Trade Promotion Controls
Avoiding Sarbanes-Oxley Problems

By the staff at Smyyth LLC
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Vendors, brokers and retailers recognize that administration of trade promotion paperwork represents a huge expense but since 2002 they have had another compelling reason to cooperate - Sarbanes-Oxley (SOX).

With trade marketing promotions accounting for up to 25% of revenues for many companies, this represents a huge investment that requires monitoring, not only for ROI, but also for compliance. Because there are many transactions and they are complicated, a sizable percentage of trade promotion deductions are invalid or excessive as the customer may not have performed according to the rules; consequently careful auditing is required to avoid losing profits.

Inadequately documented and tracked promotions fail on operational as well as SOX compliance levels including:

a) An inability to account properly for promotion expenses by product;

b) Inability to gauge the effectiveness of a trade promotion;

c) Opening the door to erroneous customer deductions; and

d) Opening up price discrimination questions under the Robinson-Patman Act of 1936.

Section 404 of Sarbanes-Oxley requires that you document having solid controls and processes, including:

> A statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the company;
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> A statement by management identifying the framework used to evaluate the effectiveness of this internal control;
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> Management's assessment of the effectiveness of this internal control as of the end of the company's most recent fiscal year; and
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> A statement that its auditor has issued an attestation report on management's assessment.

Trade Promotion Management Tips

Here are some tips that should enable vendors to optimize trade promotion programs and stay out of regulatory trouble. The point of "trade promotion", of course, is to promote your products, increase sales and profits. The science of the discipline is to understand what trade promotion strategies work best in which markets with what timing.

This is a rare case where you can improve compliance with government legislation and improve your profits, too. Better tracking of trade promotion expenses and improving controls will enable you to optimize these programs for increased sales.

1. Systems. If you are not using a trade promotion planning system that is integrated with back-end deduction processing, you are missing a big opportunity to catch the inevitable incorrect and excessive deduction errors that occur. Even small

companies that previously could not spend the money on an in-house system can license a powerful hosted application that works over the web.

2. Clarity of Deal Formats. Many deals are misunderstood because they are not written (or formatted) for quick understanding at clerical levels, resulting in excessive or otherwise incorrect deductions, mistakes and confusion. Remember that your customers are dealing with hundreds of supplier deal formats and they do not have time to decipher incoherent trade promotions.

Even the best structured trade promotion can be misunderstood but to minimize the chances, make sure every deal is clearly and completely communicated and understood by your people first, then by brokers and the customer.

3. Brokers. Many companies use brokers to manage their trade funds, the idea being they are closer to deal execution. This can be effective; however, while you can outsource the work, you can not outsource the responsibility for legal compliance or for your profits since you will take the loss for any errors. You must have a trade promotion-deduction audit function to audit broker performance. Most broker-organization are very professional and competent, but do not lose sight of the fact that when it comes down to it, your customer is their meal ticket and primary concern.

3. Open Checkbooks. Review and minimize sales representatives' use of "open checkbook" types of programs which provide little opportunity for tracking and validation.

4. Documentation. Sarbanes-Oxley requires documentation for trade promotion expenses. You can use this to your advantage with the customer to make sure that scheduled promotion activities took place when and where they were intended .

5. Erroneous Deductions. Paying for the promotion when the

execution does not match the deal may be the path of least friction but will set a bad precedent, continuing problems, and cause later headaches with your auditors, and potential SOX problems. You need to reject and pursue deductions/claims that do not match-up with the promotion.

6. Deduction Management System. Since 10%-20% of customer deductions are either invalid or excessive, you need a state of the art deduction management system such as Carixa ™ in order to process and track trade promotion deductions, and optimize recoveries of deductions.

The Smyyth Way

Smyyth outsourcing engagements include Carixa's world class accounts receivable workflow and automation. We handle all the customization and establish the data transfer with your ERP system, and have you up and running within a few weeks. Then we apply a dedicated US team to handle the accounts on an intensive, high priority basis, trained to mirror your business culture. Total time to implement - less than a month.

Smyyth Results

- Trade promotions properly accounted
- A 50% increase in recapture of erroneous deductions
- Time to resolve disputes cut by 70%
- Overhead - slashed

With Smyyth's Expert-Outsourcing, there is a way to achieve your corporate financial goals without burdening your resources, using a professional resource that combines expert staff with state of the art technology and customer service. Contact Smyyth's President of Solutions for more information today. KMetzger@smyyth.com. +1-201-714-4545

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