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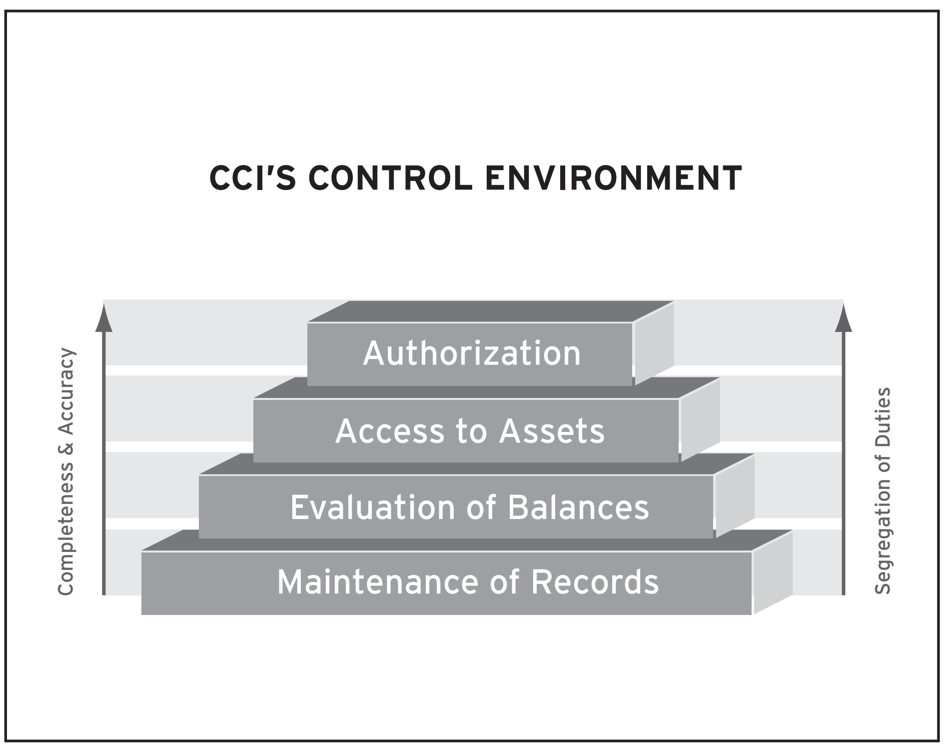
Sarbanes-Oxley & FASB: Legislation Impacts Year-End Planning

It's the time of year when many companies are planning for next year's programs. This type of planning is always essential, but it's especially important now due to the Sarbanes-Oxley (SOX) & Financial Accounting Standards Board (FASB) rulings that have an impact on virtually every area of a company's business, with channel programs and trade promotions being no exception. Since sales and marketing programs almost always include some financial component and issues that fall into the "fair trade" category, it's becoming increasingly important to plan and manage programs with SOX & FASB in mind. In this article we'll talk about some of the key elements of these pieces of legislation that you should be aware of when planning programs for next year.



KNOW YOUR COMPANY'S BUSINESS MODEL

Revenue reduction v. expense:
The costs of channel programs may be accounted for as a revenue reduction (also called "contra revenue"), which means that the costs come out of the bottom line. If your company prefers to use an expense model, the same costs are generally treated as a sales or marketing expense. Check with your Finance Department to find out how they would like to account for the costs of channel programs and what types of documentation are required. Based on what you learn and the model your company chooses to follow, you can then develop and manage programs that will be compliant with FASB and SOX.

In developing your programs, keep in mind that unless trade promotion payments meet four tests, FASB EITF Ruling 0-19 requires that they are to be considered "revenue reversal" rather than the long-standing practice of coding them as marketing expense. The four tests are:

> The payment covers a service by the partner that offers a clear benefit to the manufacturer;
> The benefit is clearly separable from the sale of the product;
> The benefit could be purchased by the manufacturer from a source other than the partner;
> The manufacturer has obtained proof of performance and is able to reasonably estimate true costs.

CREATE INTERNAL CONTROLS

Reclassify exceptions correctly:
Not only is it important to know and follow your company's business model when developing trade promotion programs, but it also critical to have a system in place whereby exceptions can be reclassified and accounted for appropriately. Most every program has exceptions of some kind, whether they are expected or not, and it's an act of due diligence to establish a process for handling them before they happen. We typically recommend that clients set up an account into which exceptions may be classified with the appropriate approvals, using our automated system. An example might be a co-op (expense) program where an exception is made (an expense that would normally not be deemed reasonable is being paid across the board to all channel partners). In this case, the reimbursement would be made to the partners who submitted a claim and the appropriate documentation, but the dollar amount of the reimbursements would be reclassified into the pre-established revenue reduction account.

Separation of roles:
SOX clearly requires that there is a separation of roles with regard to financials so that companies can prove that there is a process of checks and balances. There are many ways to achieve the required separation of roles, especially once your program has been developed and guidelines have been written. For one, it is essential to communicate with necessary parties in your company to ensure that roles are clear and that everyone involved is educated as to how their distinct and separate role contributes to the success and compliance of the program. We also recommend that the system used to support and manage the programs has an infrastructure that insures the separation of roles. For instance, hierarchical access to data based on role, individual viewing and approval rights based on role

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Establishing & Measuring Program Objectives for Next Year

Now that you know the parameters of next year's programs based on how your company accounts for costs, you can begin the process of establishing measurable objectives for your 2005 programs. It's important to understand your company or division's business objectives first, and work back to them with each objective in your programs. Additionally, as we do every year, we recommend that you build a measurable component into each objective at the onset so that methods for capturing key data points can be built into the program rather than "retro-fitted" in at a later date. If measurement is concurrent with a program, the program is easier to manage, successes and failures can be gauged more readily and collecting and reporting on data can take place at any time. An ancillary benefit to this is that your visibility into your programs will increase, allowing you to stay on top of compliance issues like exceptions and material changes to your internal controls.

The following are the main steps your company should consider taking in order to develop a streamlined program plan, making it easier to measure the effectiveness of your program.

Primary objectives
These are overarching objectives that your whole company or division is working towards. Objectives should always be measurable, so make special note of the ways your company is measuring success.

Secondary objectives
These are more specific objectives that are particular to your division, region or the program you are developing.

Strategy
The strategy is the general direction in which you will go to achieve both the primary and secondary objectives. For instance, the objectives of your co-op

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The way I see it...

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

Key Learnings From Our SOX-FASB Events

Last month, CCI hosted two events designed to provide channel sales and marketing professionals with the information needed to help insure program compliance in the face of new legislation. The new legislation is the Sarbanes-Oxley Act, a law that impacts all area of a public company and that mandates compliance by November 15th. We also covered a not-so-new piece of legislation, the FASB EITF Ruling 01-9. Both of these laws are rather complex when looked at as a whole, so we parsed out and shared the relevant and most useful information for those in attendance. From the two events we have hosted, we learned quite a bit ourselves, and I'd like to take this opportunity to impart some of those learnings to you.

The Mysteries of Revenue Reduction and Marketing Expense

A key element to both FASB and SOX compliance is a company's ability to account for costs and revenues correctly. However, we have learned that many companies still do not necessarily know how to account for costs and revenues according to GAAP standards, let alone FASB and SOX standards. If you are in doubt about this where your company's programs are concerned, I have several suggestions:

> Ask your Finance or Accounting Department which model your company follows: The revenue reduction or expense model
> Establish programs and guidelines that support your company's business model

Creating Separation of Roles

In a post-9/11 economy, many companies are still trying to do more with less. So the concept of creating internal controls and separation of roles is especially daunting for companies who have lost headcount and are faced with increased levels of cost controls. There is a simpler way to create the necessary separation of roles that SOX requires, especially in sales and marketing programs. If you haven't done so already, automate. An automated, online system with tiered, secure views and approval rights will guarantee that your company and your programs have separation of roles.

It's Not as Bad as It Looks

Despite the fact that many people seem to be confused by SOX and FASB, and they feel somewhat helpless where these laws are concerned, companies seem to be doing more to assure compliance than we thought. One of the aspects of the SOX legislation that may be a contributing factor to this proactivity is the requirement that the Board of Directors create an Audit Committee. Many times, companies are able to be more effective in their efforts if a third or somewhat objective party is involved, and both Sarbanes and Oxley must have recognized that fact. By making the Board responsible for the Audit Committee, many companies have been able to get further ahead of the SOX compliance curve than they may have been able to do on their own. This is good news, for everyone.

Empower Yourself

Even with their companies working towards compliance, though, many people within the companies are still feeling confused and powerless to do anything within their own departments or programs. I would encourage those people to educate and thus empower themselves. There is a wide variety of SOX and FASB information available, and there are tools that can help right now.

CCI has made all of our SOX & FASB tools available on our website, and we invite you to make use of them. Please visit us at www.CCIonline.biz, or call me with any questions.

Impact

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and separation of similar duties (i.e., the person who is approving reimbursement payments should not be the same person who is signing the reimbursement checks).

Maintenance of records:
SOX also requires that appropriate documentation is collected, stored and made accessible. This is another way to provide fail safes and to guarantee that any material financial changes can be identified and reported quickly. Be sure to not only establish a standardized method of collecting documentation like proof of performance, but also make sure that the records are maintained and accessible in case of an audit or other need.

Sarbanes-Oxley Section 404 compliance deadline:
November 15, 2004 is the Section 404 compliance deadline. Your CEO, CFO, Board, Audit Committee and others are ultimately responsible for your company's overall compliance but you have the ability and responsibility for making your programs compliant. By following the tips we've provided in this newsletter and on our website, and by abiding by your qualified financial and/or legal counsel's dictums, you should be well on your way to 2005 program compliance before the November 15th deadline.

For more information on Sarbanes-Oxley and FASB Ruling 01-9 and how they impact your channel programs – please visit www.CCIonline.biz.

Objectives

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program may be to increase your company's brand awareness and increase sales that are generated in your channel. Your strategy may then be to provide your channel with a toolkit of resources that allow them to then do really effective co-branding, marketing, lead generation and sales (i.e., our Fund Management and AdPro Modules come to mind).

Target Audience
The target audience is specific groups of people to whom you will be communicating your message. Whom do you need to talk to in order to meet the objective? In the case of a co-op program, your audience will likely be channel partners.

Messaging
Messaging is how you craft all of the communication that speaks to this specific audience. If you are communicating with tiered channel partners about a new co-op program you will typically modify your message for each tier, use an educational yet excited tone and speak to the benefits of participating in the program as seen through the eyes of your audience.

Tactics
How are we going to deliver the message to our target audience? This is the nuts and bolts of your program including guidelines, how data points and key metrics will be captured, tracked and analyzed, communication and rollout plans.

Call to action
The call to action is the offer, the next steps, and the compelling thing that your audience will want to do per your suggestion. This might include a coupon, an enrollment reward, and the like. It should be something strong, clear, and irresistible, especially if you are rolling out new programs with stricter guidelines (in the face of legislation like SOX & FASB).

Follow-up
Think of follow-up as the way to keep the momentum going and continue the relationship with your audience, guiding them to the next step, and the step after that and so on.

By using these guidelines to develop your programs, your objectives are more likely to be met and measuring your success will be much easier. For more information on channel and trade promotion program development, please visit www.CCIonline.biz.

What's New@CCI

VISIT THE RESOURCES SECTION OF OUR WEBSITE TO FIND OUT MORE ABOUT THE INFORMATION WE PROVIDED HERE AND TO TAKE A LOOK AT THE EXCITING EVENTS CCI WILL BE HOSTING IN THE COMING MONTHS, INCLUDING OUR NEW ONLINE EDUCATIONAL WEBINAR SERIES, WHICH BEGINS IN OCTOBER.

EDUCATIONAL WEBINAR SERIES
The first four webinars in the series are:

Wednesday, October 27th
Channel and trade promotion programs defined

Wednesday, November 10th
How to conduct a channel assessment

Wednesday, December 1st
Program development & measurement

Wednesday, December 15th
Implementing an automated channel or trade promotion program

CCI announces a new partnership with Amazon Consulting. Please go to www.CCIonline.biz/Amazon to find out more about Amazon Consulting and how, together with CCI, they can make the most of your channel programs.

amazon CONSULTING

You could win a free iPod mini!

CCI is running a Refer-A-Friend Program that offers you the opportunity to win a free Apple iPod mini for each qualified referral provided to CCI by December 31, 2004. For complete details and to make referrals, please go to www.CCIonline.biz/refer.