



Re: Managing "Write-Off Threshold" Deductions: Ignore or Pursue

By Kristen Metzger
Smyyth LLC
September 2014

A key element in effectively managing deductions is to have a system which enables you to “manage” the many small, or threshold, deductions so you can focus on the real money. You may find that deductions under \$100, for example, represent 75% of the transactions, but only 5% of the recoverable money.

To be practical, you can’t devote much time to these small deductions, but it’s never a good idea to ignore them either, as sooner or later customers discover how to game your system. As importantly, many of these deductions are due to your process errors, so it’s a good opportunity to uncover and correct chronic root causes, and stop them from happening in the first place. Following are some tips to effectively manage your threshold deductions:

- Your opportunities are quite limited: you can undertake this work yourself, or outsource it, and your decision will be based on the financial implications, as well as your in-house resource availability.
- To figure out the financial opportunity you may be giving up by ignoring small deductions, determine your average deduction recovery rate by category and the average cost of handling, and determine what you get back for your work. Let’s use a hypothetical example. If the average threshold level deduction is \$50 and your staff can research 3 per hour, that’s \$150 of gross deductions. If your average recovery rate is 10%, 10% of \$150 is \$15.00 of collection potential, not great for one hour’s work...especially since you then have to work to collect the money too. It’s hard to quantify the softer benefits; fixing the problems, for example.
- Most of your customers use unique transaction and reason codes, so your system should incorporate data tables listing major customers’ unique transaction codes. When cash is applied, the customer’s Return Code, say 111, is converted to your standard Returns Code, say 666, and reconverted again when sending a document to the customer.
- This will assist in eliminating categorizing most as “Unidentified” deductions. This often represent 1/3 of the aging, and represents a fundamental step in an effective strategy.
- Have the system combine the small deductions into “buckets” by reason codes (freight deductions, shortages, discounts, etc.), and work out mass settlements using the customers specific negotiation “package” reporting requirements.
- A good system will track and benchmark the deductions by reason code and amount, by customer, so you can see exactly how many shortage, freight, discount or unclassified deductions they are taking

- You should audit the customers that are outside the normal range and take action if you find systemic problems or abuse.
- Periodically use a random sampling approach to uncover problems and keep customers honest by thoroughly auditing a sample of threshold deductions, and take appropriate action.
- Analyzing this information may show that systemic issues could be in your shop, or you may find that the practice is abusive and without justification. In either case, you need to deal with it.
- If you want more specifics on how our professional-level systems manage and audit all these thousands of deductions, drop the writer a line.

By automating the small threshold deductions this way, you can get rid of the less productive work and correct your process errors, without losing your shirt in the process.

Kristen Metzger
CEO, Smyyth LLC
Kmetzger@smyyth.com

Smyyth provides world class Credit-to-Cash services used by the world's largest companies to manage credit risk, and optimize cash flow and profits using best practices for credit, accounts receivable, collections and deduction management. The Smyyth technology platform streamlines operations, slashes costs, and increases profits. Smyyth technology and services are built on Six Sigma principles and are Safe Harbor and SSAE16 compliant. Please visit www.smyyth.com for more information about Smyyth products and services.