Accounting for box tops

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Abstract

Betty Crocker's name still appears on General Mill's products but her award points program was sacked in favor of Box Tops. While the marketing programs have changed, the accounting issues still remain. This case presents a brief history and overview of the Box Tops program. The focus is placed on conceptual understanding of economic events and how those events should be reflected on financial reports. This case presents an interesting story along with a unique presentation style that never fails to pique students' interest, spark productive classroom discussion and increase students understanding of crucial accounting concepts.

Keywords: revenue recognition, customer loyalty programs, estimated liabilities, principles vs. standards.

OVERVIEW

General Mills, Inc. (GIS) offers a variety of incentives to encourage new and repeat business. One such program is Box Tops for Education. This case presents a history of reward programs and a section covering the Box Tops program implementation. This is followed by a discussion of certain, unique Box Tops program characteristics. A brief summary of reward programs research follows. The presentation concludes with specific accounting issues associated with Box Tops.

GENERAL MILL'S REWARD PROGRAM HISTORY

"Half a million housewives in U.S. and Canada will tune in their radio…when Betty Crocker, nationally known home services provider, resumes her radio talks…" (U.S. housewives resume radio cooking lessons, 1926)

So began an article in the Chicago Daily Tribune on September 26, 1926. While Betty Crocker is a fictional character, the sales and marketing gains for which she was responsible were real. Along with the name came Betty Crocker points, a program by which consumers could collect points for purchasing General Mills products and then redeem those points for kitchenware items. In 2006, GIS discontinued its well-known and long-lived Betty Crocker Points. In explaining the termination of the Betty Crocker customer awards scheme, a GIS representative cited the success of and desire to focus on their Box Tops program. (Beerman, 2006)

BOX TOPS PROGRAM IMPLEMENTATION

General Mills, Inc. is a global food producer with three business segments (Revere Data, LLC., 2011).

Division	Approximate Portion of total Sales
U.S. retail food	65%
Food service and bakery	20%
International	15%

The U.S. retail food division accounts for nearly two-thirds of total sales and includes such popular brands as Cheerios cereal, Haagen-Dazs ice cream and Yoplait yogurt. While GIS is one of the largest food producers in the world, maintaining market share is challenging. It is difficult for General Mills to differentiate its products from other big-name producers Kraft Foods, Inc., Kellogg Company and Hormel Food Corporation. In an effort to avoid pure price competition, GIS has developed a multi-faceted plan.

To maintain and further grow its largest segment – U.S. retail foods – GIS started its Box Tops for Education program in 1996. This program encourages schools (Kindergarten – 8th grade) to collect Box Tops symbols from General Mills product packages. In exchange for these Box Tops symbols, General Mills contributes to each school at a rate of $.10 per BoxTop redeemed up to a maximum of $60,000 per year, per school. (Box Tops for Education, 2012) (General Mills, Inc., 2009) During the 2009-2010 school year, GIS contributed to about 69,000

schools. Each school redeemed - on average - more than $700 in rewards. (General Mills, Inc., 2011)
Recently, GIS has expanded this program by partnering with Boise Cascade, LLC, Nestle, SC Johnson and Son, Inc. and other companies who will now print Box Tops symbols on some of their products. Another recent addition to the program is eBox Tops. Customers can register with the program and then earn points for their school by shopping online or performing a wide number of different activities, such as completing product surveys or viewing promotional videos. (BoxTops for Education, 2012) More Box Tops-carrying products and the introduction of eBox Tops will only serve to increase the total number of redemptions.

CATEGORIZING THE BOX TOPS PROGRAM

General Mills publicizes the Box Tops program as part of their corporate social responsibility initiative. According to the General Mills 2011 Corporate Responsibility Report, these Box Tops payments to schools, categorized as "Charitable Contributions and Brand Philanthropy" are included in the 10% of profits that GIS gives to non-profit organizations. (General Mills, Inc., 2011) While GIS suggests that its Box Tops system is a charitable activity, it also refers to the program as a "cause-marketing" campaign. In addition, the Box Tops system has many characteristics similar to customer retention programs set up by other companies.

It is a common practice for companies to operate programs like Box Tops – and it is nothing new. Long before Betty Crocker started providing cooking tips, The Sperry and Hutchinson Company, Inc. (S & H) created the S & H Green Stamps program. In 1896, S & H started selling Green Stamps to retailers who then passed along these stamps to their patrons in exchange for purchases. Customers who collected a certain number of stamps could then exchange these stamps for merchandise. The Green Stamps program was so popular that by the early 1970's S & H had sold over 1 trillion stamps - of which nearly 90% had been redeemed for merchandise. (The Sperry and Hutchinson Company, Inc, 2011) (Federal Trade Commission v. Sperry & Hutchinson Co., 1972)

Delta Airlines SkyMiles points are accumulated by Delta passengers and then used by those passengers to take free vacations. Starbuck's Rewards is a program whereby customers earn points for purchasing coffee. These points can then be used to get free Starbuck's drinks or other merchandise. It is also common for credit card companies, such as Capital One, to give reward points for credit card purchases which can then be redeemed for cash or merchandise. Thousands of similar programs exist.

RESEARCH ON REWARDS PROGRAMS

Frequency programs are designed to increase repeat business. The Box Tops for Education, Sky Miles, Starbucks Rewards and credit card points programs have some characteristics consistent with this type of program. Studies on the ability of frequency programs to retain customers and improve firm profitability have provided some, limited evidence to support these frequency programs. (Lewis, 2004) A recent report concluded that certain frequency programs could minimize competition by creating tacit collusion (i.e., non-spoken agreement) between the firm and consumer. This was found to be especially significant in a market for homogeneous goods. (Fong, 2011) For example, a parent of two children in elementary school may choose to buy General Mill's Rice Chex over Kellogg's Rice Krispies for

no other reason than to get the Box Tops. This study suggests that GIS management has reason to feel good about investing in the Box Tops program.
Firms devote billions of dollars per year to research, develop, maintain and publicize plans to encourage new and repeat business. Based on their popularity, one can infer that investing in these programs adds to the bottom line. Research supports this view. The research has shown a positive relationship between advertising spending and firm valuation, suggesting that advertising expenditures create intangible asset value for the firm. (Hirschey, 1985)

U.S. GAAP ACCOUNTING FOR BOX TOPS

The accounting for costs and benefits of customer loyalty programs is not straightforward. Not only are the economic characteristics of the transactions somewhat complicated and difficult to measure, but each plan also has its own particular characteristics. Accordingly, U.S. GAAP-based accounting for customer incentive plans has been inconsistent among firms.

The conceptually correct accounting associated with these programs has been an area of debate for many years. Recently, FASB has agreed on specific accounting treatment for issues that apply to many customer incentive programs. This has eliminated some confusion but accounting for customer loyalty programs is still divergent. As FASB works toward a common accounting procedure, the Board has been met with resistance. Consider the following excerpt from a comment letter presented by Capital One vice president & controller, Susan McFarland.

> "We believe that the [accounting] principles pertaining to customer loyalty programs introduce unnecessary costs and complexity…" (McFarland, 2010)

FASB will likely soon provide specific accounting guidelines for customer loyalty programs in general. However, a program like Box Tops for Education is distinctive.
There are two notable differences between Box Tops and many other rewards plans.

1. Other plans offer benefits directly to the consumer, while the Box Tops program offers benefits to schools for Box Tops donated by the school's constituency.
2. Box Tops are offered on both General Mills and non-General Mills products.

Should GIS expenditures related to Box Tops be considered charitable contributions, marketing expenses or intangibles assets? These are the issues that GIS contemplates when it is accounting for their customer retention programs.

ANSWER GUIDANCE

U.S. GAAP

While the purpose of the assignment is to analyze the issue conceptually as opposed to looking for specific accounting procedures, some related code does exist. U.S. GAAP does not provide specific technical guidance for the treatment of customer loyalty programs. The issue was addressed in EITF 00-21 and EITF 00-22 but no lasting consensus was reached.

SEC Staff Accounting Bulletin Codification Topic 13 (SAB101 and SAB104) is often used to account for sales involving customer loyalty plans. General FASB guidance is also available. ASC605-50 addresses customer incentives. So this section, combined with SEC guidance is likely the most relevant U.S. GAAP guidance on customer loyalty programs. This guidance will change as the IASB/FASB convergence project continues.

While no particular U.S. GAAP procedures address customer loyalty programs, standard practice is to use one of two distinct accounting techniques.

1. Incremental Cost – An estimate of the value of redeemed rewards is necessary. This estimate is recognized as a liability and an expense during the time of sale. The total sales amount is recognized as revenue in the current period.
2. Deferred Revenue – Component of sales associated with the royalty reward is accounted for separately. The value is not included in current revenue (Brian Jones, 2011)

Recent General Mill's annual reports provide no specific information related to their accounting for Box Tops. The notes to the financial statements presented in the 2011 annual report offer some general guidance under the SIGNIFICANT ACCOUNTING ESTIMATES section:

Promotional Expenditures

…The cost of payments to customers and other consumer-related activities are recognized as the related revenue is recorded... The recognition of these costs requires estimation of customer participation and performance levels…

Based on this information, it is reasonable to assume that General Mills uses the incremental cost method. Requests to GIS for more specific accounting treatment information were fruitless. GIS corporate relations personnel stated that this guidance was not available.

International Accounting Standards

While not applicable to the GIS financial reports, IFRIC 13 addresses loyalty program accounting in great detail. It requires that all such programs be accounted for as multiple element arrangements. Part of the consideration paid for the good or service is considered revenue while the remainder is considered a liability (deferred revenue). As part of the IASB guidance, firms are also required to estimate the fair value of award credits. Even though IFRIC 13 guidance is controversial (Chapple, Moerman, & Rudkin, 2011), U.S. GAAP may soon provide similar detailed guidance.

Materiality Assumption

Finally, it is possible that the expenditures specifically associated with the Box Tops program are immaterial. Thus, accounting for points-related estimated expenses and estimated liabilities may be unnecessary.

TEACHING PRESENTATION

Overview

The purpose of the assignment is to analyze the issue conceptually as opposed to looking for specific accounting procedures. to prevent students from simply performing an online search and then reciting specific accounting guidance without first considering the conceptual basis for the accounting decision, the instructor purposely avoids overusing the term, “customer loyalty arrangement” as this phrase is directly addressed in GAAP (e.g. IFRIC 13).

This case provides a variety of perspectives and it includes a few “red herrings” to promote the in-class discussion. These varying perspectives also encourage students to consider multiple accounting, financial and economic perspectives.

Methods

The instructor presents this case to the class via computer screen projector. The case is presented one section at a time in the following order:

1. General Mill’s Reward Programs History
2. Box Tops Program Implementation
3. Categorizing the Box Tops Program
4. Research on Reward Programs
5. Accounting for Box Tops

After presenting each section, the instructor poses the following open-ended question to the class.

How should the Box Tops program be reflected on General Mills financial reports?

A short, informal class discussion occurs in which the instructor participates by offering feedback to clarify issues and guide learning. The case concludes with a summary of key points made by students and a review of the current GAAP guidance.

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