

## Managerial Accounting and Business Growth

If you are in a growth mode, perhaps your business is only a few years old and you are trying to establish yourself in the local market, then your measurements will focus on growth.

Before you can measure your growth you need to be clear about where you are now and where you hope to go. What size is the market? Have you targeted a certain geographic area? Or perhaps a certain channel, like hair salons for your handmade moisturizing products.

Whatever the growth goals are, you can develop a system for tracking your progress. Let's take a look at Carls' Candles and the managerial accounting system he has developed to measure his growth.

Carl has been making container candles for three years now. At the current prices Carl has been able to increase sales year over year. But the growth rate has slowed and last year he only grew his sales revenue by 5%.

The market for container candles is growing and the distribution outlets are numerous. Carl has been marketing his candles direct by selling through independent retailers and small gift shops in the area.

Carl sells to the retailers at \$3 per candle. The direct costs for each candle are \$1 and the overheads are \$4,000 per month. In Carls' overhead budget he includes his own wages, electricity, and insurance. The direct costs include soy wax, containers, fragrance, wicks, and delivery.

Break even for Carl is \$3 minus \$1 divided into \$48,000, or 24,000 candles per year. For the last three years Carl has sold 26,000 then 30,000 and 31,500 candles each year. Carl wants to develop a pricing program that will help him to stretch out into new areas like wholesale distribution.

If Carl keeps his price the same for all his customers he won't be able to offer a lower price to the wholesalers. But if Carl drops his price to the wholesalers, below the \$3 per candle, then he would not be making enough profit. What can Carl do?

Using managerial accounting, Carl has listed out the raw material costs for his candles.

\$.45 Soy Wax

\$.05 Glass Container

\$.01 Wick

\$.15 Fragrance

\$.44 Delivery

\$1 Total Direct Cost per Candle

Carl can offer the same candle to a wholesaler at \$3 minus 44 cents for delivery, which equals \$2.66 per candle. Will this be enough to increase his sales volumes? Carl puts out a flyer and mails it to all the local wholesalers. His sales increase because now the wholesalers can distribute many more candles than Carl.

But Carl tracks the sales and notices an increase in his wholesale shipments but a decrease in his retail sales. What has happened? The wholesalers are now shipping his old retailers direct. So Carl is selling more product at a lower price. In this simplistic example you can see how managerial accounting has helped Carl make decisions about his growth oriented pricing strategy.

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### About the Author

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