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Deduction Management
Best Practices For Reducing Shipment Shortages

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Summary

Shipment shortages are an age-old problem that dilutes manufacturer profits by an amount equivalent to 1/2 to1 percent of gross sales, a loss that is largely preventable by taking common sense steps.

Shortage deductions are caused by errors in the shipper's warehouse, by transportation carriers, and at customer receiving departments (including pilferage or miscounts). Regardless of who is causing the deduction, it amounts to a lot of "revenue leakage", and it can be stopped.

When the customer claims a shortage, they issue a debit memo and deduction from their next payment, and it is left up to the shipper's accounts receivable or deduction management department to figure out what happened. Frequently, these deductions languish in until they are stale and hard or impossible to figure out. Many are considered too small to spend any time on. The frequent result is a write-off and loss of profit.

Like with many other customer deductions, investigation will prove many to be overstated or incorrect. Plus, unless you research the cause, how can you ever correct a systemic problem that is causing the errors on your side? Or catch a customer that has their own systemic problem, who then will continue forever deducting for non-existent shortages due to miscounts or misinterpretations in receiving?

Most of these shipment shortages are preventable with preventive action, so below we offer a number of practical steps that can be implemented in most any company.

Benchmark Customer Shortage Deductions

Begin by comparing shortage deduction experience ratios by possible error source; for example, accumulate prior statistics for six months or a year for:

- Major customers or high shortage claimants.
- Distribution center locations (if you have more than one).
- Transportation carriers (if you are shipping products which are attractive to steal, such as branded apparel).
- Manufacturers, if you are shipping from overseas, in case they are mis-packing prepacks.
- Customer receiving center locations.

You will find that some customers deduct two or three times the number of shortages as other customers. That information is the beginning of a solution.

Step 2. Keep Records

Keep accurate records of shortages for all customers. You can generally download this data from your financial systems. If your accounts receivable system can accommodate it, differentiate between case shortages, concealed shortages, and shipper load and count using specific reason codes.

Over time, you may find that one customer may claim 3% for concealed shortages, vs. your overall experience of 0.075%, which might mean they have systemic process errors, or worse. You can recoup the excess deducted if you have solid statistics, and this data is also invaluable when your sales department negotiates next year’s price contract.

Step 3. Establish a Shipping Audit Function

A Shipping Audit Function will prevent shipping errors and combat unjustified deductions, and help identify customers that abuse shortage claims. You can start out with a small sampling and expand or reduce the sample depending on your findings. You can use the results to disprove or verify claims for damages, improper placement of bar codes, improper packing, etc. To combat concealed shortage deductions you can take these steps.

- If you are not already doing so, use printed security tape, so it is evident that a carton has been opened.

- Take photographs of unsealed as well as sealed cartons before they leave your dock and file them with your shipping documents. This also helps with vendor compliance claims, such as for labeling or marking.

- Depending on your product weights, make sure your scales are accurately calibrated so you can determine the exact number of units enclosed in a carton.

- Make sure shortage that deductions are not the result of customers counting a master pack containing six pieces as one unit (which might be the way they order), when in fact you billed it as six pieces. This would result in a concealed shortage deduction for 5 pieces.
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- Shrink-wrap, weigh and photograph pallets.

Shippers Load and Count

For Shippers Load and Count trailers, have two shipping personnel sign off on the contents as they are loaded, and take photographs of the pallets as they go on, and then a photo of the loaded trailer before the doors close. Better yet, invest $1,000 and rig up a video camera to record the loading. It's a small price to pay for protection for a $100,000 shipment.

Step 4. Customer Collaboration

Knowing your customers, as well as how they do business will ensure greater success in your efforts to stop this money-wasting problem.

- Visit the offending customers, and show your evidence from the statistics and audit process. If you have the evidence, they will most likely improve their practices and pay you back.
- Tour customer distribution centers to understand how the receiving process works, and how your own goods are processed. You may discover the root of many of the deductions, and back in your office, be able to solve problems caused by your marking, packaging and packing.
- Your visits will enable you to meet your counterparts on one, a relationship that will pay off as you work to resolve, collect and manage these deductions down the road.

Summary

Solving shipment shortages is a relatively easy business problem to address once you have numbers, and understand the causes. It also does not require a lot of overhead or expense. Just follow these proactive, commonsense steps, and a small investment that will pay off handsomely by increased profits for your company.

- Photograph cartons, contents and pallets plus weights
- Videos of “shippers load and count”
- Dual sign-offs on packing quality
- Visit receiving locations and tour operations
- Keep statistics and trend over time
- Remember: the customer is not always right. They make as many mistakes (if not more) than your shipping department.
- If you negotiate, you will be much more successful if you have factual data.

End

Order-to-Cash Services and Technology

Keywords

shortage deductions, disputes, claims, deduction management, chargeback, freight claims, vendor compliance, labelling errors, accounts receivable management, shippers load and count,