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Members in Business and Industry, March 1997

American Institute of Certified Public Accountants (AICPA)

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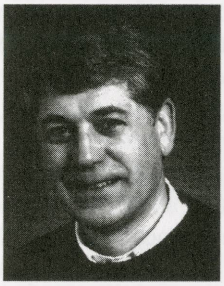
AICPA

American Institute of Certified Public Accountants

AICPA to Hold Spring National Industry Conference and Information Technology Conference in New Orleans May 13–16



Michael W. Brown, CFO, Microsoft Corporation, will address the AICPA Spring National Industry Conference on May 15, 1997, on how new technological changes will impact financial managers into the next century.

The theme for the Spring National Industry Conference which will be held in New Orleans, LA, from May 14–16, is *"Jazz Up Your Financial Skills."* This program is designed for CPAs who work in business and industry.

Speakers and their subjects include John Miller, principal, Arthur Andersen, LLP, on Providing Value and Achieving Best Practices with Cost Management; L. Gary Boomer, CPA, Boomer Consulting, Planning, Budgeting and Implementing Technology; Marshall Romney, Ph.D., CPA, CFE, Brigham Young University, Provo, UT, Fraud; and William C. Jennings, Chairman, In-Control Service, Coopers & Lybrand, LLP, Integrated Risk Management and Control. There will also be sessions on nuts-and-bolts topics such as taxes, FASB activities, an update from the Consortium for Advanced Manufacturing (CAM-I) as well as a number of sessions on developing personal skills.

On May 13, the day before the Conference begins there will be a special one-day Information Technology Conference to show financial managers how they can successfully integrate new technology in pursuing their goals.

"Tune Up Your Technological Skills, Too" is the theme for the one-day Information Technology Conference that will precede the Spring Industry Conference. A popular feature of the Conference is the session on the Top 10 Technologies of 1997 and how they affect industries and businesses.

conferences

Other sessions will discuss the Internet and Intranet, computer security, electronic commerce, and the programming nightmare scheduled for 12:01 am , January 1, 2000, when most computers will read 1900.

On Wednesday evening, May 14, 1997, there will be a Mardi Gras Reception for all the Spring National Industry Conference participants and their spouses, featuring sumptuous New Orleans cuisine and music.

The registration fee for the Spring Industry Conference is $625 and $295 for the one-day Information Technology Conference. Early-bird, team, and combination discounts are available. For a brochure, more information on the conferences and registration, call toll-free:

1–800/862–4272.

AICPA

Product Life Cycle Management

Because of rapidly evolving technologies, products are being marketed for shorter periods of time before being superseded by new models or totally new types of products. This reduces the time for marketing and hence the time available to recover the investment in the product. At the same time, the operating life of many products is increasing, leading to revenue/profit opportunities via warranties, parts, and product upgrades. Understanding today's product life cycle perspectives and managing for them can help maximize profits.

Product Life Cycle Management, a guide offered by the AICPA, outlines life cycle concepts, the objectives of product life cycle management, the associated management accounting challenges, the role of the management accountant, marketing considerations and engineering and service functions from a life cycle viewpoint, and the actions for implementing successful product life cycle management.

Life Cycle Concepts

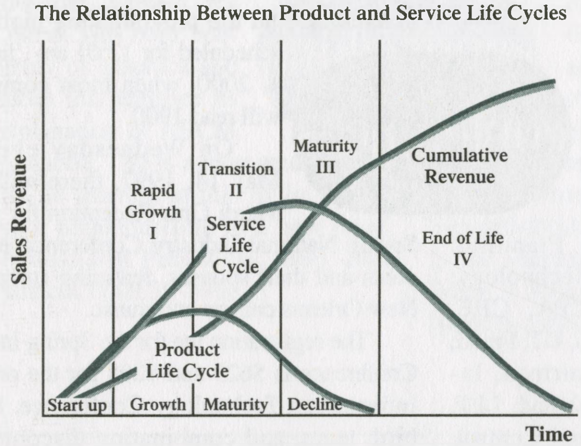
Product Life Cycle can be divided into four stages: start-up, growth, maturity and decline. Two key factors affecting this cycle are the rate at which consumers adopt the product, and the degree to which existing and future products can better meet consumer needs.

Service Life Cycle generally lags one or two stages behind the product life cycle and also falls into four categories: rapid growth, transition, maturity and end of life.

Development Life Cycle involves five kinds of activities that bring the product and its related manufacturing systems into existence: conception, design, development, pilot production and launch.

Technology Life Cycle consists of six stages of development: incipient, state of the art, advanced, mainstream, mature and decline. In the first two stages, companies refine the new technology. Later, companies shift gears from engineering to marketing, and from product technology to process technology. By the last stage, the technology has reached commodity status, and competition is based exclusively on price or differentiated service.

The Relationship Between Product and Service Life Cycles



Profit and Cash-Flow Life Cycles can be measured either by accrual accounting or by cash-flow accounting. The former defers costs, which may later have to be written off if the product fails, but generally gives a more accurate picture of profits and losses. In the latter case, the negative cash-flow during start-up may have adverse effects on early profits.

Relationships Between Life Cycles can be complex. Development life cycles are usually shorter than the product and technology life cycles (which tend to coincide), and can occur more than once during the product life cycle.

The Life Cycle Approach

Marketing considerations depend on whether the product is in an emerging industry or a mature industry. In the start-up and growth stages, the company may charge a high price because the demand is inelastic and few substitutes exist, or may charge a lower price in order to discourage competitors from entering the market. In the maturity stage, competition and a consequent demand for lower prices will increase investment in process technology. During the decline stage, there will likely be increased marketing and promotion expenditures.

Engineering considerations include development time, which in turn affects development cost. Early involvement of all parties in the product life cycle will likely reduce costs.

Service considerations link product and service strategies to generate a significant supplemental revenue stream that will extend beyond the original sale of the product. Most companies will raise their service prices during later service life cycle stages to compensate for initial lower prices.

Measuring Product Life Cycle Profitability

Generally Accepted Accounting Principles (GAAP) capitalize only those costs associated with manufacturing and distributing a product. Profits are underreported in the early stages of the cycle and overreported later, leading some managers to make decisions based on profit reporting considerations rather than strategic merit. Other ways of measuring life cycle profits include cumulative operating profits; net present value; and capitalized (rather than expensed) development costs that are traceable to specific products.

Implementing Product Life Cycle Management

Some of the key considerations for implementing product life cycle management:

• An appropriate organizational structure is essential. Options

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Hadassah Baum, supplement editor, technical manager 212/596–6019; fax 212/596–6025; e-mail: hbaum@aicpa.org

John Morrow, director, Industry & Management Accounting, 212/596–6085; e-mail: jmorrow@aicpa.org

Karyn Waller, technical manager, 212/596–6054 e-mail: kwaller@aicpa.org

Ellen J. Goldstein, *CPA Letter* editor 212/596–6112; e-mail: egoldstein@aicpa.org

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include small autonomous business units, function-based structures, matrix-based structures or product-based structures.
- Cross-functional product development teams should be formed by a group of specialists with a diverse and well-rounded set of experiences, information and skills. They may be responsible for the entire product development cycle.
- Life cycle budgeting should have planning, control and motivational functions that correspond to the start-up, maturity and decline stages in the product life cycle.
- Performance measurement and reward systems need to be modified by top management to encourage behavior consistent with the demands of product life cycle management, emphasizing team-based performance and long-run product profitability.
- Managers may follow new career paths, as they become responsible for a product over its entire life cycle, and as the average length of time a manager stays in a given position increases and the average length of the product life cycle decreases.
- Continuous employee education reinforces and increases the effectiveness of product life cycle concepts and practices. Employee resistance should be met with policies to help groups cope with the impact of product life cycle management.

Management Accounting Challenges

The role of the management accountant in life cycle management is to provide leadership, guidance and support by helping managers to budget properly, and by collaborating with engineers, marketing personnel and sales support to assess costs and revenue. This involves meeting a variety of challenges, including applying product life cycle concepts to appropriate product-based organizational units, aligning methods for estimating life cycle costs and life cycle revenues, aligning capital expenditures and product profitability, dealing effectively with discrepancies between GAAP and cash-flow analyses, and increasing the use of product life cycle data by appropriate managers.

The importance of using life cycle concepts will continue to rise as product lives shorten and opportunities to use the development and introduction of new products as a source of competitive advantage increase.

Product Life Cycle Management is published by the Society of Management Accountants of Canada as management Accounting Guideline #31. It is available individually from the AICPA (No. 028930CLB3) or as part of *The New Finance: A Handbook of Business Management* (No. 028900CLB3). Please call the AICPA Order Department at 800/862-4272.

More on the Special Committee on Assurance Services

As an outgrowth of the work of the AICPA's Special Committee on Assurance Services, new assurance services have been identified that will assist CPAs in business and industry in achieving their enterprises' objectives. These services aim to improve the quality of information, or its context, for decision makers. Ideally, the engagements would provide useful synergy in achieving enterprise goals by coordinating the work of business and industry and independent CPAs. Below are those areas that have been identified as presently having the greatest potential:

Assurance on Performance Measures

The relevance and reliability of an entity's performance measures will be assessed for the benefit of senior management and the board of directors. Such measures are relevant if they measure the extent to which the entity has achieved goals. The scope of the service includes nonfinancial measures. Potential applications include assessing the reliability of the information reported from an organization's performance measures, identifying relevant performance measures for organizations that need them, and helping to design and implement a performance measurement system.

Risk Assessment

Risks are threats that an event or action will adversely affect an organization's ability to achieve its objectives and execute its strategies successfully. The quality of risk information for internal decision makers will improve through independent assessments of the likelihood of adverse events of significant magnitude and quantification of the possible magnitudes of the events. Risks can be classified as environmental risks, business process and asset risks, and information risks.

Information Systems Reliability

CPAs will provide assurance that a system is designed and operates in a manner that provides reliable information (other things being equal) or operates according to accepted criteria. Because of the speed of data creation and increased access throughout modern, flatter organizations, it is critical that information available for decision making be reliable. Time does not permit the inspection-correction-rework concept. This service focuses on design as the route to reliability because real-time information systems need to avoid errors.

Electronic Commerce

CPAs will provide assurance on whether the electronic commerce service providers and tools and systems in use are functioning in accordance with accepted criteria for electronic commerce integrity and security. The service will provide assurance with respect to the integrity and security of electronic transactions, electronic documents, and the supporting systems. The beneficiaries of the assurance service will be all participants in the transactions and the infrastructure for the transactions (e.g., consumers, retailers, credit card issuers, EDI users, network service providers, and software providers).

Health Care Performance Measurement

Health care providers' performance will be evaluated for the decision-making benefit of care recipients and their representatives

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(e.g., employers, unions) who, along with the care recipients, are purchasers of the services. There is a widely recognized need to assess the quality of care, partly because the emphasis on cost control has raised fears that patients' health will suffer from a declining level of medical service.

Other Services

Additional services will be identified by the new Assurance Services Committee. Additionally, accreditation programs and measurement criteria will assist in branding new assurance services as CPA services. The AICPA will also assist the transition to new assurance services by additional efforts in education. For example, it will develop additional CPE course materials in information technology and performance auditing.

For more information contact K. Casey Bennett at 212/596–6146.

Center Announces Grant Program

The AICPA's Center for Excellence in Financial Management is seeking proposals for research projects and case study development on topics related to "The New Finance"— which describes the revolutionary changes that have taken place globally in financial management in the last decade and the expanded roles and responsibilities of CPAs in business and industry. The "New Finance" encompasses subject matter such as shareholder value creation, capacity management, competitive intelligence, financial reengineering, performance measures, and more.

Small grants to a maximum of $5,000 will be awarded to cover out-of-pocket expenses (excluding salary) for projects whose outcome will result in new knowledge that will be of benefit to accounting professionals and other financial managers. It is expected that the findings of this research project or the resulting case study will be added to the Center's Web page and may lead to publication in the Journal of Accountancy.

Please submit a proposal of up to two pages that will describe the anticipated outcome of the research/case study, how the project will be carried out, and an expense budget. Also, a resume or curriculum vitae should be included.

The deadline for submitting proposals is April 30, 1997. The selection will be made by May 31, 1997. Research findings/case studies will be due by September 30, 1997 or a mutually agreed upon date. Both academics and practitioners are welcome to participate. Please send all correspondence and direct inquiries to:

Hadassah Baum, CPA, CMA
AICPA
1211 Avenue of the Americas
New York, NY 10036

212/596-6019

212/596-6025

hbaum@AICPA.org

publications

Activity-Based Cost Management Making It Work: A Manager's Guide to Implementing and Sustaining an Effective ABC System. By Gary Cokins. This book contains plenty of graphics and illustrations that enhance its clear explanation of ABCM implementation. This is a must read for anyone with an interest in this topic. It will bring your understanding to a new level. Irwin Professional Publishing, 1996. Burr Ridge, Illinois, 800/634–3966.

Corporate Financial Management: Strategies for Maximizing Shareholder Wealth. By Earl Landesman. Providing a fresh look at the finance function as a value-adding partner in increasing shareholder wealth, this book gives an overview of the benchmarks, best practices and approaches to reengineering enabling you to create a forward-thinking team that contributes to the success of your company. John Wiley & Sons, Inc., 1997. New York, NY. 800/225–5945.

Journal of Strategic Performance Measurement. Edited by Barry J. Brinker. Primarily for financial and operational managers in both manufacturing and service industries, the premiere issue contains articles by thought leaders such as Robert S. Kaplan and David P. Norton *(Why Does Business Need a Balanced Scorecard)*, Wendi R. Bukowitz and Ruth L. Williams *(New Metrics for Hidden Assets)*, Edward Trzcienski and Brooke Harper *(Performance Management Tools Ensure Quality Customer Service)* and more. The RIA Group, beginning Feb./Mar. 1997. New York, New York. For a free trial issue call 800/950–1213.

Other Supplements Available

All supplements produced with March issue of *The CPA Letter* are available via the Internet (after March 17) and AICPA Fax Hotline.

www.aicpa.org/pubs/cpaltr/index.htm

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