

CHAPTER II

CONTROL OF FIXED COSTS:
PROGRAMMED AND COMMITTED COSTS

Advances in automation, increases in technical specialization, and pressures toward stable employment have had a substantial effect on the cost behavior patterns of organizations. More costs are tending to become fixed. In this chapter, we shall investigate the techniques for controlling fixed costs.

Fixed costs provide capacity for manufacturing, sales, administration, and research. They often entail relatively heavy sums and long spans of time. Hence, decisions regarding fixed costs are far-reaching and usually have sizable short-run and long-run effects. The implications for managers are twofold: First, planning techniques are crucial. Second, once acquired, the capacity should be utilized as fully as possible provided, of course, that the increase in revenue exceeds the increase in costs as volume increases.

The planning of long-range commitments for plant and equipment, new products, and the like often involves discounted-cash flow techniques. We shall discuss this type of problem in detail in Chapter 14. In this chapter, we shall concentrate on the planning of programmed costs and the utilization of capacity already on hand. The emphasis will be on attention directing.

PROGRAMMED COSTS

Difficulties of Measurement
MEDICION

As we defined them in Chapter 8, programmed costs, also called managed costs, are those fixed costs which arise from periodic appropriation decisions that directly reflect top management policies. Programmed costs are an assortment of manufacturing, selling, administrative, and research items. Like committed costs, they should be carefully planned and fully utilized if net income is to be maximized. Unlike committed costs, they can be influenced more easily from period to period. It is also harder to measure the utilization of programmed costs, principally because the results of services like creative personnel, advertising, research, and training programs are much more difficult to isolate and quantify than the results of utilizing plant and equipment to make products.

Lump-sum appropriations for advertising, research, training, public relations, sales promotion, donations, size of sales and engineering force, and the like, are usually made annually. In the give-and-take of the process of preparing the master budget, the programmed costs are the most likely to be revised.

Organizational objectives determine programmed costs. For example, a large portion of programmed costs may consist of salaries for salesmen, accountants, clerks, and engineers.

Some managements may ^{Administrar} hire and ^{alquilar} fire more ^{empresar} quickly than others, ^{Despedir} thus ^{rapidamente} exercising short-run cost control. Other managements - ^{así ejerciendo} may believe that such ^{acortoplazo} short-run benefits are ^{exagerado} outweighed by - the ^{alargo plazo} long-run difficulties of attracting and retaining ^{tolerancia} top-flight ^{sobresaturado} talent. The latter tend to have proportionally higher - programmed costs and lower variable costs; the former ^{el primero} tend - to have proportionally lower programmed costs and higher variable costs.

The ^{conducta} behavior of some programmed costs is ^{fácil} easy to delineate. Advertising, research, donations, and training programs, for example, are usually formulated with certain objectives in - mind. Total costs are then estimated, and ^{se hacen peticiones} requests are made to higher management for an appropriation, an authorization - to spend up to a specified dollar ^{para gastar hasta} ceiling. The execution of such projects ^{Es medida} is measured by comparing ^{total} total expenditures - with the appropriation. Because the tendency is to ^{gastar el} spend the entire appropriation, the resulting dollar ^{total} variances are generally trivial. But ^{Pero planeación} planning is ^{los} far more ^{MUCHO MAS} important than this ^{importante} kind of ^{clase} day-to-day control. The perfect execution of an ^{publicidad} advertising program - in the ^{sentido} sense that the ^{total} full amount authorized ^{fue gastado} was spent in the specified media at the predetermined - times-will be ^{infuctuoso} fruitless if the advertisements are unimaginative and ^{si no se alcanza} lifeless and if they ^{equivo} reach the ^{publico} wrong audience.

Because ^{Porque} nonmanufacturing ^{DE NO FABRICA} costs are predominately ^{gastos nos programados} composed of - programmed costs, we shall concentrate on ^{compuesto de} marketing and administrative costs for the ^{volumen} bulk of the ^{lo que queda} remaining discussion in

this section.

Comparison of Marketing and Manufacturing Costs.

The marketing function ^{abarca} embraces all nonmanufacturing activities aimed directly at obtaining and ^{llevar pedidos} filling orders. Marketing has ^{frecuentemente han sido} often been described as a combination of ^{como una} order-getting and ^{recepcion} order-filling activities. Order-getting is the attainment of a ^{logro} desired sales volume and ^{mezcla} mix. It is the art of ^{suavido} landing the order ^{atraves} through advertising, promoting, and ^{publicidad} selling. Order-filling includes ^{almacenamiento} warehousing, ^{empaque} packing, ^{embarque} shipping, ^{facturación} billing, and credit and ^{cobro} collection. Many order-getting and order-filling costs may be variable; however, some are programmed.

The fundamental concepts of planning and control are as applicable to marketing ^{as to} manufacturing. ^{En cuanto ha} Budgets, standards, ^{presupuesto} performance reports, investigation of variances, and the like ^{eficiencia} are used in all business operations. ^{y similares}

Accounting techniques for planning and control were initially ^{desarrollado} developed for manufacturing ^{en lugar de} rather than for marketing. This occurred because manufacturing ^{input} input and output are ^{mas facil} easier to classify and measure. The measurement of direct material and direct labor consumed, and of various parts and products produced, is ^{directo} straightforward. The measurement of the ^{esfuerzo} efforts (input) of advertising and salesmen and of the ^{efectividad} effectiveness (out-put) of advertising and salesmen is often difficult. ^{venedores}

Formal planning and control techniques seem more meaningful - when facilities are fixed, routine is entrenched, and external influences are small. They have traditionally been meaningful when external influences are overwhelming, when many short-run alternatives exist, and when courses of action (and cost incurrence) are heavily influenced by management's opinions or hunches. For example, decisions about marketing are complicated by such interacting factors as product mix, design, types of outlets, pricing, advertising, competition, customer reaction, and general economic conditions.

Marketing managers are becoming increasingly aware that traditional guesses, hunches, and reliance on generalized rules of thumb are no longer enough. Detailed accumulation and analysis of data, including budgets and standards, help identify the products, territories, distribution channels, order-sizes, divisions, departments, and employees most in need of attention. The use of management accounting in marketing is bound to increase because it can yield fruitful insights at little cost.

A successful marketing operation obtains the highest possible contribution to profits over the long run. Note that the objective is contribution to profits, not merely increasing sales or decreasing expenses. That is why marketing executives should know cost-volume-profit relationships. That is why the contribution approach to analysis of marketing performance is superior to other approaches, which fail to distinguish -

the vital influence of various cost behavior patterns.

General Characteristics of Order-getting Costs.

The outstanding characteristic of order-getting costs is that they are generally incurred to obtain sales, rather than being a result of sales. For the most part they are programmed costs.

Day-to-day control has little influence on over-all order-getting costs (input). However, day-to-day control may have a considerable impact on the effectiveness of the costs - the quantity and quality of the sales volume obtained (output). The analysis of order-getting costs usually has a central purpose: the shifting or concentration of efforts and resources toward the most profitable course of action.

Sales performance, or output, is influenced by many variables whose independent effects are difficult to isolate - for example, the inter-linking of advertising with other sales efforts, the action of competitors, general business conditions, the personalities of salesmen and of customers, and the short- and long-run effects of order-getting activities.

The difficulties of measurement become more imposing as advertising becomes more general and selling more personal. Still, the efforts and results involved in some order-getting activities are subject to specific measurement. Certain retail and wholesale selling duties, for example, are more akin to