



The CCI Journal

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FASB 01-9: Properly Accounting for Channel Promotion Expenditures

Reporting and Disclosure

The Financial Accounting and Standards Board (FASB) recently issued a ruling relating to identifying and reporting of channel promotion expenditures for external financial statements. For many organizations, appropriate reporting and disclosure is paramount to meeting their fiduciary responsibility to the Security and Exchange Commission (SEC) and the public at large.

All trade payments must be classified as revenue reductions unless they meet all of the following conditions:

- 1 - The manufacturer receives or will receive an identifiable benefit in exchange for the considerations.
- 2 - The benefit is clearly separable from the sale of the product.
- 3 - The benefit could be purchased from a source other than the reseller (i.e., directly from the newspaper).
- 4 - The manufacturer can reasonably estimate the fair value of the benefit.

If you're confused about how this affects your reporting, we've simplified it for you.*

Program Design

How you design your program really depends on your company goals and objectives. You might be interested in showing as much revenue as you can - in that case, you want a program that requires documentation and limits the activities covered to marketing expenses. Or, you might want to show low operating expenses - in that case, include business development activities

your trade-marketing program to be counted as contra-revenue (revenue reversal) or as marketing expense. You can even use a combination of the two, but you must be careful to make sure your program guidelines support your choice. Consult your accountants, they can help you determine the guidelines and requirements for your program. Then, you can initiate documentation and cost auditing procedures for payments that would qualify as marketing expenses.

For example, if you count your costs as contra-revenue, you will actually reduce the total sales of your company by the amount of the payments made to your resellers for this program. In this case, expenses are reflected in your top line. If, however, your costs are counted as marketing expense, these payments are included in your selling, general and administrative expenses. Either way, your bottom-line revenues are likely to remain unaffected!

Expenses

Under the new ruling, certain expenses would always be counted as contra-revenue, such as salaries, end caps or certification. These expenses are either inseparable from the sale of the product, and/or they are services that could not be performed by a provider other than the reseller.

Expenses that have traditionally been part of a co-op advertising program, such as newspaper ads or direct mail pieces, can still be counted as marketing expense. These expenses are seen as providing the manufacturer with a benefit, are separable from the sale of the product and could be purchased by the manufacturer directly. Therefore, they can be considered

Preparing for the Recovery: 10 Marketing Trends for 2003

Coming off a year that saw a recession, a crisis in corporate confidence and the slashing of marketing spending, marketers are looking ahead with battle-hardened wisdom and cautious optimism.

Marketers see the upcoming year as one in which to practice sound, practical business strategies.

Here are a few strategies to help you prepare for the recovery:

Need for Integrated ROI Measurement

The necessity to prove return on investment will increase as companies demand greater accountability for marketing efforts. Marketers will be offered improved means of measuring the effectiveness of marketing programs through advanced tracking technology, and they'll be forced to reevaluate the ways they measure the performance.

(*Recovery," page 2, column 3)

If You're Looking for Ways to Turn Complicated Ad Production into a Few Simple Steps...



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: Click Product



: Click Headline



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www.CCionline.biz/software/adpro

The way I see it...



Bill Kelly is VP of Business Development for CCI and helps companies define objectives, evaluate strategies and implement programs that achieve measurable results.

Web Services Support Mutual Gains

Automating the flow of information between a company and its business partners has always been a difficult and expensive endeavor. The advent of Web services allows a company to connect its applications to any number of business partners relatively inexpensively and easily.

Web services are technologies that essentially enable companies to connect applications and data directly to one another. The Web service is incorporated as a front-end layer of software put on top of an existing application, thereby allowing other applications to link up and communicate or exchange data.

A Different Approach

Investments in Web services call for a different approach. Because large critical systems such as enterprise platforms and partner relationship management (PRM) applications are hard to modify once they are in place, companies that implement them must assess the long-term implications of the technology and of the process-related changes needed to capitalize on the expense. By contrast the flexibility of Web services allows companies to change, modify, and expand applications based on the process they support. Therefore, a company can invest modestly at first, focus on near-term financial returns, and scale up as the needs and business dictate.

Benefits

Leverage Existing Technology: When a company installs an enter-

prise platform, it generally gets rid of the legacy systems and replaces them with applications that run on the new platform. The reverse is true with Web services. The new technology is essentially an overlay, so the challenge is to get more value out of existing assets.

Invest in the Functionality Needed Today: To benefit fully from a large application, a company must generally redesign many of its core systems and processes. With the more modest and focused Web services approach, little or no restructuring is needed, and an installation can be completed in days or weeks rather than months or years.

Less Expensive than Customized Code: With Web services, companies are able to connect with their business partners more efficiently and cost-effectively. Implementing a Web service is far less expensive than customized code – about \$35,000 for a modest solution (based on CCI's experience implementing over 60 such solutions) compared with \$500,000 for installed versions. Web services are not only cost-effective, they also improve the way both sides interact and communicate, transforming the way co-marketing programs are developed, rolled out, and measured.

Trade Marketing Programs Stand to Benefit Most

Among business functions poised to benefit most from migration to a Web service are trade marketing programs. Delivered in person or online, the goal is the same: quickly and efficiently give customers what they want, when they want it, and how they want it. The Web is a 24/7 medium. Businesses and organizations that seize Web services can gain access to extraordinary cost savings, revenue growth, improved customer satisfaction, and, ultimately, competitive advantage.☐

FASB

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in most company budgets. Be prepared – managing trade promotions has always been a complex process. This issue simply highlights the importance of proper

where a consensus was reached on this issue is available from the FASB. To order, call the FASB Order Department at 203-847-0700, ext. 10, and request ruling number 01-9.

*Note: CCI is not an accounting

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Recovery

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Companies need to generate one set of objectives, embraced and tracked by both sales and marketing. The emphasis will be on metrics and how to measure the overall value of marketing. This will lead to re-mixing of the marketing investment.

Growth of Direct Mail

Despite ever-increasing postage rates, direct mail is still one of the most cost-effective ways to reach prospects, provided you are putting the message in the hands of the right people—those who are most likely to respond. Clean out your database and keep it up to date, and make sure all parts of the company are talking to one another.

Opt-in Email Must be Relevant

E-mail is one of the fastest growing, and most effective, ways to reach your market. It's very inexpensive, especially if you have a small marketing budget. It's important, however, to be relevant to the customer – don't clutter up their e-mailbox with messages that don't relate to their needs. Be sure you are reaching the right people. And remember to always ask permission before including them on your list.

Data Quality Will Improve

All the direct mailings or e-mailings in the world won't help you if you're not reaching the right people. Improving the quality of your data will make the most of your time and money. Some companies offer "data cleansing" or "data hygiene" services, which help identify and correct inconsistencies in your data. Always be sure to request address corrections, and confirm as much information as you can before you do a mailing.

Growing Role for PR

Public Relations is a very cost-effective way of reaching your core audience. PR tactics include defining networks of people that are connected, finding the key people to make sure your message gets to the

Focus on Trust and Integrity Messages

The focus this year will be on building confidence. Trust, integrity and reliability are key words to remember when it comes to getting your message across. Customers want to hear practical, pragmatic solutions, not flashy promises.

Creation of "Holistic Branding"

Continuing in the vein of integrity and trust, concentrate on exactly what your brand represents to your customers, and how you want to communicate that brand experience to prospects. Internalize your brand within your organization, and be strategic in aligning your brand with your business objectives. More than just a new ad campaign, measuring the emotional impact a brand has on your customers will help you grow your prospects.

More Focused Events Marketing

The trend in 2003 will be for fewer trade shows, but more targeted ones. Companies that formerly hosted three or four events a year will now concentrate on one or two narrowly targeted events. And because of smaller budgets, marketers will attend only one or two shows a year.

Integration of Business Systems

The marriage of customer relationship management systems and existing business systems is an important step. You may have a well-developed CRM/PRM system, but if it doesn't tie in with your marketing, you're spinning your wheels. Take a look at your electronic assets and be sure to integrate them into your overall system.

Continuing Growth

Marketers are continuing to invest in their businesses with an eye toward growth. Marketers are starting to be more adventurous