Strategic Management Accounting in Distribution Business: A Case Study

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Abstract. Effective financial management is difficult for distribution companies. As a result, every distribution company needs to manage its finances by selecting the best plan. However, having the correct plan by itself is insufficient because the alignment of the strategy with the accounting instruments used is a significant determinant of financial performance. Accounting techniques for strategic management are crucial in this context. The purpose of this study is to determine how much strategic management accounting is used by distribution companies. In this work, a case study methodology is combined with a qualitative method. We used the Miles and Huberman model for data analysis. The study's findings suggest that businesses employ accounting tools for strategic management that are integrated with expenses, performance, and customers. Additional research reveals that there is evidence of cost stickiness behavior in cost calculation, which influences how strategic management accounting is used in businesses. This study advances our understanding of how distribution companies employ strategic management accounting tools to help them make business decisions.

Keywords: Chain Costing, Distribution Business, Strategic Management Accounting, Strategic Price, Value Strategic Costing

1 Introduction

The dynamically changing business world has caused many changes in concepts and theories as well as the way businesses work that will have an impact on the company's financial statements. One of them is the distribution business. Distribution plays a major role in the economic context. Its existence can be said to be very important. Through distribution, the products produced can reach consumers in various locations. The main task in distribution is carried out by distributors. Distributors are parties who buy a product directly from the producer and resell it to retailers, or can also sell directly to end consumers. Distribution companies do not produce their merchandise but act as intermediaries between producers and retailers or consumers.

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In the business world, there are various types of distribution companies, each of which focuses on different products and services. Various types of products have great potential in terms of profit and long-term prospects, FMCG (Fast Moving Consumer Goods) is one of them. Based on its meaning, the FMCG industry is a company engaged in consumer products. Such as toiletries, medicines, electronics, packaged food and beverages. The main challenge for FMCG companies comes from the products produced on average can only generate a fairly small profit margin, but their existence contributes economically to the progress of a country. Understanding how FMCG product distribution cost strategies affect overall financial health is essential for companies looking to optimize operations and maintain profitability.

Strategic Management Accounting describes a collection of techniques, approaches, tools, in developing strategies implemented by companies. Cadez & Guilding (2008) classifies 16 strategic management accounting techniques including attribute costing, life cycle costing, quality costing, target costing, value chain costing, benchmarking, integrated performance measurement, strategic costing, strategic pricing, brand valuation, competitor cost assessment, competitor performance assessment, competitor position monitoring, customer profitability analysis, customer valuation as an asset, and lifetime customer profitability analysis. The least used strategic management accounting technique is the practice of integrated strategic management accounting (eg balanced scorecard). In contingency theory, the application of strategic management accounting in a company depends on specific factors that characterize each industry and even the company. This is reflected in various research results of various types of industries, be it manufacturing (Hadid & Al-Sayed, 2021), trading (Manh & Thi, 2021; Phornlaphatrachakorn & Peemanee, 2020), or services (Tirado & Mavlutova, 2023; Rusli, 2021).

Most research on strategic management accounting to date has focused on management accounting practices in manufacturing companies and little attention has been paid to management accounting techniques in trading companies such as distributors which are important elements in a product's supply chain. In addition, the lack of research in Indonesia that emphasizes the collaboration of strategic accounting management techniques and supply chain management that can improve the company's financial performance is the reason for conducting this research. The purpose of this research is to determine the application of strategic management accounting in business distribution. The benefits of this research are expected to provide additional knowledge and become a reference for the development of studies on management accounting, especially strategic management accounting in improving organizational performance.

The research conducted is still exploratory, so this research is categorized as qualitative research. Parker (2012) stated that qualitative research has an important role in the field of management accounting research. Qualitative research helps to critique the process of management accounting development. While quantitative research is a type of factual research (Ahrens & Chapman, 2006; Barnham, 2015). Based on this background, this study was conducted to examine the application of strategic management accounting in Fast Moving Consumer Goods distribution companies.

2 Methodology

2.1 Design Research

This research was conducted at a distribution company in Denpasar. In this study, primary data is used to complete the required research data in the form of in-depth interview results and observations. Saunders et al., (2013) explained that there are three levels of research access, namely: physical access, continuing access, and cognitive access. Physical access is used by researchers when observations are made. In this case, the researcher directly observes what the data source/informant does. At the physical access level, this research is quite difficult because of the presence of researchers is only as an independent observer. At the continuous access level, it is used when in-depth interviews are conducted. This process uses an approach through company employee information that can help researchers determine who is eligible to be an informant. The in-depth interview method is carried out in three stages. The first stage, conducting interviews with informants related to positions in the company. This aims to gain a deep understanding, for further analysis. The principle of selecting informants uses the parameter of representation between policymakers and implementers. Overall, interviews were conducted with three informants, such as company owner, the general manager, and accounting. Table 1 presents the details of the informants:

Table 1. Informants

Interview ID	Role and department	Formation
Q1	General Manager	Face-to-face
Q2	Owner	Face-to-face
Q3	Accounting	Face-to-face

In the second stage, interviews were conducted with preliminary questions to informants to obtain an overall explanation of the business strategy implemented by the company. At this stage is the cognitive access level, researchers negotiate themselves in a position where researchers can collect data to obtain access to the right data, to be able to answer research questions. In this case, data collection was carried out by paying attention to ethical aspects, including Informed Consent, Anonymity, Confidentiality, and Protection from recorders. In the third stage, the results of the informant interviews were then recorded and compiled into interview transcripts.

2.2 Miles and Huberman's Interactive Data Analysis Model

Interviews were the first step in the data processing process, which was followed by note transcription. To respond to the study questions, interview notes, and transcribed documents were examined. The interactive data analysis model of Miles and Huberman was used to examine interview transcripts. The Miles and Huberman

Model analysis consists of three steps: presenting the data, reducing the amount of data, and making conclusions. Data coding helped in data reduction. Themes of the application of accounting instruments for strategic management were given codes. In the first round of open coding, the researcher classified every response into multiple groups. During the second stage of axial coding, categories were arranged according to five analysis components: strategic decision-making, costing, planning, controlling and measuring performance, accounting for rivals, and accounting for consumers. Selective coding, the third phase, involved the researcher searching for connections between the themes. Several concepts were eliminated at this point if they did not align with the idea that this study created.

3 Result and Discussion

3.1 Result

Informant Perspectives on Strategic Costing. The research findings are discussed according to the research themes that emerged in this study. The questions were designed to identify Strategic Management Accounting used by the distributor company. Group interviews were conducted with the company's management team. To understand it, the interview excerpt below explains the phenomena that admin collection and general manager informants realized and experienced regarding costs: "There are many costs in this company that are related to customers such as sponsorship fees, commission fees, discounts, sales cuts, etc. However, I have never seen the general manager calculate these costs for each customer. Maybe, my prediction is that the general manager sees the customer as a whole, not per customer. So the payment period exceeding 30 days is considered reasonable". (Q3). "We mark up the price by 5%, to accommodate top management, under-table commission, sponsorship, and everything the customer wants. Then the hotel price appears again, but this price is rarely mentioned directly. The first stage of this hotel price is with a 10% markup. It's not hypocritical because we also have to be able to cover operational costs. In practice, from the price that appears there will be negotiations. From the results of the negotiations, sometimes it will return to the supplier's price because some customers are not hotels but suppliers who supply goods to hotels". (Q1).

Informant Perspectives on Strategic Decision Making. Efforts to improve company efficiency are related to the company's ability to reduce expenses with low costs in providing services to customers. In this case, the company carries out cost efficiency by marking up prices. Researchers argue that the decision to raise prices in companies occurs because companies have difficulty explaining the costs incurred by customers. So to cover this, the company uses the price markup method. Price markup is a form of defense related to the company's inability to explain the costs incurred by customers. There is a company-recommended price for each type of product. Where there is an upper and lower limit of the recommended price. Where there is an upper limit and a lower limit of the recommended price. The lower limit is at the supplier price point of 5%, while the upper limit is at the hotel price of 10%. As mentioned previously, the inability to account for costs affects the capital structure a company uses. Companies tend to use short-term debt obtained from principals rather than increasing their capital through bank loans. This shows that companies prefer to use trade credit as a substitute for financing when they cannot account for customer costs. This is reflected in the following informant's statement: "Again, it depends on the segment, previously I said that in general the credit we give to customers is not effective. When compared to costs, for example, capital costs. But we offset the cost of capital with a price markup, of 10%. But for example, if we have already marked up, it turns out that the payment is long, yes, it goes back to the cost of capital. First, the company looks at the capital, whether it uses bank money or not. If it uses bank money, then what must be calculated is the loan interest. If we don't use bank money, just use the current deposit interest, for example, 5%. We also have to calculate the company's costs, not to mention we calculate the costs that we have to bear from the principal, yes, even though it will be replaced, but it takes quite a long time. Compare it again to hotels, how do they pay us? That's my calculation, it's just that very few people use deposit interest. Only a small number of people use cold capital, so most people use borrowed capital". (Q1).

"Our goal is actually to sell as much as possible by saving as little cost as possible. Therefore, our sales strategy is carried out by referring to the principal's wishes, meaning that this sale will be assisted by the program provided by the principal as a form of principle assistance fee". (Q2). The company's profit is obtained from products supported by the principle. As a form of support by the principal, a promotional program was issued so that the company would be motivated to run every program given by the principal to increase sales. This is reflected in the following informant's statement: "There is a budget provided by the principal, with several conditions. The budget will be issued in stages for several periods. This budget will replace our losses, depending on how much we sell it for. And most importantly, we have to go through a time process. That's why term of payment who shops with us is very concerned. Imagine using bank money, not using bank money can't cover operational costs, let alone using bank money". (Q1). From the sales results, the company will claim several costs and expenses that occur when the company makes sales to the principle. However, the company must go through a claim mechanism made to the principal. In the process, the principal will settle all claims from the company after the program is completed.

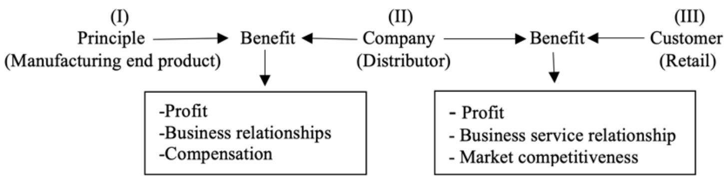

Figure 1. Cost-benefit analysis of a relationship in business distribution

3.2 Discussion

Interpretation of Researcher. As a distribution company carrying out its operational activities, an effective and efficient cost management strategy is needed to implement strategic costs to excel in competition. In addition, the company may be in a better position if it utilizes each attribute of strategic cost calculation including cost calculation based on, value chain and strategic decision-making attributes through price. How strategic management accounting in distribution companies can be seen as researcher perspectives on strategic costing and researcher perspectives on strategic decision making.

Researcher Perspectives on Strategic Costing. In this study, value chain costing is a cost strategy through understanding the relationship between the company's business and customer needs. The first characteristic in the implementation of value chain costs is value creation activities. In value-creation activities, distributor companies have attempted to combine and integrate their capabilities with customers through effective and efficient transaction cost management. The value chain costing strategy is carried out by companies by dividing two activities, namely activities carried out outside the company to create value derived from relationships with suppliers (supplier linkages) and activities derived from consumer relationships (consumer linkages). Costs derived from relationships with suppliers (supplier linkages) are in the form of agency costs arising from the principal. Agency costs are costs incurred by the distributor company (agent) to ensure to the principal that the distributor company (agent) behaves in a way that does not harm the principal. Jensen (1976) stated that there are three types of agency costs, namely: Monitoring expenditure by the principal; The bonding cost; The residual cost. There are two types of agency costs in a distributor company, namely: First, bonding costs that arise when the company issues a bank guarantee as a form of action to trust the principal in the form of capital; Second, monitoring costs that are of a nature to regulate the distributor company carried out by the principal through a claim scheme. Costs arising from consumer relationships are not easily classified because the allocation of costs to the products produced is calculated as a whole. This is because some costs may be difficult to adjust. The second characteristic, in the implementation of value chain costs is the supplier-customer relationship. In the supplier and customer relationship, the distributor company has implemented this relationship by increasing operational flexibility. This can be seen from the credit policy provided by the company.

Researcher Perspectives on Strategic Decision Making. The company's decision-making strategy places excessive emphasis on costs as a guide to pricing. That is, the company integrates distribution costs into the pricing strategy. This is a complex process and requires careful consideration. To combine distribution costs effectively, companies often use multiple pricing strategies. This strategy allows businesses to remain flexible and responsive to cost fluctuations without sacrificing their financial stability. In practice, in determining the pricing strategy, the company does not group the costs incurred by customers. The pricing strategy used by the company is with price markup. There is a recommended price principle for each type of product. The lower price limit is at the supplier price point with a 5 percent markup, while the upper price limit is at the hotel price with a 10 percent markup. The goal is to increase profits by setting a high initial price for customers who are willing to pay, followed by a lower price for customers who are very concerned about costs. There is an indication of cost stickiness behavior in setting price markups. The company also applies a psychological pricing strategy based on the assumption that consumers have purchasing motives that consider emotional factors more than rational factors. Among them are Multiple-Unit Pricing and Leader Lining. Multiple-Unit Pricing is a pricing strategy that gives lower prices to consumers who buy a product in larger quantities. While Leader Lining is a strategy of selling prices lower than the normal price.

4 Conclusion

The results of the study indicate that companies use strategic management accounting tools related to customers, costs, and decision-making in one package. Further findings indicate that there is an indication of cost stickiness behavior in calculating costs. This behavior affects the use of strategic management accounting tools in companies. Due to some limitations in this paper, for future research, further researchers can explore more details about the use of Strategic Management Accounting in various distribution companies. In addition, further researchers can try to combine qualitative research methods with quantitative research methods to provide a comprehensive understanding of the use of Strategic Management Accounting.

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