WHITE PAPER

BEST PRACTICES SERIES

RETAIL VENDOR COMPLIANCE CHARGEBACKS

APRIL 2017

IMPROVE YOUR SALES AND PROFITS BY ELIMINATING VENDOR COMPLIANCE PENALTIES

smyyth™
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PROACTIVELY MANAGE VENDOR COMPLIANCE
SLASH OPERATIONAL ERRORS
INCREASE YOUR PROFITS AND REVENUES
IMPROVE CUSTOMER SATISFACTION

I. OVERVIEW

Vendor Compliance Chargebacks are a serious problem for many retail suppliers, often amounting to a loss of more than 1% of revenue, because of suppliers' failure to comply with retailers' detailed order, billing and shipping.

Retailer "vendor optimization" software has made generating deductions an *automated process* based on pre-set order guidelines and processes, making it more important than ever to ensure that your shipment accuracy is on-point with no margin for error. From a supplier's perspective, this has created a virtual "chargeback generating machine". The retailer's perspective is that it's the most streamlined and effective way of policing compliance with purchase order requirements. The result is that mistakes that might have slipped through a few years ago are now caught and charged back, and generating compliance penalties is going on auto-pilot, enabled by smart, seamless systems designed for this purpose.

RETAILERS CAN ADJUST THEIR P&L BY DIALING-UP TOLERANCES

It comes down to operational quality assurance (OQA). Some suppliers do a good job with purchase order compliance, because management recognizes how important it is. With other companies, the experience is not so good, constantly incurring heavy costs resulting from penalties. Product quality assurance (PQA) is essential, of course, but if you want to be in business five or ten years from now, operational quality assurance (OQA) must become a focus as well.

PQA + OQA = INCREASED PROFITS

For big box retailers, **the supply chain is all about speed, optimum inventory levels,**

cost, and efficiency throughout the process. Retailer compliance penalty chargebacks are their way to enforce those objectives.

BILLIONS OF DOLLARS AT STAKE

Non-compliance costs retailers billions of dollars in costs of unexpected processing and rework, and costs suppliers that much or more in penalty charges and lost sales. It is common today for retailers to rate their suppliers using "Supplier Scorecards" which measure order fulfillment percentages, EDI compliance, on-time delivery, packaging, proper labeling, etc. If your supplier scorecard is bad, your relationship and sales will suffer, and vice-versa. You can request a copy of your scorecard to understand your customer's perception of your operations, and get some actionable takeaways in the process.

II. VENDOR COMPLIANCE COULD BE THE RARE WIN-WIN

We need to recognize that compliance chargeback revenue has become a very important enforcement tool as well as a profit source for retailers, and that the only feasible way for a supplier to fight these costs is to dedicate management, resources, and systems to solving their own internal problems. Not only can chargebacks be reduced, but goods will get to the store selling floors more quickly, generating more first-priced sales. When you make money for your customers, they will value your relationship more highly. When you create extra expense or delays for the customer, the opposite is true.

WHO BENEFITS – A Rare Win-Win		
	Retailer	Supplier
Reduced order-to-cash time	Yes	Yes
Accurate order fulfillment	Yes	Yes
Better stock ratios in stores	Yes	Yes
Higher Sales	Yes	Yes
Higher Profit	Yes	Yes

"Solving this problem may not be easy, but the outcomes that a retailer is looking for match up with strategic supplier objectives"

III. Action is an Economic Necessity

There are broad industry trends afoot which demand that suppliers take action to improve their operational quality.

- Efficiency and cost reduction have become economic necessities as traditional retailers find themselves in an existential struggle for survival as the business model transitions to cope with on-line, and direct-to-consumer.
- Supply chain velocity is increasing, thus magnifying order and delivery errors.
- Retailers are re-examining their supplier portfolios and becoming increasingly more selective in their buying process, choosing to do business with a smaller pool of suppliers. Those that are compliant will get more of the business.
- Retailers are judging their suppliers based on both product and operational criteria, a major component of which is defined by the "Perfect Order Index". The order must be delivered: (i) on time, (ii) complete, (iii) damage free and (iv) be accurately invoiced.
- Suppliers who do not get good scorecards for vendor compliance will find themselves on the short end competitively, as large retailers need dependable sources of supply, without incurring unnecessary administrative costs or re-work imposed on them by vendors' processes.
- Large scale e-commerce transactions require that suppliers adopt integrated technology solutions to manage the small returns chargebacks.
- Retailers use smart software to proactively seek errors, so to charge back vendor compliance penalties automatically, increasing the incidence of supplier deductions, and resulting in significant revenue dilution for suppliers.
- Increasing direct shipping to consumers requires compliance with retail branding (cartons, tape, labelling, etc.), processes that many suppliers have not had to manage before.

IV. What Are the Impediments to getting Vendor Compliance right?

The absence of "C" level Interest is shocking

- The biggest challenges are internal: Considering the amount of money involved, the lack of "c" level buy-in and inter-department cooperation often reported is somewhat shocking. This is not a sexy area, and in order to get top management's attention, it must be made clear how much is at stake.
- Inter-departmental issues (A/R, packaging, order Entry, Logistics, EDI, Sales/Marketing, etc.), with no single point of responsibility. Because of the usual departmental priorities, there is also a lack of active inter-department cooperation.
- The absence of a process for identifying and eliminating true root causes and implementing changes throughout the organization.
- The complexity of vendor compliance, as the rules and can be excruciatingly detailed, for example, label location on cartons
- The difficulty of effectively communicating these throughout the organization.
- Keeping up with the frequency of change in vendor manuals, and the difficulty of enforcing these throughout the organization.
- Using manual or disparate, non-integrated computer systems for different functions.

V. List of Top compliance errors

Non-compliance errors run the gamut but the most frequent list includes the usual suspects. These mistakes can cost you hundreds, or even many thousands of dollars per infraction, and if not corrected, they repeat over and over.

- ASN/EDI violations
- UPC Ticketing
- Packaging, carton labeling
- Carton and pallet specifications
- Pricing not in accordance with the P.O.
- Shipment shortages
- Poor fill rates
- Invoicing errors
- Transportation /routing problem
- Substitutions

VI. A Vendor Compliance Management Plan

1. Put Someone in Charge

- For a large company, a vendor compliance function could be equal in P&L impact to a small division. Make compliance someone's full time job. Staff this department properly as, for a sizable vendor, it is worth millions a year.

- Establish a Cross-Functional Compliance Working Group with an executive-level leader. This is a corporate-wide problem; it requires top level attention.

2. Develop a plan

- Determine how much compliance violations are costing you. To look at it a different way, what compliance is costing you is equal to the amount of profit you can gain by fixing it.

- Define the metrics. Quantify your exposure and develop benchmarks for compliance penalty charges by compliance category and order accuracy against which to compare your performance. Your customers may be willing to share comparative data with you, and a retail supply chain organization such as RVCF.com can also help with this type of data.

- Agree internally on compliance procedures, documentation, and deduction penalty processes across the sales, operations, finance/credit, logistics, legal, and compliance departments.

- Develop a reporting scheme and publish monthly metrics, numbers, and costs by compliance category, retailer, and cause, including a retailer P&L. Keep it simple and include all top management, CEO, CFO, Sales, Logistics, etc., as this problem extends across silos.

- Explore and evaluate the cost and benefit of software systems and outside services to augment, or even manage, your compliance operation.

VII. review Internal Systems and Processes

A. Systems

Do research to identify systems that are needed to monitor, track and communicate multiple retailers' compliance information throughout your organization in a standardized format. If you are not large enough to afford a special computerized solution, at the least use an effective paper-based system to distribute the information in a useful way down to the warehouse worker.

B. Master Compliance File

Whether you use a computerized or paper-based system, review compliance manuals for each major customer and develop a Master File of each retailer's requirements (general, EDFI, Shipping and Routing), preferably on a computerized system accessible by all departments, and then maintain it.

Do not expect your shipping department to read the multiple customer compliance manuals. If you are unable to comply with certain requirements, do not proceed hoping it will be ignored (it won't). Ask for a waiver, or chargeback abeyance with more time to comply.

C. Monitor Compliance Changes

- Monitor retailer compliance manuals constantly and publish changes to your internal systems immediately.
- Retailer Vendor Portals are difficult to navigate if you deal with a number of such customers. To do the job right, it requires scrolling through hundreds of pages of instructions on multiple portals.
- We recommend RVCF’s Compliance Clearing House as an automated alert system. RVCF performs Compliance Manual tracking and alerts for dozens of major retailers and hundreds of manufacturers. www.rvcf.com

D. Archive

You need to archive compliance documentation as the penalty may be based on new rules not in effect when the order was entered. This is especially essential for managing post-audit deductions since the auditors may apply the violation to the wrong date manual. This is also feature of the RVCF system mentioned in C above.

E. Inter-Department Communications.

For your internal compliance procedures, be sure you are using simple, clear language enhanced with pictures to show requirements (for example, carton labelling locations).

F. Charge the Violators

The fastest way to solve a problem is to allocate the cost properly. Charge violation penalties to the department that caused the problem.

G. Training

Train your personnel on all levels, especially the warehouse operations staff, on the effect of non-compliance and how to use the compliance processes and systems you have implemented. Do a refresher every several months - there is so much money involved, that it is worth this relatively minor time investment.

H. Work with your counterparts

Develop strong relationships with customers and participate in vendor compliance events, and use those opportunities to fix problems rather than rehashing old grievances. Having a face-to-face relationship is invaluable when you need a favor, a waiver, or some special cooperation from a customer.

Also, you can learn a lot by collaborating with your peers at similar companies in your industry to share best practices as others have experienced the same issues you are facing.

I. Quality Assurance - Operational Compliance Audits

- Perform annual A-Z compliance rules audits for major customers to see which of your processes need updating, which chargeback policies need clarification, etc.
- Perform random shipping dock QC checks for the customers that you are concerned with: Packing, labeling, etc. Take pictures of cartons so you can show you followed the rules.

VIII. HIT LIST FOR QUICK WINS

If you do nothing else, focus on these few steps and you will experience immediate relief from excessive chargebacks.

#1 SUMMARIZE. Summarize the compliance manuals of your top five penalty chargers and make sure that your procedures mirror their requirements.

#2 EDI. Get EDI right. A major reason for chargebacks is late or incorrect Advance Shipping Notices (ASNs).

#3 Ship Dates. Pay attention to ship dates. Late and early shipments are often a top cause of compliance chargebacks.

#4 Shortages. Get to the bottom of shipment shortages.

#5 Substitute. Never, ever substitute SKUs, colors, sizes, etc., without a P.O. change. Doing this is guaranteed to result in major losses for you.

#6 Do Not Ignore a Problem. Do not ignore compliance rules for expediency, or ship early or late without a P.O. change. If you cannot comply, negotiate extra time to implement, or get agreement on exceptions ahead of time.

#7 DO THE NUMBERS. Figure out and monitor which compliance categories and customers are killing your bottom line, and fix the problems.

IX. DEDUCTION MANAGEMENT: RESEARCH, VALIDATION, COLLECTION AND PROFIT RECAPTURE

- Use a deduction management workflow system that will track, route and escalate compliance deductions from receipt through resolution, plus highlight the root causes to provide actionable information so errors do not become systemic.
- Consider Robotic Process Automation to provide automatic advance upload of deductions and claims into your receivables workflow, so you can immediately to customer deductions, often before the deduction hits your books.
- Handle compliance deductions as they occur so that problems can be headed off before they become systemic, and in the event of a retailer error, you can recover the erroneous deduction before it gets stale.
- Maintain an archive of retailer vendor manuals and history for auditing deductions.
- Challenge chargebacks when they are excessive or, of course, when they are incorrect.
- Penalty Amounts are frequently punitive, much higher than the actual cost to the retailer. When this is the case, escalate the issue to your management as well as the retailer's management. Of course, make sure you apologize and fix the problem (as in “I'm sorry, officer, I won't do it again") if you are going to ask for a pass.
- View our separate Best Practices White Paper for Deduction Management, accessible by clicking here.

X. OUTSIDE RESOURCES

The Retail Vendor Value Chain Federation is the place to go for ideas and meet people with the same issues. Also, RVCF's Compliance Clearinghouse monitors 175 retailer compliance manuals, archives them and proactively alerts members of changes. Monthly member forums enable vendors to problem-solve and share best practices. The entire membership also convenes twice yearly so retailers and vendors can meet one-on-one to clarify areas of confusion and solidify relationships.

Smyyth/Creditek provides consulting and outsourcing of all deduction management functions, as well as the superlative Carixa Order-to Cash system that incorporates deduction and compliance research, reconciliation, and resolution which automates retailer compliance deduction management and management reporting, including Robotic Process Automation.

XI. SUMMARY

Vendor Compliance management is a strategic initiative for retailers to improve operational costs, and the related compliance violation penalties represent an important revenue item for retailers, so it is here to stay.

Suppliers, on the other hand, have control over this, so if they ignore the problem and its implications, their bottom lines and business will suffer. However, if you as a supplier fix the problems at the source, you will be more profitable, and will assure a satisfied customer. The retail suppliers that do not reach satisfactory levels of operational quality will be weeded out by major retailers, since they require error-free delivery in their automated supply-chain operations.

Improving vendor compliance and deduction management is a constant process, and it requires steadfast attention and application of industry best practices. Significant gains can be made which will improve your company's finances. For more in-depth information on this subject, use the Contact Us page to request our in-depth white papers on Deduction Management.

THE FIRST STEP IN THE COMPLIANCE PENALTY AND DEDUCTION CURE PROCESS IS TO PUT THE FIRST FOOT FORWARD AND GET STARTED - GET MANAGEMENT INVOLVED, DEVELOP AN ACTION PLAN, AND START WITH THE BASICS, MOVING ON TO LONGER TERM INITIATIVES. YOU WILL HAVE A MORE SUCCESSFUL BUSINESS BECAUSE OF IT.

About the authors

This paper was prepared by the Revenue Cycle Consultants at Smyyth/Creditek.

Smyyth/Creditek provides world-class, end-to-end Order-to-Cash SaaS Technology (Carixa), Collection and Deduction Management Services, to enable companies to attain extraordinary cash flow and profits using best practices for management of credit, accounts receivable, collections, deductions, disputes and cash application. The Carixa™ Order to Cash platform streamlines operations, slashes costs, and increases profits. Smyyth technology and services are built on Six Sigma principles and are SSAE16 compliant.

Carixa is a modular or an end-to-end solution for order-to-cash and is scalable from mid-market to the global enterprise. It comes with instant consolidation of subsidiary credit risks and receivables, collection and deduction management providing local operating power within a corporate policy framework. Need to centralize, decentralize, shift resources, or outsource? No problem, just set the policy and rules and it's done. Carixa integrates order-to-cash - credit, collections, deductions, reconciliation, EIPP, cash application, customer portals, and more.

For more information on Carixa or Smyyth services, we would be delighted to hear from you. info@smyyth.com www.smyyth.com