

Twenty Years And Not Much To Show

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Despite all the efforts and money dedicated to technology for chargeback management, a recent survey showed that deductions continue unabated at up to 10% of sales revenue, a figure comparable to twenty years ago. The industry continues to lose billions of dollars annually to this chronic problem.

The complexity of doing business with customers that are so large that they must demand compliance with a multitude specific operating processes guarantees this problem will continue. Some suppliers work hard at these issues and have slightly fewer losses, but others continue to pay a heavy price, year after year.

Most deductions are the result of established business practice and are legitimate, still leaving plenty of revenue and profit leakage that can be eliminated. Defined by us back in the 1980s, but still accurate today, deductions can be categorized as follows:

Agreed Business Practices, where deductions are the chosen settlement and reimbursement vehicle such as promotional pricing allowances, co-op advertising, markdowns, rebates, coupons and the like.

Preventable Deductions, such as incorrectly communicated price data, slow credit memo issuance, misinterpreted promotions, compliance violations, conflicts in terms and conditions, EDI errors, mis-shipments, etc.

Unauthorized or Excessive, such as unearned discounts, duplicate or excessive deductions, post-audit claims, or customer process errors and (occasionally) intentional abuse.

Steps You Can Take

The entire revenue cycle needs be examined from order entry thru collection to identify the delays, error-prone areas, and unnecessary handoffs that create an expense without benefit. This will free up both cash flow and resources.

- Benchmark your operations compared with industry peers. You can start by analyzing and quantifying deduction experiences by type, customer, amount, etc., to pinpoint trends and identify problems.
- It is essential that deduction transaction codes be used to categorize by cause, such as shortages, returns, pricing, advertising, etc. Understand the language your customer uses to explain the details of a deduction and establish a matrix of customer coding.
- If 80% of your deductions are valid, how successful are you at collecting the remaining 20%? Many companies are unable


to secure repayment of even one-half the money deducted in error by customers.

- Track where a deduction is in your workflow. The distinction between an unresolved deduction in research and a collectible deduction is vital in understanding your situation and negotiating with customers.
- Establish claims tracking, so you know where a transaction is in the resolution process. The deduction cycle has been reported to average 105 days, which includes 45 days to research and 60 days to collect (or write-off) if charged back.
- Prioritize your work by deduction type and dollar value, and when possible, use system-generated workflows to drive the process. Your system should include a tickler system.
- Develop a customer master contact list for all relevant areas, i.e.: category manager, buyer, warehouse manager, post auditor, etc. Know your customer, their language, who to call, where policy conflicts exist and how to interpret their forms and documents.

Get A Good Grade To Improve Your Business

Non-compliant shipments cost retailers hundreds of millions of dollars in unnecessary processing and rework. 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. You can request a copy of your scorecard, understand your customer's perception of your operations and get some actionable takeaways in the process.

Help From Your Friends

We recommend you join the Retail Value Chain Federation, an organization of hundreds of vendors and retailers that collaborate to hash out problems and develop solutions for the very same problems you face. You can get help and leverage the experience of the membership. Another benefit of membership is the Compliance Clearinghouse, a very valuable online tool that automatically keeps you up to date with the compliance changes at your major retailers. From what we have seen, it can save you a lot of deductions and overhead expense as well. Deductions are a business problem that may not be solvable today, but they can be reduced so as not to unduly hurt your business. 

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