Deduction Management
Ten Steps For Reducing Returns Deductions
and Cutting Revenue Dilution

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No company wants to see lots of product returns which for many firms constitutes huge revenue dilution and profit losses. The higher the return rate, the bigger the drag on revenues. With a little planning, you can cut the return rate, cut deductions, and boost profits.

1. Meet with your top 10 customers to understand their viewpoint, policies, and processes and benchmark them against your billing, packaging, shipping, and associated operations. Understanding where friction occurs is the starting point to a smooth process.

2. Develop a Returns Policy that sets clear ground rules and require your customers to sign off on it. For example, in an ever-changing marketplace, define what merchandise you will accept for return, a time limit for returning merchandise, acceptable and unacceptable charges, and the price level (lowest, last or highest price paid) that will be credited for returns.

3. Establish a returns management team including personnel from sales, warehousing, logistics, accounts receivable, and other associated departments to implement the Returns Policy, improve the returns process, and maximize asset recovery. *Set up the reverse logistics process with the same care you invest in the forward logistics pipeline.*

4. Categorize returns at inspection to track the "real" reasons why products are returned and not just the not the RMA listed reason. For example, the customer may claim "defective product," but inspection may reveal the real reason was a packaging problem or confusing consumer instructions. In cases where the customer intentionally misstated the reason, do not issue the credit.

5. Monitor all customer returns to pinpoint problem customers, then meet with them to figure out solutions to high rates of returns. Compare different customers return ratios to identify those who exceed averages. Also, if possible, compare your company's returns rate against competitors to determine if they found solutions you can emulate.

6. Evaluate each major customer on a monthly basis to gauge progress in reducing returns. As results improve, extend the process to other customers.

7. Review any negotiated off-invoice percentage allowances that are intended to cover defective returns. Although this policy can save a lot of paperwork over time, make sure that it reflects the legitimate defective product experience; then review it for adjustment from time to time. Reduce

the percentage as experience improves. Be sure that customers do not take the allowance <u>and</u> take a deduction as well - that frequently happens.

8. Detail the credit memo listing products not credited (others' products), price differences, and the real reason for return, not the reason code on the "RMA". Check for and deduct any allowances, credits or markdowns you previously gave on these products to arrive at the correct credit memo amount.

9. Develop a detailed Return Asset Recovery Program stipulating how returns are to be processed (repackaged, donated to charity, repaired, resold in secondary markets, destroyed, returned to manufacturer, etc.). View the reverse logistics pipeline as a secondary sales channel, since the value of a product doesn't end at the point of return. Some reverse logistics service providers also provide inventory liquidation services.

10. Invest in technology such as Carixa ™ to automate the process of reconciling return deductions against credits, down to the SKU level. If you have the capability of matching large quantities of data to identify the variances, you will be able to collect owed the over deductions. If lack of technology and staff prevents you from reconciling returns, call in a professional credit and accounts receivable outsourcing service. It will save you money, increase deduction recoveries, and cut overhead.

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