather both qualitative and quantitative data. While the majority of the interviewing time had an unstructured orientation, at the end of the interviews some structured questioning was employed. The initial unstructured, open-ended questions were used to gain a broad understanding of general CA issues, open the topic up for discussion and identify any significant unanticipated issues (see Parts A, B, C and D of Appendix A).

Interviews were conducted in Queensland and New South Wales, Australia and had durations ranging between one and two hours. All interviews were conducted in a face-to-face setting, except for the interview with the director of management accounting in Company G who was unavailable for an arranged face-to-face interview but granted a telephone interview. All interviews were tape recorded and transcribed. Other sources of evidence were also sighted. Documents such as Excel spreadsheets, financial statements, pamphlets, promotional material, and confidential reports were examined as an additional reliability check. An initial drafting of the interviewee findings was developed and circulated to the sample, together with an encouragement to provide feedback concerning the documented findings. No significant inconsistencies were identified by the interviewees.

3.3 Research Approach

A grounded theory (Glaser and Strauss, 1967) research approach was applied during the study. A grounded theory is a theory grounded in data which has been arrived at inductively rather than deductively. Specifically, the grounded theory approach informed by the work of Strauss and Corbin (1990, 1994) was embraced. This variation of grounded theory incorporates a stricter and more complex process of systematic data coding. Analysis of the interview data was conducted using the NVivo qualitative analysis software package which enabled each sentence coded by text-unit number. Each of these text units (or sentences) was identified as relating to concept and themes, which resulted in every single sentence of each interview being coded and then assigned to relevant themes. This meant that each text-unit could be associated with one or multiple themes. Figure 1 provides a description of the data-coding tree developed during the analysis of the interview transcripts. In the following stage of the data analysis, each transcript was examined by coded theme and the conditions that cause together with the consequences that

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\[2^{nd} The interviews were designed to provide in-depth data concerned with why some companies are accounting for customers and others are not, the potential for customer accounting, the organisational and industry characteristics that influence the use of customer accounting, and the managerial decisions customer accounting information may inform. Due to the focus of this paper, only the findings and comments in relation to the industry and organisational characteristics and the decision making implications of CA are provided. See McManus and Guilding (2009) for a discussion of the findings in relation to the adoption, non-adoptions and barriers to implementation of CA.\]
arise from each theme were noted. This enabled the linking of themes and the testing of these linkages by subsequent interview transcript analysis. The process of linking categories and verifying the linkages by testing them against the data enables the grounding of the theory in the data. For example, the use of a segmental customer profitability analysis by Company B was primarily driven by increased competition and resulted in improved decisions made in relation to pricing and the allocation of marketing resources.

**Figure 1: CA Field Study Interviews Data Coding Tree**

<table>
<thead>
<tr>
<th>(1) /General Data</th>
<th>(4 3) /Decisions/Performance evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1 1) /General Data /Company</td>
<td>(4 4) /Decisions/Other</td>
</tr>
<tr>
<td>(1 2) /General Data /Position</td>
<td>(5) /Barriers</td>
</tr>
<tr>
<td>(1 3) /General Data /Date</td>
<td>(5 1) /Barriers/No support</td>
</tr>
<tr>
<td>(2) /CA Practice</td>
<td>(5 2) /Barriers/IT problems</td>
</tr>
<tr>
<td>(2 1) /CA Practice /CPA^a</td>
<td>(5 3) /Barriers/Other priorities</td>
</tr>
<tr>
<td>(2 2) /CA Practice /SCPA^b</td>
<td>(5 4) /Barriers/Too traditional</td>
</tr>
<tr>
<td>(2 3) /CA Practice /LCPA^c</td>
<td>(5 5) /Barriers/Lack skills</td>
</tr>
<tr>
<td>(2 4) /CA Practice /CVA^d</td>
<td>(5 6) /Barriers/Other</td>
</tr>
<tr>
<td>(2 5) /CA Practice /Other</td>
<td>(6) /Quantitative Q’s</td>
</tr>
<tr>
<td>(3) /Motivation</td>
<td>(6 1) /Quantitative Q’s /Use CA</td>
</tr>
<tr>
<td>(3 1) /Motivation /Market</td>
<td>(6 2) /Quantitative Q’s /Potential CA</td>
</tr>
<tr>
<td>(3 2) /Motivation /Organisation</td>
<td>(6 3) /Quantitative Q’s /Current roles CA</td>
</tr>
<tr>
<td>(3 3) /Motivation /Other</td>
<td>(6 4) /Quantitative Q’s /Potential roles CA</td>
</tr>
<tr>
<td>(4) /Decisions</td>
<td>(7) /Other</td>
</tr>
<tr>
<td>(4 1) /Decisions/Customer</td>
<td>(7 1) /Other/No interest</td>
</tr>
<tr>
<td>(4 2) /Decisions/Pricing</td>
<td></td>
</tr>
</tbody>
</table>

^a CPA = customer profitability analysis; ^b SCPA = segmental customer profitability analysis; ^c LCPA = lifetime customer profitability analysis; ^d CVA = customer valuation analysis.
4. Findings and Discussion

The main themes identified from the coding process related to the decision making implications of CA, and the organisational and industry level characteristics influencing the use of CA. These are discussed below.

4.1 Organisational Decision Making Implications

4.1.1 Customer Service Management

Interviewees made a number of comments in relation to the implications that CA has for a company’s customer service management decisions. The Director of Management Accounting of Company G, in discussing what he considered being the most important implication of CA management, suggested that:

... with the relationship partner’s knowledge of the client, and his knowledge of the types of services that we provide, he can match up whether we are not providing a service in a particular area.

Furthermore, he argued that with the CA information being provided to partners he/she would also be able to see if the services being provided to clients were unprofitable or at a lower profit rate than is expected by the company. The Senior Marketing Manager of Company J suggested that the company’s ultimate goal of the CA system was to be able to align the bank’s level of service provision with the appropriate customer “tier” or segment.

In the normative literature Hemmes and Kane (1999, p. 48) make comment in relation to customer service management decisions that:

Confusion over what, if any, impact profitability findings should have on service is one of the biggest obstacles to making practical use of the data. While decreasing service to any group of customers is unacceptable, finding ways to elevate service to the uppermost group is essential.

In addition, Cover (1999) outlines a number of strategies that banks can undertake to improve the quality of service provided to their “supercustomers”. These strategies include supplying a special telephone number to call, sending thank-you notes and calling to inquire if they are satisfied with the bank’s products and services. Carroll and Tadikonda (1997) further suggest that in the banking industry customer service is one of the operational areas that can most benefit from information about customer profitability.
4.1.2 Customer Retention Decisions

CA information was also identified as impacting upon decisions in regard to which customers to retain. An overall finding of the interviews was that CA information was/would be useful in identifying those customers that a company may wish to actively retain and those customers that are not as important to the company. The Financial Controller of Company C described this in terms of:

We will know really who the good clients are and then we can start making policy decisions .... well we need to start getting our profit margins on those that are less profitable up and perhaps even sacrifice them, and look for people who are going to get us better margins. I mean that would be a brave decision, but it is not something that we know enough about at the moment to be able to do.

The Director of Management Accounting of Company G also commented upon the usefulness of CA information to provide insights into not only which customers should be retained but also new customer decisions. These comments were made in answering an interview question regarding the inclusion of credit collection information in the company’s CA system. He answered:

No it is not and I think it is probably a weakness in our system. I have a feeling that we probably do not pay enough attention to credit collection before we take clients on. There is no customer accounting database that provides information on clients that have previously faulted or given us bad debts .... there is no point talking to a client who has a past history of not paying or we have had problems with getting to pay.

The inclusion of profitability information in customer retention decisions has been commented on in the marketing literature. For example, Hemmes and Kane (1999) and Jacobs (1998) both suggest that understanding customer profitability is integral to understanding which customers to defend against defection. Wayland and Cole (1994) make this link explicit by articulating that “retention efforts should focus on keeping the most profitable customers” (p. 24). Judge (1998) outlines a number of cases of U.S. companies that are using customer profitability information to identify those customers worthy of marketing efforts and retention programmes. He proposes that “savvy companies are conducting behind-the-scenes beauty contests to determine who they like and who they wish would go away” (p. 140). Innes and Mitchell (1995) in their survey of UK firms’ use of ABC found that 36% of firms that conducted CPA used the information provided in policy decisions in relation to which customers to “drop”. In addition, Jacobs et al. (2001) suggest a return “loop” in the relationship between customer profitability and customer retention in that “the direct impact of customer retention, driven by customer loyalty, on profitability derives not only from future revenues and future revenue increases, but also from decreases in future costs” (p. 356).
4.1.3 Customer Pricing Decisions

Several comments made by interviewees indicate that CA carries implications for customer pricing decisions. For example, the Accounting Manager of Company B identified that CA information was considered in decisions related to differential pricing to high product usage customers. The Management Accountant of Company J suggested that the company was currently in the position of:

... trying to understand what’s on our books and teaching people when they are selling how to make a discount for a customer. Then you need to know more about this customer and your relationship with this customer, to know whether it’s worth it.

In addition, the Sales Support Manager of Company A observed that:

We have an interesting situation in that the plant is effectively at full capacity and we can sell everything that it produces. So that your decision then becomes how can we extract the maximum margin from the current configuration.

These comments also find resonance with findings of Innes and Mitchell (1995) who found that of their sample of UK firms that conducted CPA, 72% used the information to guide their pricing policies. In addition, the use of CPA to guide pricing policy decisions was given the equal highest importance rating (with “renegotiation of customer contracts”) of the six policy decisions identified. In the normative literature, Mulhern (1999), in developing a model to measure customer profitability, argues that knowledge of the profitability of customers can improve decision-making in relation to a number of marketing activities such as promotion, product development and pricing. Hemmes and Kane (1999; p. 47) prescribe that “at the very least, [customer] profitability data should serve as the framework for making decisions about pricing, marketing and resource allocation”. In addition, Simon and Butcher (2001), in proposing five major techniques for implementing price customisation, argue that adjusting prices to individual customers’ needs yields greater customer profitability. In the context of a hypothetical hotel, Guilding, Kennedy and McManus (2001) identify a number of implications for a hotel’s pricing decisions that arise from the consideration of “supplementary purchasing CPA” information. Their analysis highlights how a consideration of contributions earned from “supplementary” sales occurring after the sale of accommodation (e.g., from food and beverage sales, laundry service and telephone sales) could be included in the accommodation price setting decision and “used to justify setting accommodation rates below the variable cost of providing the accommodation” (p. 178).
4.1.4 Performance Evaluation Decisions

CA information was identified as carrying implications for performance evaluation decisions. Specific comments made by interviewees included the Director of Management Accounting of Company G who suggested that the CA information generated by the firm could play a role in evaluating and controlling partner performance. As he described:

At the lower client level I don’t think this information is used as much as it could be. It is available but I don’t think it is being used. It is probably being used more as a stick against the partners. The leader of a business unit will get the information and look at the partners working for him, and will see that some partners are less profitable than others over the whole portfolio and will then drill down to the particular client level. He is probably looking at partner performance rather than client performance. Then I guess it is up to the partner after getting hit across the head with the stick to look at his individual clients in his portfolio to try to improve their profitability.

From another perspective, the Financial Controller of Company C considered that CA information could play a role in making the company’s sales personnel accountable for business profits, not just sales:

I think it will make them a bit more accountable for what they are achieving instead of just looking at the bottom line and saying “hey, I just sold $40,000 worth of print”. They will actually have to look at some sort of profitability, accountability, as well as the fact that they sold that much. I mean anyone can sell, but you may have only contributed $1,000.

The General Manager of Company M also made comments suggesting that CA information could play a role in evaluating the performance of marketing personnel and making them accountable for the club’s membership base.

There has been some literary comment on the implications that CA has for performance evaluation. Ward (1995), in calling for the inclusion of CA information in measuring the performance of the marketing function, argues that the traditional methods of control used for marketing activities, such as comparing actual figures against budgeted figures do not measure the effectiveness of marketing expenditure. Jacobs et al. (2001) stress that achievable and understandable targets should be set for marketing personnel in respect to all processes and activities directed towards improving customer value. In addition, the authors go one step further and prescribe that:

Rewards and incentives should be established for marketing specialists to meet the performance targets and maintain continuous data collection on time and other costs associated with retaining current customers and expanding the customer pool (p. 362).
4.1.5 Resource Allocation Decisions

The role that CA information can play in the allocation of marketing resources decision was also commented upon. Specific comments include those made by the Senior Product Manager of Company J who stated that:

We want to know this information simply to ... (aid) the allocation of resources. You have managers out there on the ground who are basically allocating the total amount of resources to all their customers, and even if you do the tier one-two-three segmenting of customers, you will find within those tiers people that contribute disproportionate amounts of income and get a disproportionate amount of services.

The Management Accountant of Company J appeared to agree with these comments and added that CA information would allow the company to:

... get a better view of the true economics of the product and also our customers. That puts us in a better position once we understand that, to focus our marketing direct to the customers.

Prescriptively, a number of researchers have also suggested that CA information carries implications for marketing resource allocation decisions (Helf, 1998; Hemmes and Kane, 1999; Rasmusson, 1999; Ward, 1992). For example, Wyner (1999; p.9) suggests that “it’s often appropriate to devote significant resources to profitable customers because it’s more important to retain them than the unprofitable ones”. Guilding et al. (2001) apply this idea to a hotel’s customers and advocate that “CPA can be used to inform management deliberations on how the marketing budget should be allocated across the hotel’s targeted customer segments” (p. 185).

4.2 Organisational Characteristics

4.2.1 Market Orientation

The market orientation of a company was identified as having an impact on a company’s need for a CA system. Comments made suggested that the more highly market orientated companies had a greater need for customer accounting. Representatives of the companies currently using, and those in the process of instigating some form of CA, all identified their companies as having a strong market orientation. For example, the Accounting Manager of Company B suggested his company was strongly market orientated and this orientation was driving the organisation’s interest in CA. He identified the company as moving towards becoming “customer-prime”, i.e., the
company’s focus is on their customers. When asked the main force behind the segmental customer profitability analysis reporting that was being conducted by the company, he indicated it was driven by marketing.

The finding that a company’s market orientation has an impact on a company’s need for a CA system is in line with suggestions made in the marketing literature that a company’s focus on customers is a central element of their market orientation (Kohli and Jaworski, 1990; Narver and Slater, 1990). It is also supported by the empirical findings of Guilding and McManus (2002) that market orientation was significantly positively related to lifetime customer profitability analysis, valuation of customers or customer groups as assets and the holistic customer accounting measure.

4.2.2 Customer Base Size

The size of a company’s customer base was also identified as having an impact upon the CA system, in particular, the type of CA practice that was conducted by a company, i.e., a CPA on an individual customer or customer group basis. The Accounting Manager of Company B advised that the company was able to conduct a segmental CPA due to the very large number of customers (over 7 million). In comparison, in describing the company’s use of “customer cost analysis”, the Sales Support Manager of Company A commented that:

...in our case we only have a small customer base compared to retail organisations, so we tend to understand on a case by case basis more what people’s needs are.

These comments support prescriptions made in the literature such as Mulhern (1999) who suggests that while ideally any CPA should be performed on an individual customer basis in some situations it may be preferable to conduct the analysis at a higher level of aggregation. He proposes that a CPA performed on a customer segment basis is practical when individual customer data is not obtainable or individual customer marketing is not possible. This is particularly relevant in situations where a company has a large number of customers and the marketing effort is directed towards groups of customers who are the focus of a company’s marketing effort. Miller (1999) also supports this view when describing the CPA approach adopted by the Canadian Imperial Bank of Commerce that focused on individual customer profitability when the bank changed its marketing strategy from a mass marketing approach to one-to-one marketing. In addition, Hartfeil (1996) and Hudson (1994) argue that the small margins earned on the majority of customer accounts, justify the performance of a CPA on a customer segment basis in the banking industry.

4.2.3 Company Size

Related to the previous organisational characteristic, a related variable is the size of a company. While not explicitly identified in the interviews as an organisational level factor, when one considers the size of the companies in
the sample, the majority of companies that were either conducting some form of CA or were in the process of implementing a CA system could be described as large companies (Companies B, D, E, and J). In comparison, the two smallest companies in the sample (Companies M and N), were not currently using any form of CA and the interviewees saw limited potential for its use.

A suggested company size effect is consistent with the findings of Innes and Mitchell (1995), Innes, Mitchell and Sinclair (2000), Krumwiede (1998) and Nielsen, Bukh and Mols (2000) in relation to activity-based costing (ABC) adoption, however they counter Gosselin (1997) who found no support for size being related to ABC adoption. In their study, Innes and Mitchell (1995) and Innes et al. (2000) found that larger UK firms had a significantly higher rate of ABC adoption than smaller firms, for survey years, 1994 and 1999. Krumwiede (1998) studied the impact of contextual and organisational factors on different implementation stages of ABC in US manufacturing firms. In this study, size was included as a control variable and was found to be significantly related to the likelihood of ABC adoption. Nielsen et al. (2000) also found a size effect in their study of customer orientated management accounting in Danish financial services firms. Specifically, they found that small financial firms were less likely to consider implementing customer orientated management accounting than large financial firms. The authors suggested that small firms do not perceive the same need for sophisticated management accounting systems as large firms do.

4.3 Industry Characteristics

4.3.1 Cost Differentials

The most influential industry characteristic identified as driving the use of CA was differences in costs across customers. This issue received the most comments from interviewees and was suggested as the main reason most companies began conducting CA analyses. The identification of cost differentials across customers as having an influence on a company’s need for a CA system appears logical, as it is differences in the consumption of a company’s resources that gives rise to varying customer profitability levels.

A number of the specific customer-related issues were highlighted by interviewees as important customer cost differentials for their companies. The Sales Support Manager in Company A identified logistics, credit terms and packaging options as the three main drivers of differences in costs across the company’s customer base. The Marketing Manager from Company E suggested that the main differences in costs across customers arose in relation to bill deferment costs and general customer inquiry costs. In addition, the General Manager of Company L identified promotional costs as the main cost category giving rise to differences across customers.

The Sales Support Manager from Company A commented that:
… about allocating marketing manager’s time or whatever, we don’t really focus on that. I guess it’s because in the overall scheme of things in regard to the revenue that is being generated, the amount of cost you are incurring for the person is quite small. So to sit down and dissect if to the nth degree is a bit of an exercise. In terms of added value to the business we don’t believe that it achieves it. What we do is focus on the logistics aspect because that is our biggest cost.

These comments highlight the importance of conducting a cost/benefit analysis prior to any CA analysis, as analysing customer revenues and/or costs is only justifiable if the benefits outweigh the costs.

In the normative literature, a number of authors have focused on the specific types of costs that should be included in a CPA. For example, Copacino (1999) highlights the insights that can be gained from an analysis of a company’s logistics costs and the implications for customer profitability. Foster, Gupta and Sjoblom (1996) also identify a number of marketing costs that may differ across a company’s customer base such as salesmen’s time and price discounts. Smith and Dikolli (1995) discuss the merits of using activity-based costing to allocate to customers a number of variable customer-related costs such as sales support costs, field service costs, distribution costs, order costs, and debt collection costs. While Howell and Soucy (1990) identify a number of resources which may be consumed to differing degrees by customers such as volume discounts, commissions, sales support, freight policies, credit and collection support and customer support costs. In addition, a number of commentators outline the types of costs that should be included in a CPA.

4.3.2 Revenue Differentials

The second factor that was identified by interviewees as creating a need for a CA system was a difference in revenues across customers. The Financial Controller of Company C stated:

One segment identified as potentially less profitable is print brokers. As we act as an intermediatory and in order to get a job from them your margins would be lower as you would quote a lower price, as you need to be more competitive to get their work.

The Marketing Manager from Company E also identified pricing as being a driver of customer revenue differences, “What drives our revenue per customer is the mix of tariffs. So you can see that the mix that people have got drives their profitability”. The Director of Management Accounting of Company G suggested it was the type of product/service provided that drove customer revenue differentials. As he explained:
The cost of my doing an audit and my providing consulting would be much the same, but I could get more money by adding more value on, so I could charge them more for the same hour of work because I am adding value to the business [for consulting work].

As discussed above in relation to customer cost differentials, varying profit levels can be expected to result from differences in revenues generated across customers. These different levels of profit across customers give rise to a need for companies to identify and understand the drivers of any customer profit differences. Jacobs, Johnston and Kotchetova (2001) identify the development of reliable customer revenue and customer cost figures as being one of the major challenges of any CPA. Foster et al. (1996) highlight a number of sources that give rise to revenue differences across customers such as differences in the price charged per unit to different customers, differences in the selling volume levels across customers, differences in the products or services delivered to different customers, and differences in the items provided without charge to different customers. It should be noted that very little attention has been directed towards an analysis of revenues in the literature. In fact, the discussion by Foster et al. (1996) was the only real discussion of revenues identified in the management accounting literature. In advocating revenue analysis as an area worthy of future research Foster and Young (1997; p.68) comment, ‘It is interesting that management accounting researchers still focus on the cost side to the virtual exclusion of the revenue side of the income statement’.

### 4.3.3 Multiple Products

The Senior Product Manager of Company J commented that knowledge of the mix of products purchased by the company’s customers across the company’s business groups could put “a totally different light on a customer group”. The Finance Manager of Company D believed that CA information could be used to improve the profitability of the company’s customers. He commented that:

> given that we have a general insurance company and a life insurance company in the group, we have the potential to make a lot of our customer base profitable by sales of multiple products.

The Accounting Manager from Company B went even further to suggest that the need to gain a greater understanding of the mix of products purchased by customers was one of the motivating factors behind the company’s development of a CA system. He said:

> We really wanted to find out the demand there for product sets, as that is where you focus upon how much infrastructure you build. So really understanding customers needs more than … yes, to satisfy the customer not so much profitability, that’s what follows on, but there was more understanding customer requirements.
One of the distinctive features of CPA suggested by Foster et al. (1996) is that this type of analysis focuses on multiple products purchased by individual customers and not the more traditional product profitability analysis which focuses on single products purchased by multiple customers. The offering of multiple products to customers was also identified as having an effect on a company’s need for a CA system, with those companies that offer more than one type of product or service having a greater need for a CA system to understand their customers’ profitability.

4.3.4 Competition

Competition was also identified as driving the decision to conduct some form of CA analyses. The Operational Manager of Company K maintained that one of the issues that motivated the company to consider CA analyses and focus attention on gathering pertinent customer data was the increased competition the company faced due to the deregulation of the gaming industry in Queensland. He described the competition in the industry in the following way:

The competition is fierce, bearing in mind this particular area of Queensland is probably the most competitive within the gaming, club and hotels industry than probably anywhere in Queensland. The ratio of machines to population is extremely high in comparison to other areas. So really if you don’t manage and run the operation well, you won’t survive because in simple terms the market doesn’t grow.

This view was endorsed by the General Manager of Company L who also suggested that the company’s decision to gather customer-related data stemmed from a perceived need for a greater understanding of the business due to increased competition. Comments made by the Marketing Manager of Company E (an electricity company) were also supportive of this position. The Marketing Manager suggested that due to the opening of the electricity market and the resulting increase in competition, a need had been created to understand customers in far greater depth. The implication of increased competition on a company’s decision to implement some form of customer accounting was most clearly articulated by the Gaming Administration Manager of Company F when describing why the company had not used customer accounting previously. He said:

It is important to understand the history here as well; the reason why we haven’t used these customer KPI’s or this customer form of accounting in the past. We have had very much a monopoly, so we have basically had open slather on what we were doing. Now it is very much open slather in terms of gaming, in terms of competition.
The finding of the importance of competition to the use of CA supports suggestions made in the literature in relation to the importance of increasingly competitive environments affecting the need to understand customer profitability. As Rousseau (2000) suggests, due to the emergence of a fiercely competitive situation, insurance companies must focus on individual customer profitability to maintain profitable growth. Bellis-Jones (1989) also highlights the need to understand customer profitability in the context of the retail sector and proposes that due to the competitive nature of the industry suppliers increase activities (and therefore costs) in order to protect their profitability. Interestingly, Guilding and McManus (2002) in their empirical Australian study found weak support for a relationship between competition intensity and CA with only the practice of segmental customer profitability analysis found to be significantly positively related.

4.4 Findings Conclusion

The overall findings of the study provide empirical evidence supporting many of the prescriptions made in the normative literature in regard to the decision making implications of CA information. Additionally, a number of contextual factors that impact the use of CA practices have been identified. Although CA has attracted some attention in the literature, this is believed to be one of the first studies to document the implications and characteristics impacting the use of CA practices by collecting in-depth interview data.

The interview findings have identified CA information as having positive impacts upon management decisions in relation to the level of service directed to customers, which customers to focus efforts on to retain, different customer pricing decisions, evaluating employee and department performance and how to allocate limited resources across a company’s customer base. Most previous prescriptions of the decision making areas that CA information may inform have been made in the marketing literature (Carroll and Tadikonda, 1997; Cover, 1999; Simon and Butscher, 2001). This is understandable as ‘the customer’ is the central tenet of marketing and obtaining customer information to enable marketers to ‘know their customer’ is integral to the marketing philosophy. It is heartening that there appears to be a growing cross-over into the management accounting sphere with the discussion of customer focused information enabling improved management decisions in a number of areas (Hemmes and Kane, 1999; Innes and Mitchell, 1995; Ward, 1995).

Interestingly, the main characteristics found to positively impact upon the use of CA practices have been identified in the normative accounting literature, rather than the marketing literature. Interviewees outlined the impact that market orientation, customer base size, company size, cost differentials, revenue differentials and competition have on the level of use of CA practices. Interestingly, the characteristic of multiple products has not been identified in either the accounting or marketing literature as having an effect on the adoption of customer focused accounting practices. Organisations that sell multiple products to customers have a greater need for customer focused accounting information that enables them to not only understand the complete profitability picture but to also have a greater understanding of customer needs.
Based on the findings of this study, a contextual model has been developed that encapsulates the factors that drive the use of CA practices and the decisions CA information informs. The model is depicted in Figure 2 below. The figure illustrates each factor identified as potentially influencing the need for CA, and by implication, greater CA practice usage. For example, from the interview findings it has been identified that a company that has greater differences in costs across its customer base has a greater need for CA. This increased need for CA, in turn, should lead to a greater probability of CA system implementation. Obviously, this model is preliminary in nature and only incorporates the findings of this study. Notwithstanding its preliminary nature, the model does provide a foundation for future growth of a more expanded model. It is therefore presented as a summary of the study’s findings and can be considered an initial step in the development of a more advanced contextual model that will be developed and tested in the future.

**Figure 2: Model of CA Usage Developed from Interview Findings**

In summary, this article contributes to the literature by providing evidence of a number of management decisions that CA information informs as well as a number of industry and organisational characteristics that impact the use of CA practices. Of particular interest is the finding that companies which have multiple products are more likely to use customer-focused accounting practices. In addition, a contextual model has been presented based on the findings of the study that contributes to the growing CA literature and provides a foundation for the development of a more advanced CA contextual model.
5. Conclusion

This study has involved the collection of evidence from the field to explore the decision making implications and the impact of industry and organisational level characteristics on the use of CA practices. Although CA has attracted some attention, particularly in the normative literature, this is believed to be one of the first studies that attempts to document the implications and characteristics impacting the implementation of CA by collecting in-depth interview data from a sample of organisations. While the findings reported herein have limitations in terms of their generalisability to the entire population of all Australian organisations, they provide a foundation for theory development. In addition, the contextual model developed from the interview findings provides a basis for future research.

This study suffers from all the limitations applicable to field study research and its reported findings should be interpreted accordingly. In addition, it is worth noting that typically the first research conducted in an area has an even greater number of limitations given the paucity of knowledge in that particular area. Every endeavour has been undertaken to minimise potential threats by the adoption of a grounded theory approach that provides guidance on a systematic data coding process, the use of NVivo qualitative software for analysis of the interviewee transcripts and seeking feedback from interviewees in regard to the completeness of the final transcriptions. Due to the study’s qualitative interview approach that necessitated a small sample size, the generalisability of the findings to other organisations is difficult. As the stated aims of the study were to provide in-depth qualitative evidence of CA, identify reasons surrounding why companies adopt CA, it should be noted that generalisability of the findings was not a primary objective of the research. Therefore, the internal validity of the research was seen as paramount to any external validity issues. The use of the qualitative software program to analyse the interview data also helps to reduce the threat to internal validity that may be introduced by researcher bias. Threats to internal validity were also minimised by circulating an initial draft of the interview findings to the interviewees. This enabled the interviewees to correct any comments they perceived were incorrect or not in context. No significant changes were required by the interviewees.

In conclusion, this study is best described as using a theory development approach. As Modell (2005; p. 231) describes, ‘a theory development approach is typically based on internal validation efforts stemming from further probing of unexpected or inconclusive findings as a means of theory extension’. The probing of the decision making implications and the impact of industry and organisational characteristics on CA has highlighted several potential areas for further CA research. Further research that considers a broader set of CA practices than that adopted in this study and also investigates the issues surrounding different segmentation bases used in SCPA would appear to be worthwhile. Additionally, potential avenues for future research includes examining the industry specific factors that may drive the use of CA, the importance of a firm’s strategy to the likelihood of CA adoption and the impact an organisation’s structure may have on CA adoption. In addition, the contextual model developed from the interview
findings could be further advanced via the inclusion of these elements and other relevant factors identified from the literature.
References


Appendix A: Abridged Interview Schedule

A. General

Date: ...........................................

Company: ...................................................

Address: ...................................................

Interviewee: ...................................................

Position: ....................................................

Industry: ....................................................

B. Customer Accounting General Themes

1. How much customer accounting information is generated in your company? Please describe.

2. How do you view the potential of customer accounting?

C. Customer Accounting Specific Issues

1. What specific roles do you see customer accounting playing?

2. What organisational decisions do you consider customer accounting information may inform?

3. Do you believe customer accounting could play a role in strengthening the relationship marketing culture of your organisation?
4. Do you think that customer accounting would have any implications for the relationship between the marketing and accounting functions in your organisation?

5. What are the drivers of customer cost differentials?

6. To what extent is credit collection information fed into a customer performance data base.

Company Profile

1. Would you describe your company as having a strong marketing orientation?

2. Is your company principally product or customer focused when making promotion/advertising budget decisions?

3. Does your company focus on retaining customers or attracting new ones?