

# Customer Deductions

## Results of 2015 Benchmark Survey



**Jessica Butler**

**Principal**

(201) 280-4773

[jbutler@attainconsultinggroup.com](mailto:jbutler@attainconsultinggroup.com)

**Customer  
Deductions:**  
2015 Benchmark Survey



**Attain** Consulting Group

# 2015 Deduction Survey

*... a little history ...*

- ***Customer Deduction: Impact on Receivables*** first issued by CRF in 1998
- Updated every three years
- One of the best sources of benchmark information on customer chargebacks & deductions
- Metrics & best practices used to evaluate company performance and gain insights for improvement
- Survey transitioned to Attain Consulting Group with 2015 edition

# 2015 Deduction Survey

## *Survey overview*

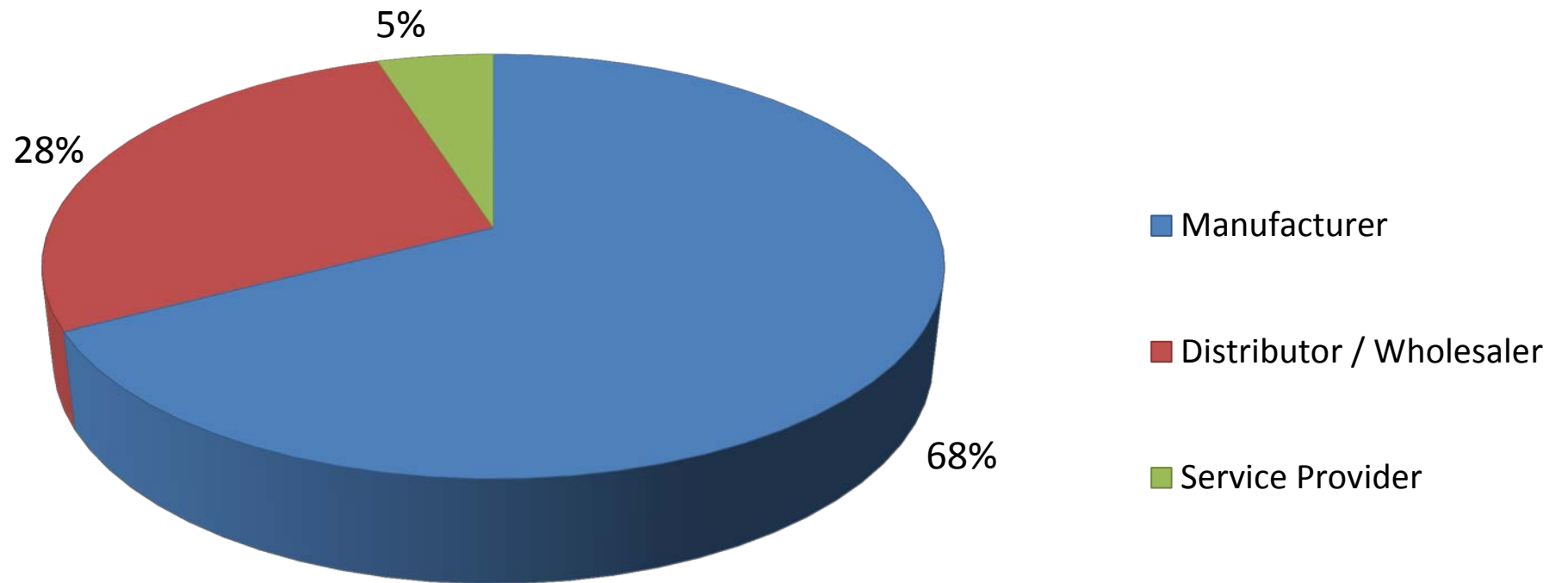
- Survey conducted by Attain Consulting Group July 2015
- 510 companies responded to survey
- Organized data into 10 industry groupings

INDUSTRY GROUPINGS	
1	Apparel, Footwear & Accessories
2	Construction Equipment, HVAC, Steel, Oil
3	Construction & Building Supplies, Paints, Lighting
4	Cons. Electronics, Toys, Sporting Goods, Computer HW / SW
5	Cosmetics, Beauty Aids, Jewelry, Watches, Luggage
6	Food, Beverage & Groceries
7	Home Furnishings, Housewares & Accessories
8	Office Products, Giftware, Cards, Paper, Printing
9	Pharmaceuticals, Nutritional, Medical Equipment & Supplies
10	Tools, Lawn & Garden Equipment

# 2015 Deduction Survey

## Demographics

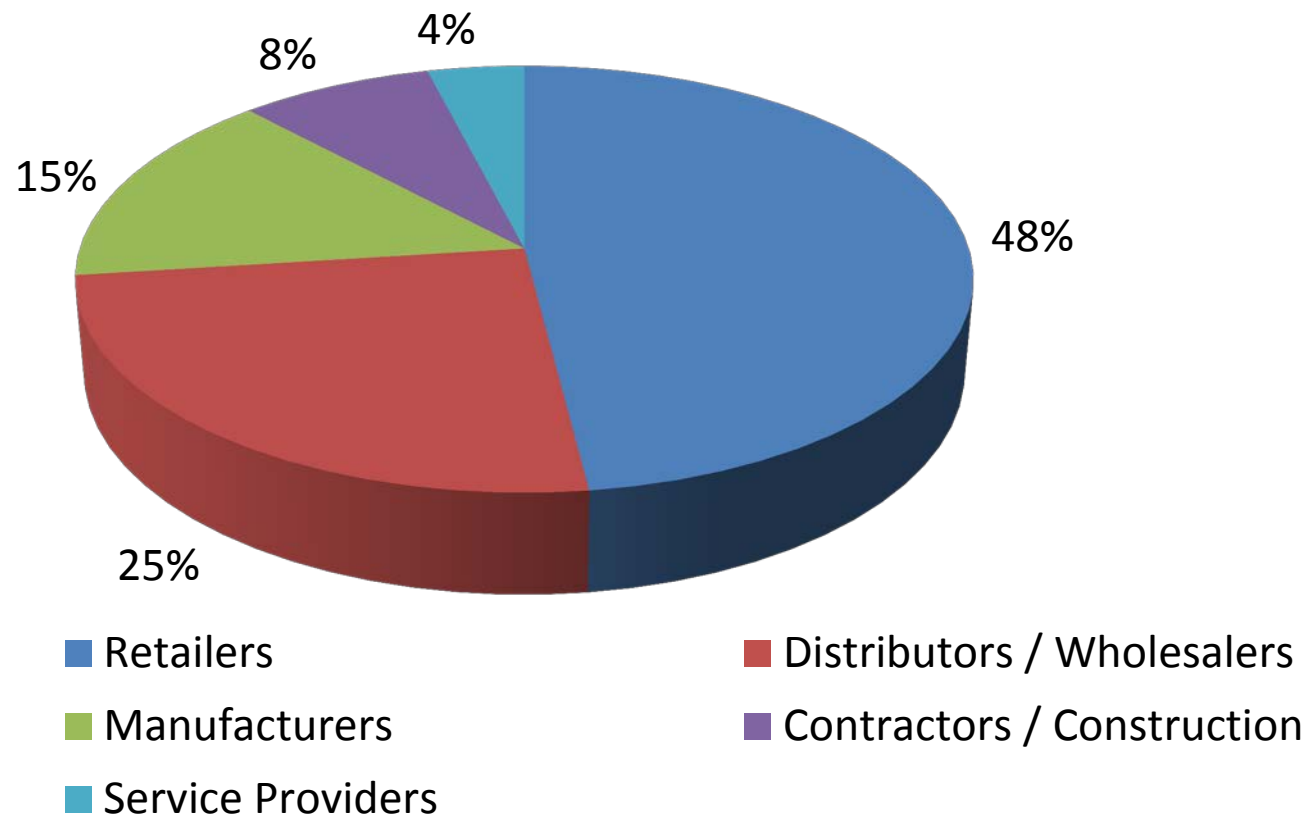
### Nature of Business Reporting



# 2015 Deduction Survey

## Demographics

### Primary Distribution Channel

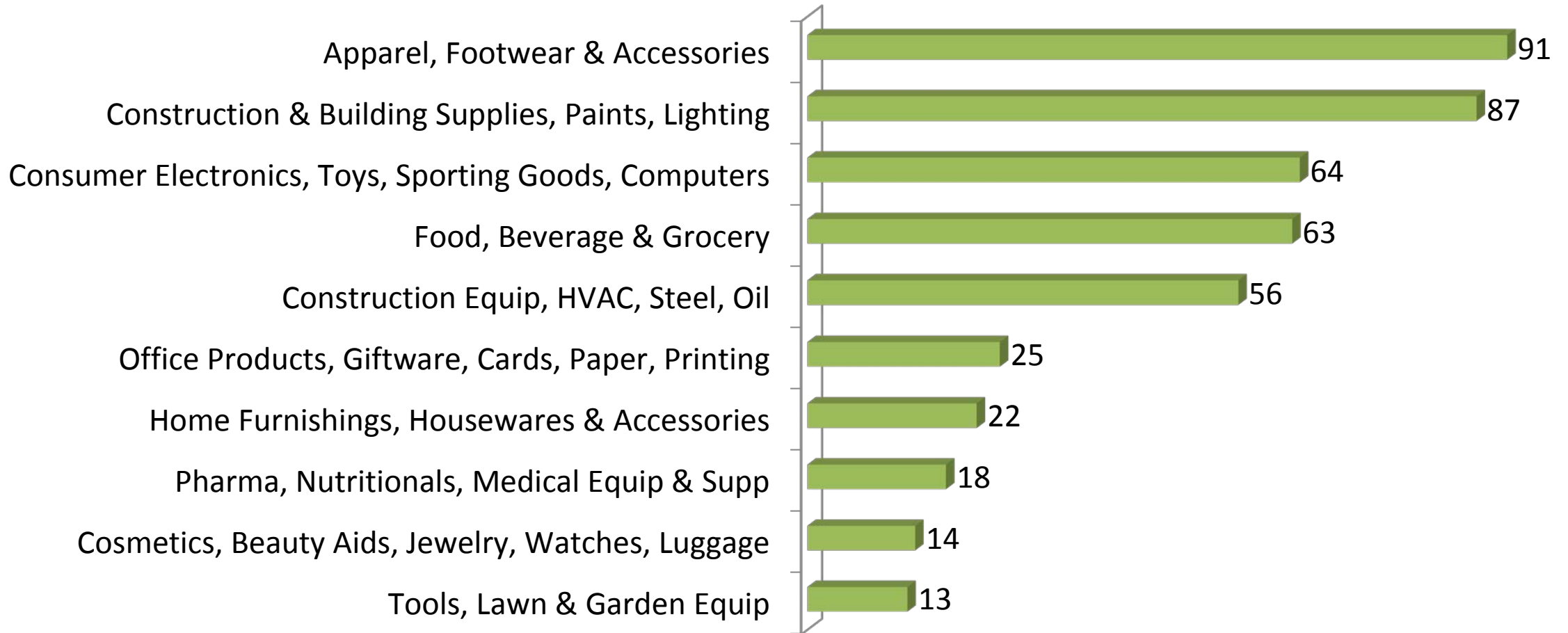


... less than 50% of responding companies reported that their primary customers are retailers ...

# 2015 Deduction Survey

## Demographics

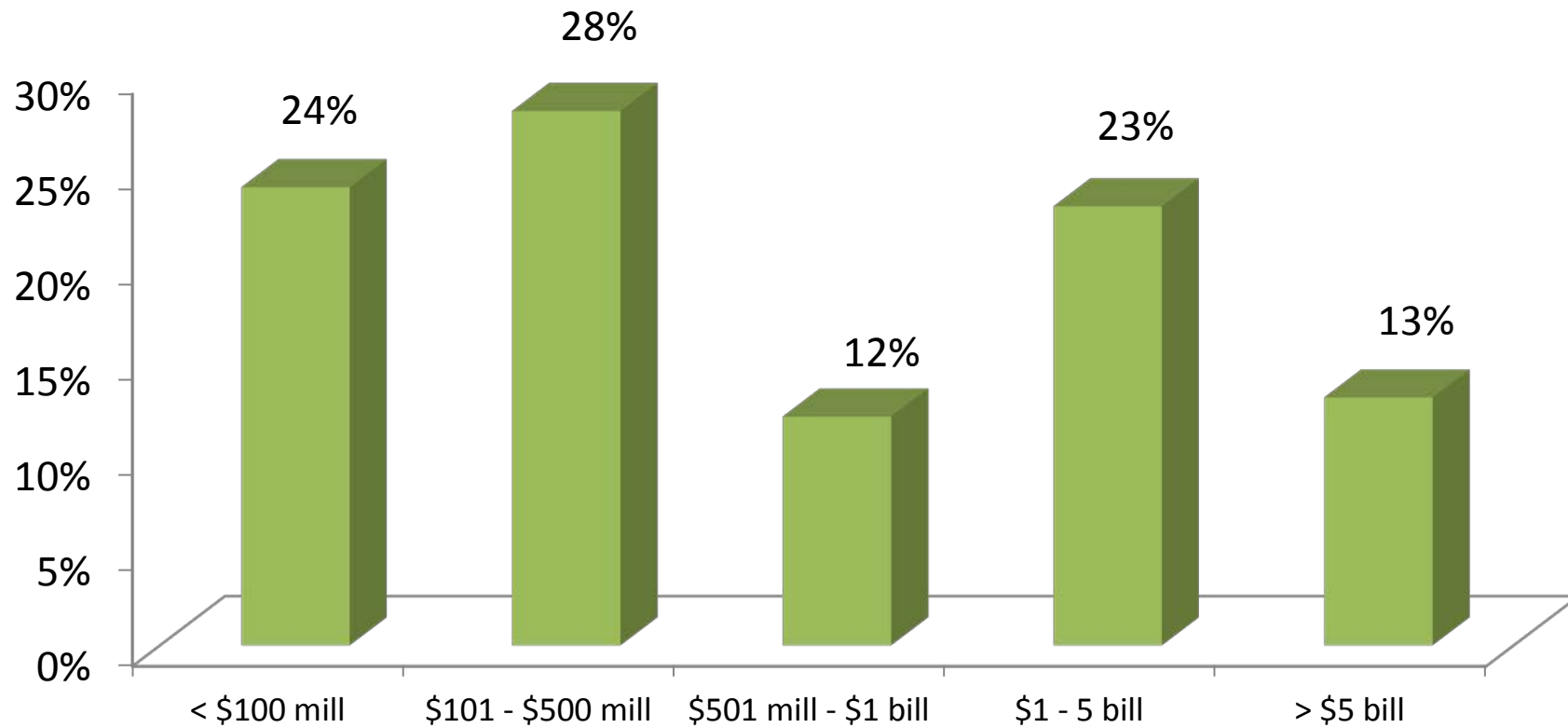
### Respondents by Industry Group



# 2015 Deduction Survey

## Demographics

### Annual Sales



... 52% of responding companies have annual sales of  $\leq$  \$500 million ...

# 2015 Deduction Survey

## *Survey topics*

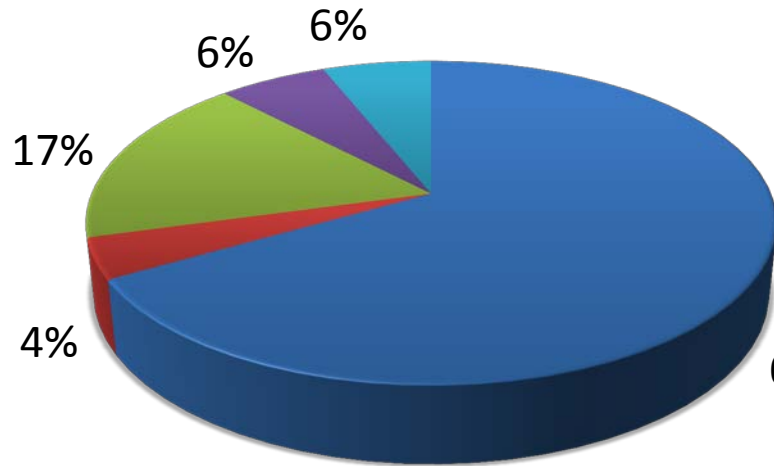
- **Survey includes questions on the following:**
  - Roles & Responsibilities
  - Organizational Structure & Accountability
  - Deduction Aging & Time Limits
  - Allowances & Automatic Write Offs
  - Primary Deduction Reasons
  - Deduction Percentages & Analytics
  - A/R Statistics
  - Invalid Deductions & Recoveries
  - Internal Challenges
  - Deduction Trends & Corrective Strategies
  - Post Audit Trends & Corrective Strategies
  - Vendor Agreements & Customer Meetings
  - Outsourcing & Use of 3<sup>rd</sup> Party Technologies



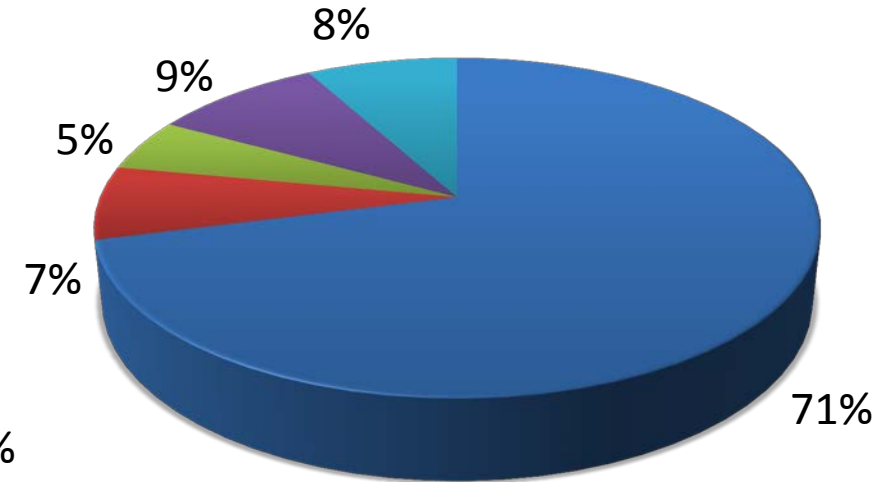
# 2015 Deduction Survey

## *Roles & responsibilities*

**Performs initial research of trade-related deductions**

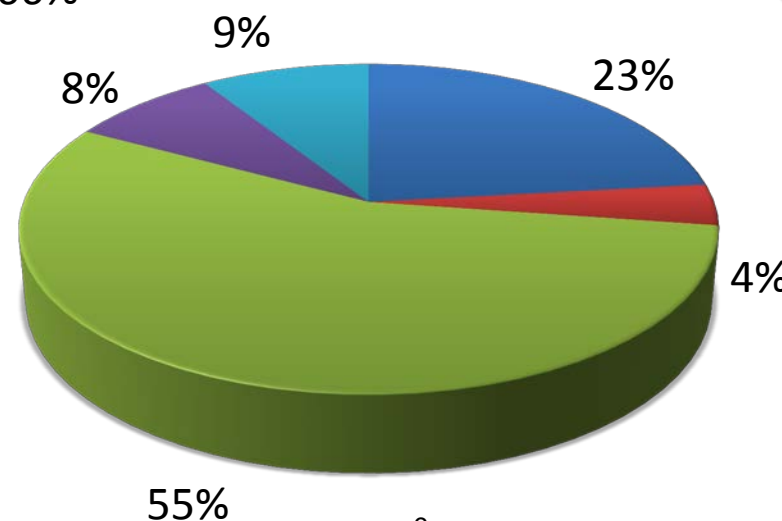


**Performs initial research of non trade-related deductions**



- Credit / AR
- Compliance
- Sales
- Customer Service
- Other

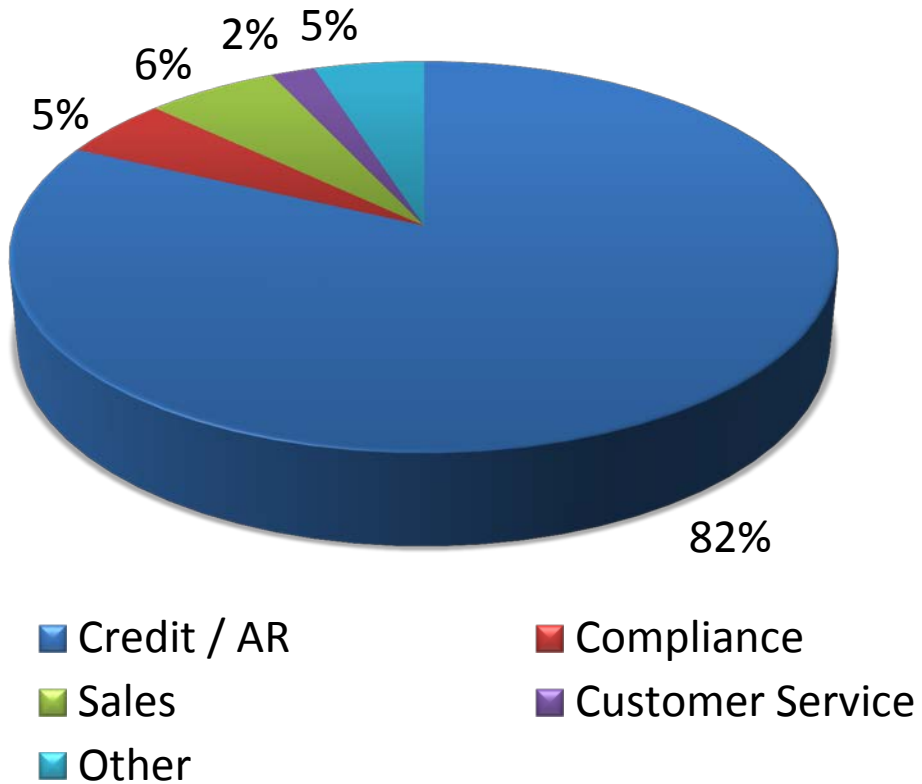
**Approves trade-related deductions**



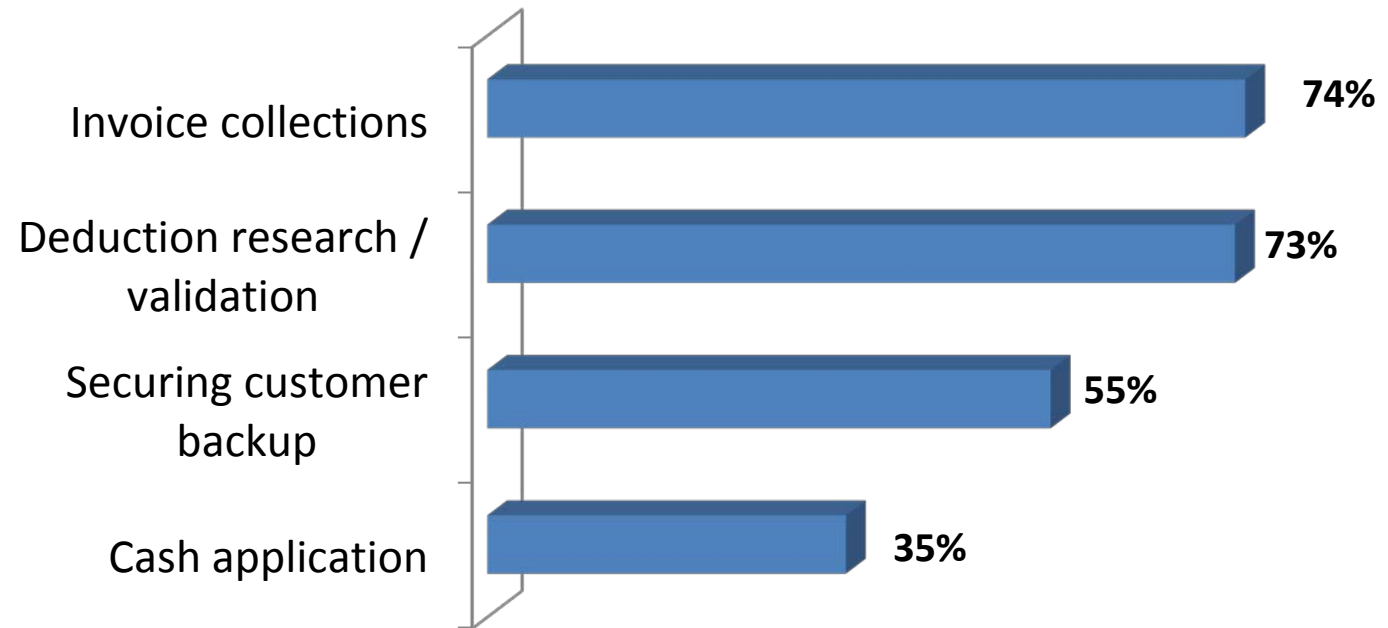
# 2015 Deduction Survey

## *Roles & responsibilities*

### Collects invalid deductions



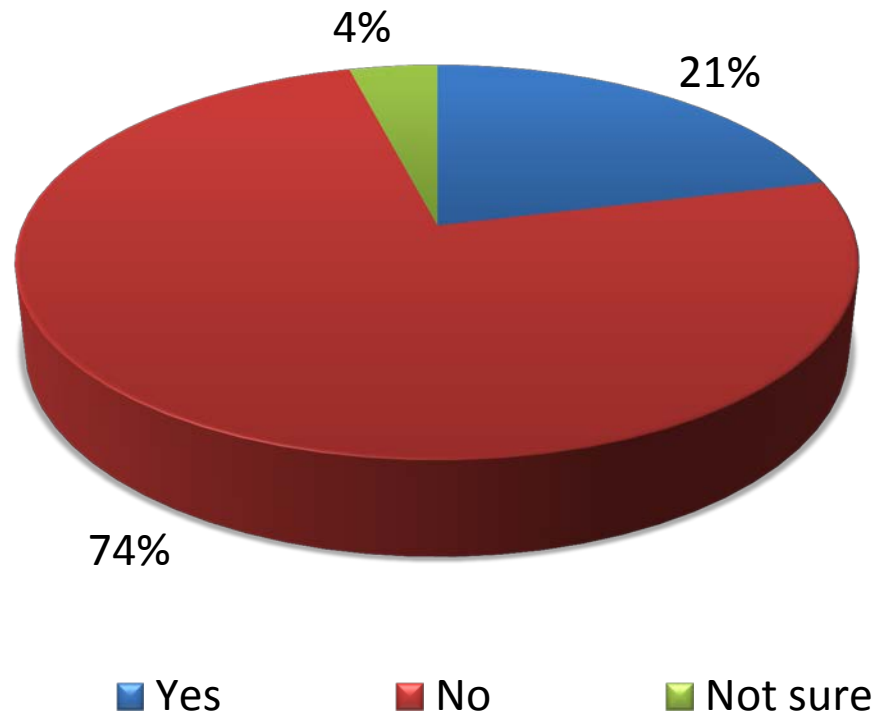
### ... are also responsible for ...



# 2015 Deduction Survey

## Organizational structure & accountability

### Do you have a separate compliance group?

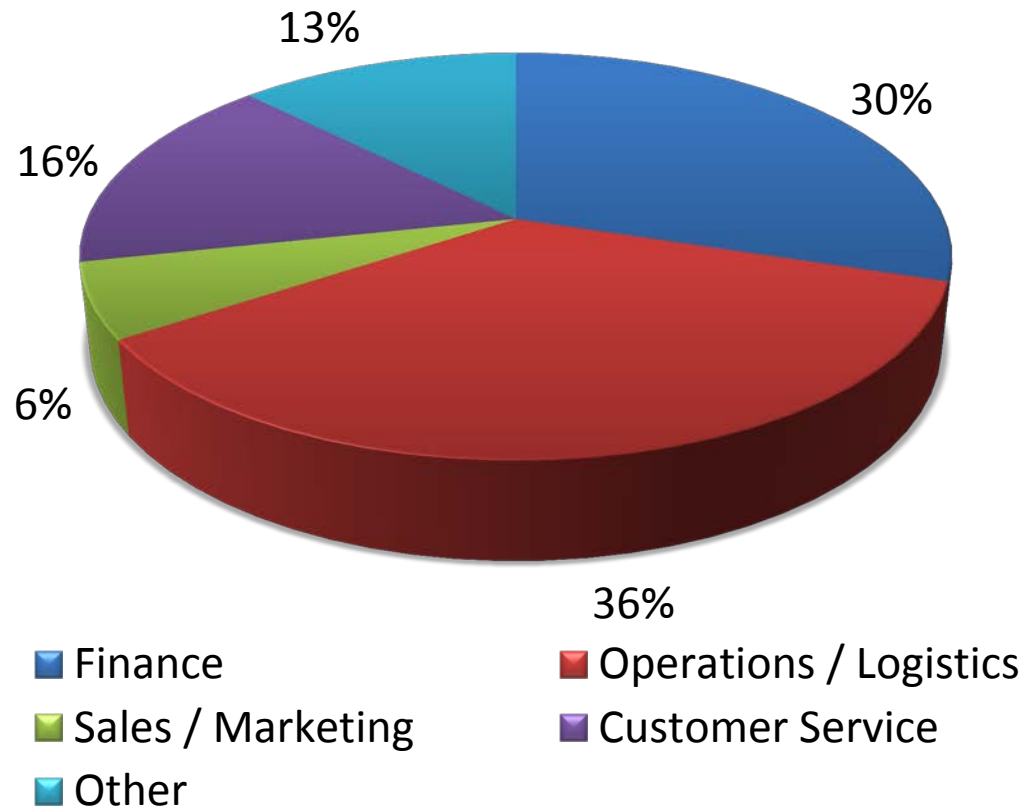


Industry Group	% with Separate Compliance Group
Apparel, Footwear ...	61%
Home Furnishings ...	55%
Const., Bldg Supplies	13%
Food, Beverage ...	9%
Const. Equip, HVAC...	6%

# 2015 Deduction Survey

## Organizational structure & accountability

### Who does compliance group report to?

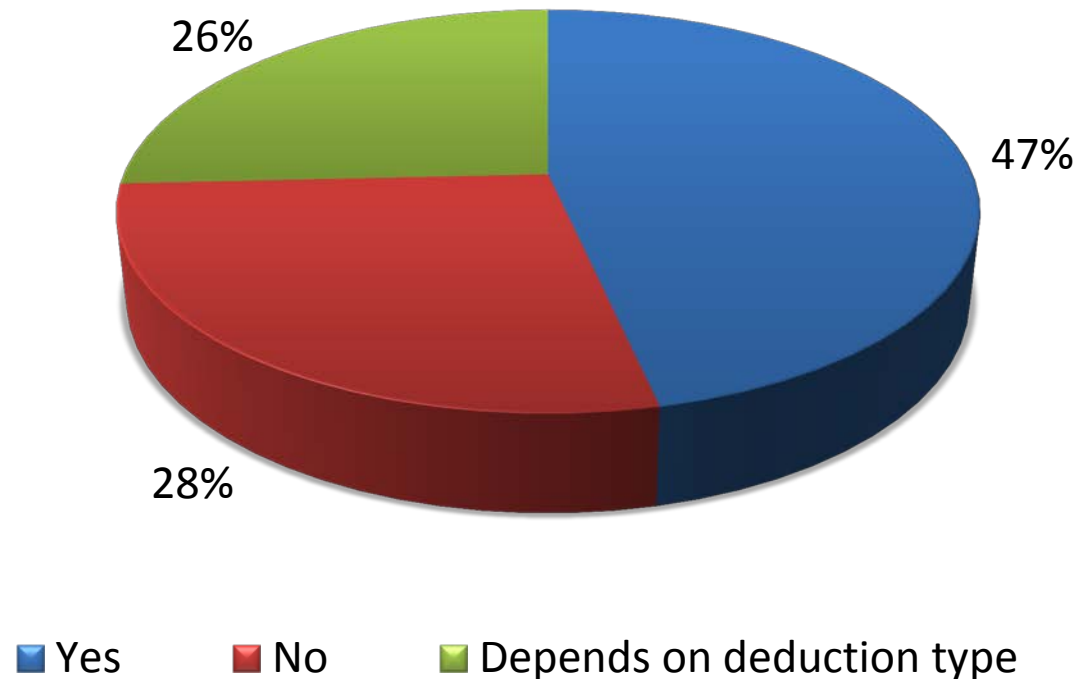


Department	Annual Sales (mill)	
	≤\$500	> \$500
Finance	43%	24%
Operations/Logistics	28%	42%
Customer Service	9%	22%
Sales/Marketing	7%	5%
Other Department	13%	7%

# 2015 Deduction Survey

## *Organizational structure & accountability*

**Do you charge back an unresolved claim to the appropriate business unit or department?**

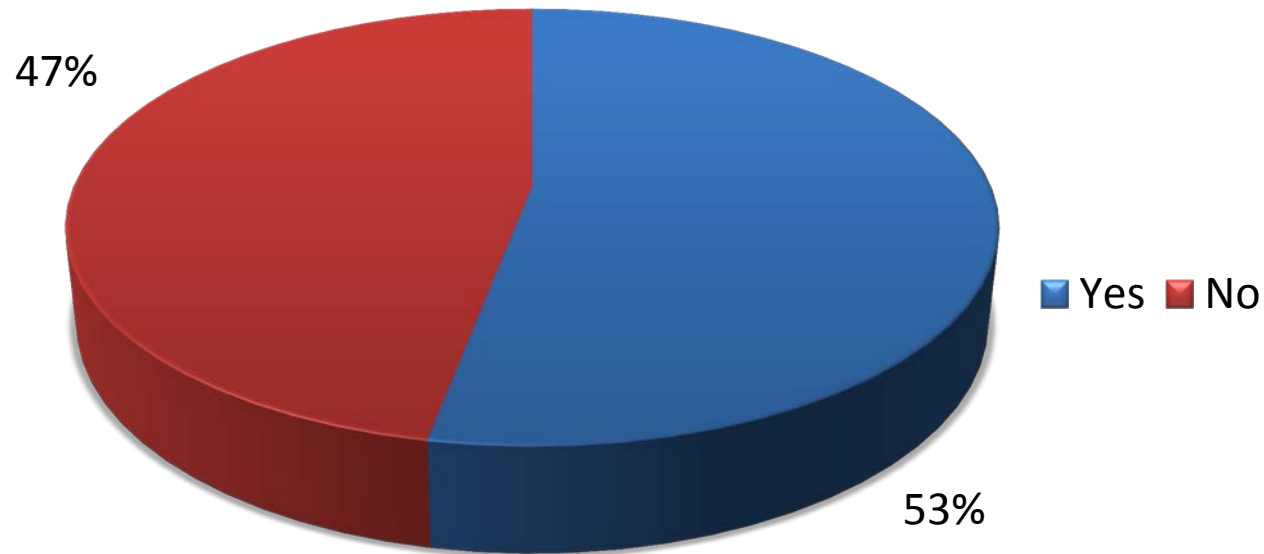


... What types of deductions might NOT be charged back to business unit? ...

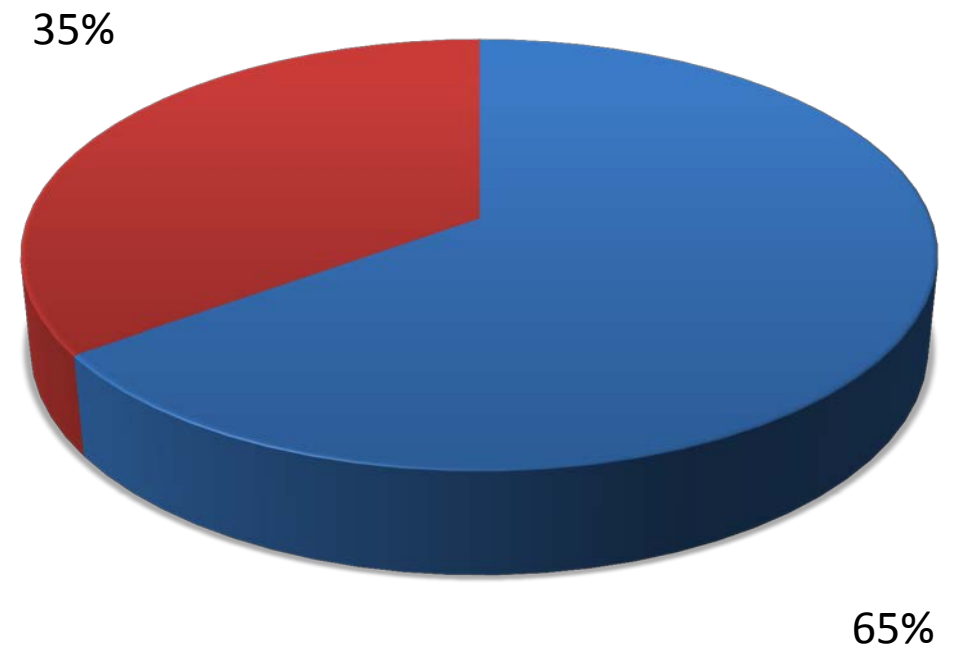
# 2015 Deduction Survey

## Organizational structure & accountability

**Do you use cross-functional teams to review deductions & compliance violations?**



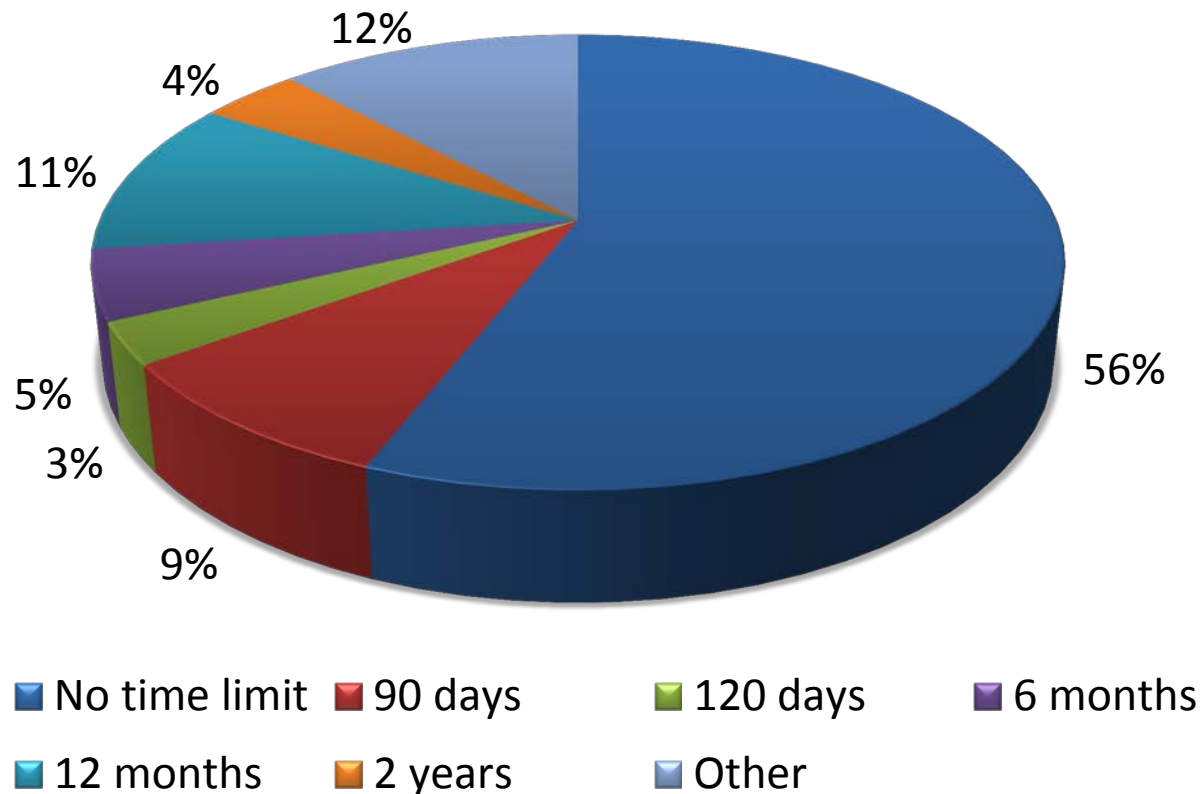
**Have cross-functional teams helped reduce new deductions?**



# 2015 Deduction Survey

## *Deduction aging & time limits*

### How long can a deduction remain open until it is written off?



... 56% of responding companies report no time limit for deduction aging...

#### Possible Reasons

- Limited accountability and ownership within departments outside of finance
- Poor visibility of deductions / lack of standard agreed upon process
- Eternal hope 😊

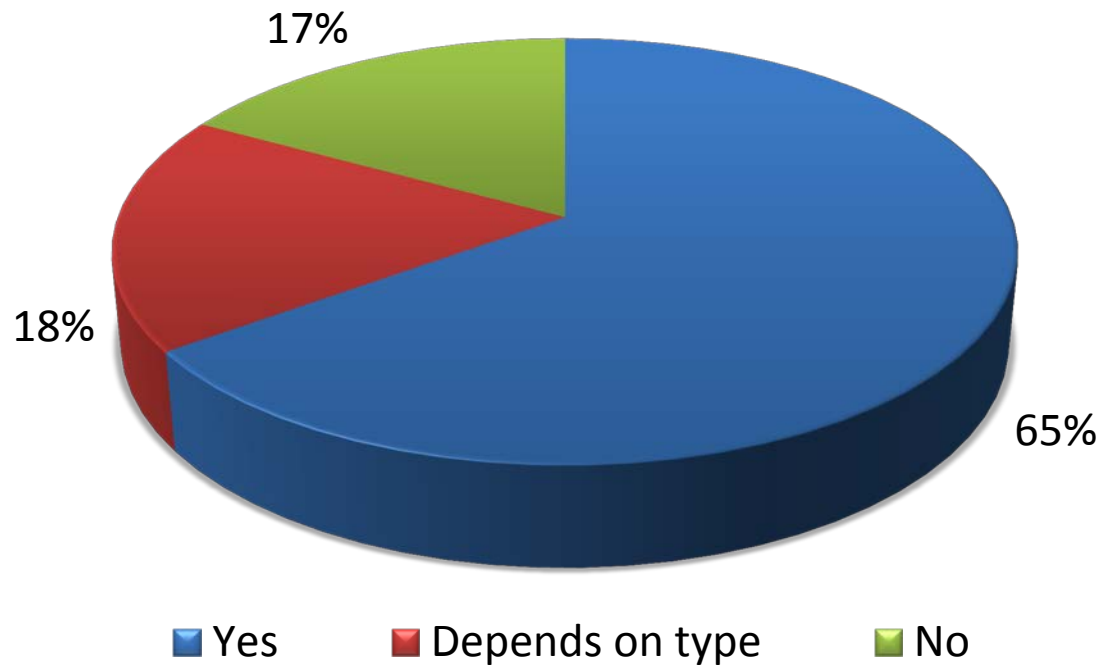
#### Opportunities

- Implement 'reasonable' timeframe for deductions to remain open
- Consider 'charging' these deductions to responsible business unit

# 2015 Deduction Survey

## Allowances & automatic write offs

### Do you automatically write off deductions below a certain value?



### What is your automatic write off threshold?

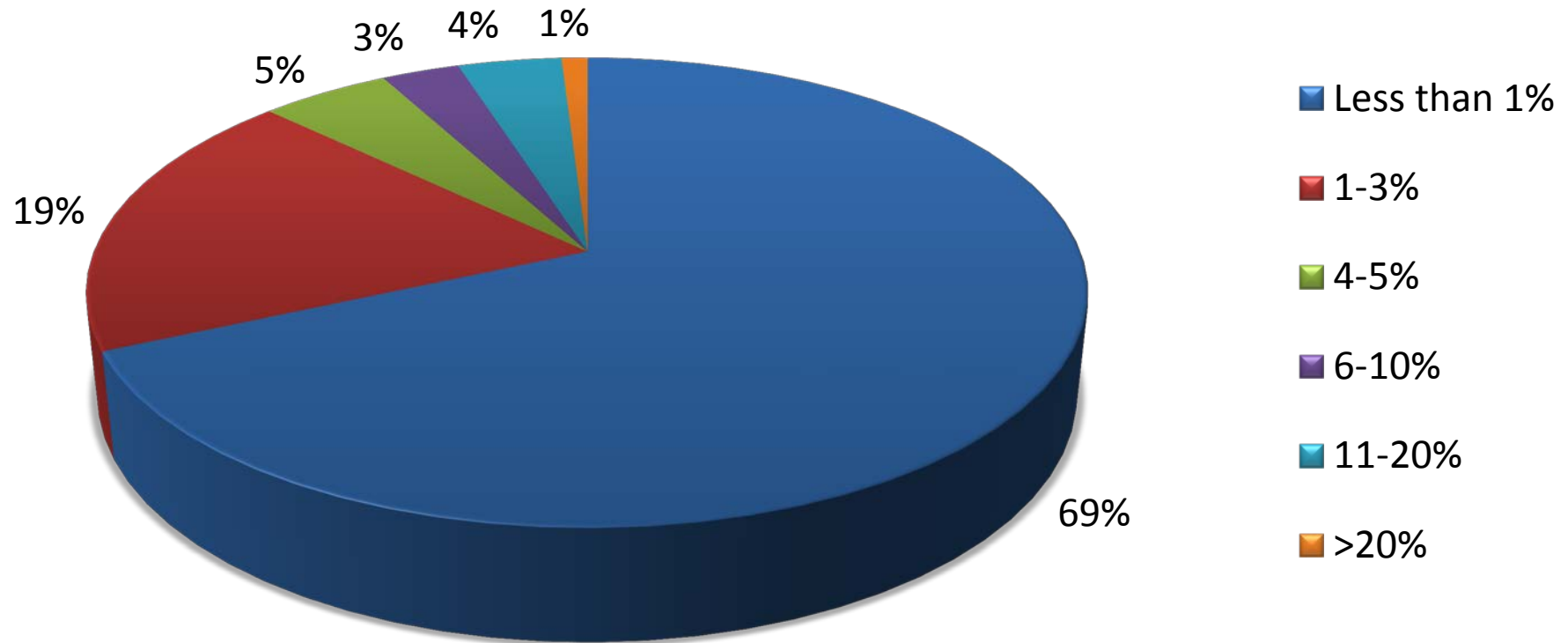
Industry Group	Median amount
All respondents	<\$25
Cosmetics, Beauty Aids...	\$101 - \$250
Food, Beverage & Grocery	\$51 - \$100
Pharma, Nutritionals ...	\$25 - \$50
Apparel, Footwear & Access	<\$25



# 2015 Deduction Survey

## *Allowances & automatic write offs*

### What percent of total deduction dollars are automatically written off?



# 2015 Deduction Survey

## *Primary deduction reasons*

### Top 5 deduction reasons (\$)

Rank	Primary Customers	
	Retailers	Other than Retailers
1.	Advertising / promo	Pricing
2.	Allowances / discounts	Allowances / discounts
3.	Shortages	Advertising / promo
4.	Pricing	Shortages
5.	Damage / Unsaleable	Damage / Unsaleable

# 2015 Deduction Survey

## *Primary deduction reasons*

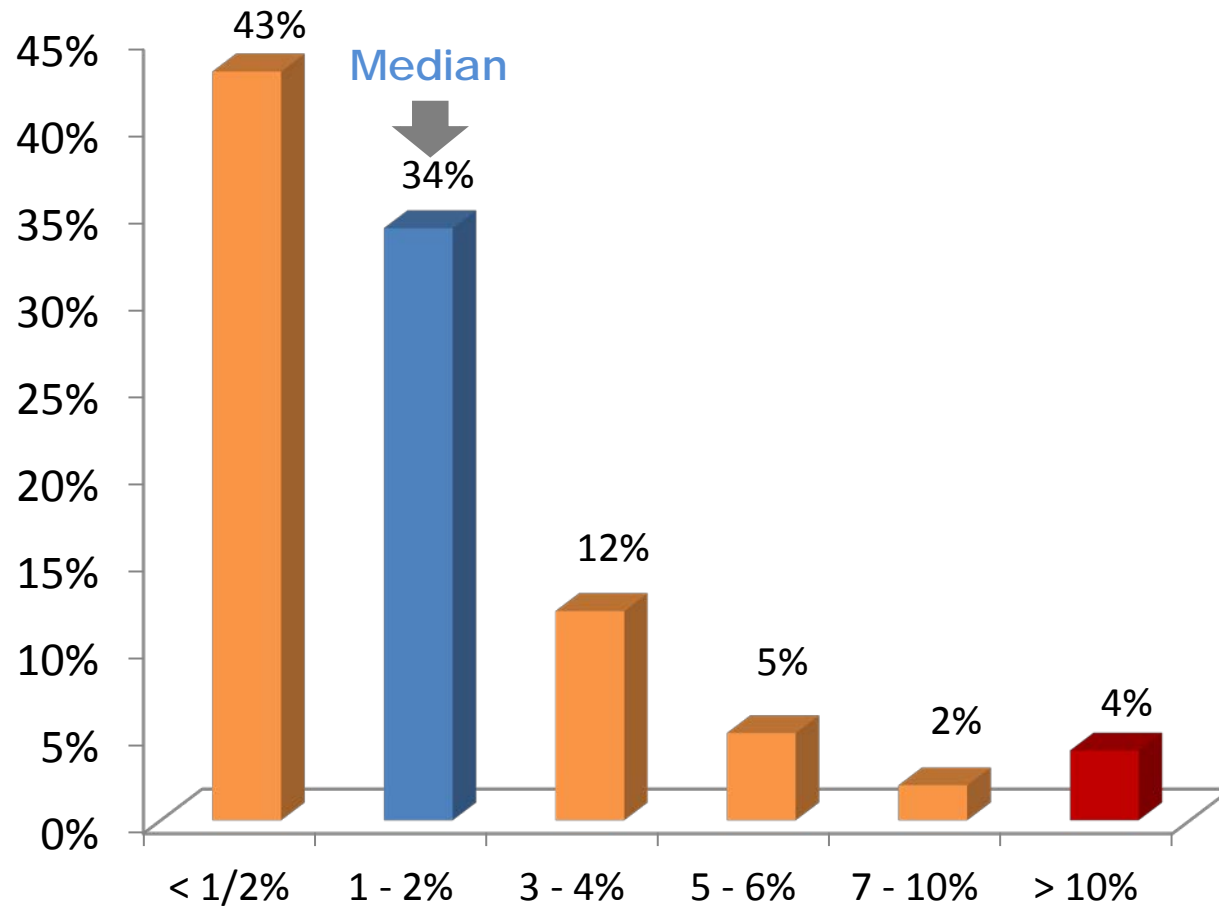
### **Top 5 compliance deduction reasons (\$)**

Rank	Primary Customers	
	Retailers	Other than Retailers
1.	Concealed shortages	Transp., freight, routing
2.	Early / late delivery	Concealed shortages
3.	EDI / ASN errors	Early / late delivery
4.	Transp., freight, routing	EDI / ASN errors
5.	Full carton shortage	Bill of lading errors

# 2015 Deduction Survey

## Deduction metrics

### Non trade deductions as % of sales



#### Observations

- Median of all respondents is 1-2% of sales
- 4% reported > 10% of sales

#### Opportunities

- Many of these deductions are preventable and should be considered the 'cost of doing business poorly'
- Cross functional collaboration, process improvements, automation technologies are keys to taking control and reducing

# 2015 Deduction Survey

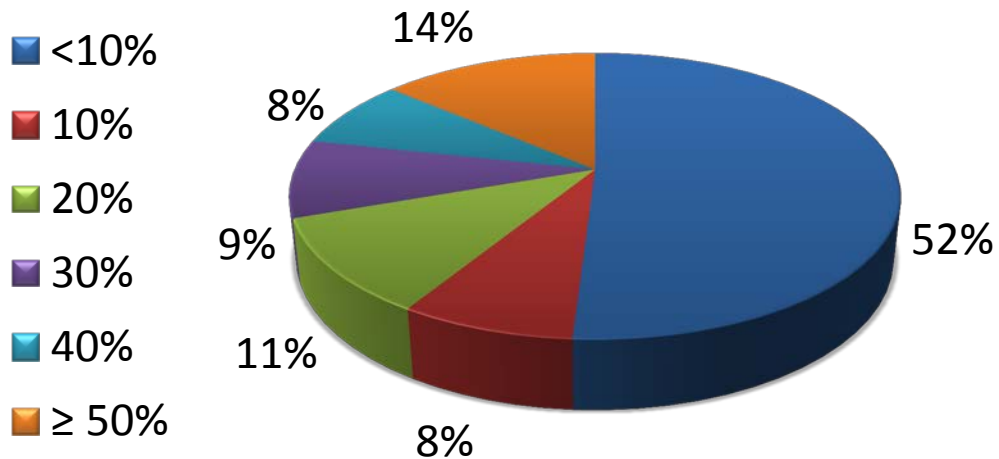
## Deduction metrics

Open deductions represent ½% - 1% of open AR (median all respondents)

Annual Sales (mill)	Deductions as % of AR
≤\$500	½% - 1%
> \$500	2 - 3%

*... but, be careful about drawing conclusions...*

### Open deductions > 90 days



Annual Sales (mill)	% Deductions > 90 days
≤\$500	< 10%
> \$500	20%

- Smaller companies appear to clear deductions faster than larger companies

# 2015 Deduction Survey

## *Invalid deductions & recoveries*

### Percent of deductions invalid or disallowed:

- For all respondents, **6–10%** of all deduction dollars are invalid or disallowed and charged back to your customer (median).
- 9% of respondents reported that over 50% of all deduction dollars are invalid or disallowed
- Industry highlights:

	Median % invalid
Pharmaceutical, Nutritional	11-15%
Apparel, Footwear & Accessories	6-10%
Food, Beverage & Grocery	1-5%
Construction, Bldg Supplies	1-5%

# 2015 Deduction Survey

## *Invalid deductions & recoveries*

### Percent of invalid deductions ultimately recovered:

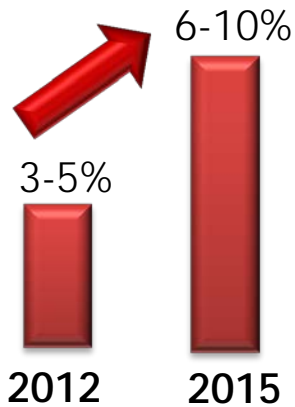
- For all respondents, **60%** of all deduction dollars that are invalid or disallowed are ultimately recovered from your customers (median)
- 22% of respondents recover 90% or more, while 16% of respondents recover 10% or less
- Industry highlights:

	Median % recovered
Cons Elect, Toys, Sporting Goods	80%
Construction Equipment, HVAC	70%
Apparel, Footwear & Accessories	50%
Food, Beverage & Grocery	50%

# 2015 Deduction Survey

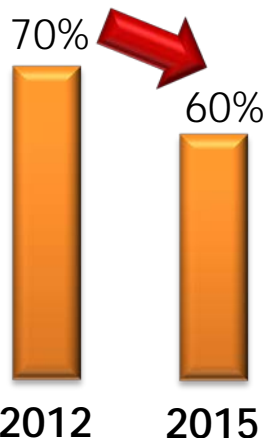
## Invalid deductions & recoveries

### % of Deduction dollars which are invalid



... median invalid % doubled from 2012 to 2015...

### % of invalid deductions recovered



... median recover decreased 10% from 2012 to 2015...

### Possible Reasons for Increase

- Customers are more aggressive in the deductions they are taking
- Suppliers are doing a better job of researching deductions and identifying more invalid claims
- A combination of the two

### Possible Reasons for Decrease

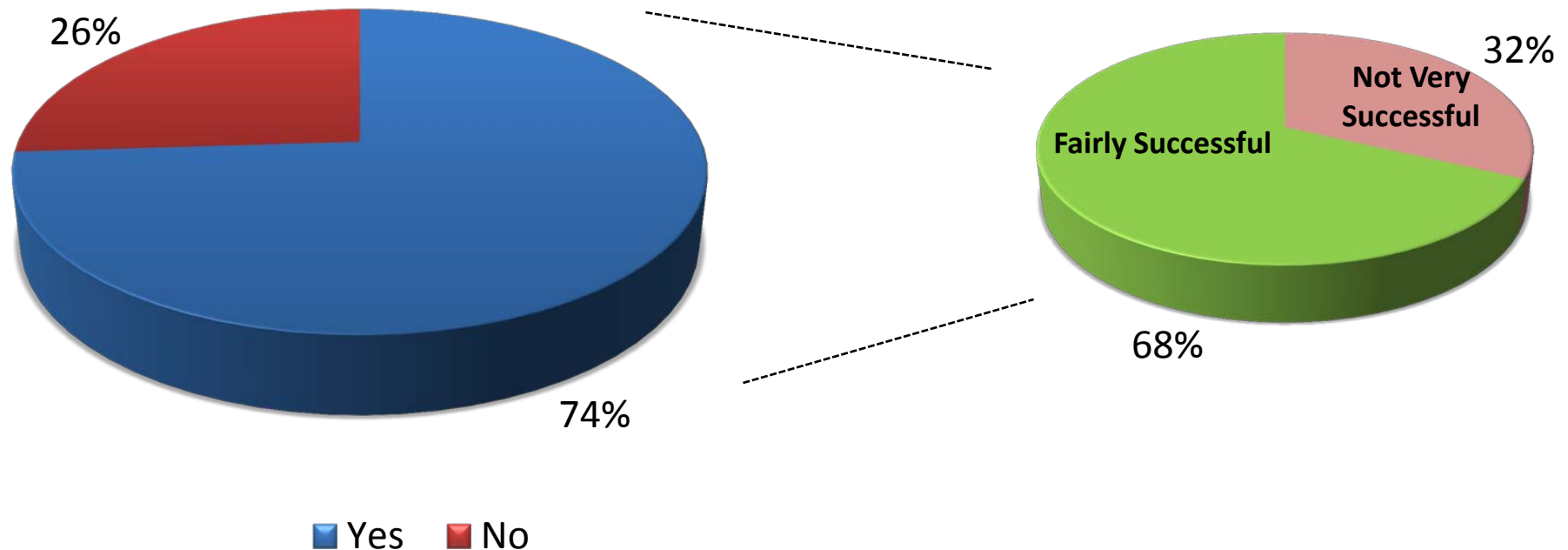
- Customers have 'raised the bar' on supporting documentation needed to reverse deductions
- Suppliers are finding it more difficult to provide all of the backup required to dispute claims
- Customer dispute portals have added to supplier's manual workload



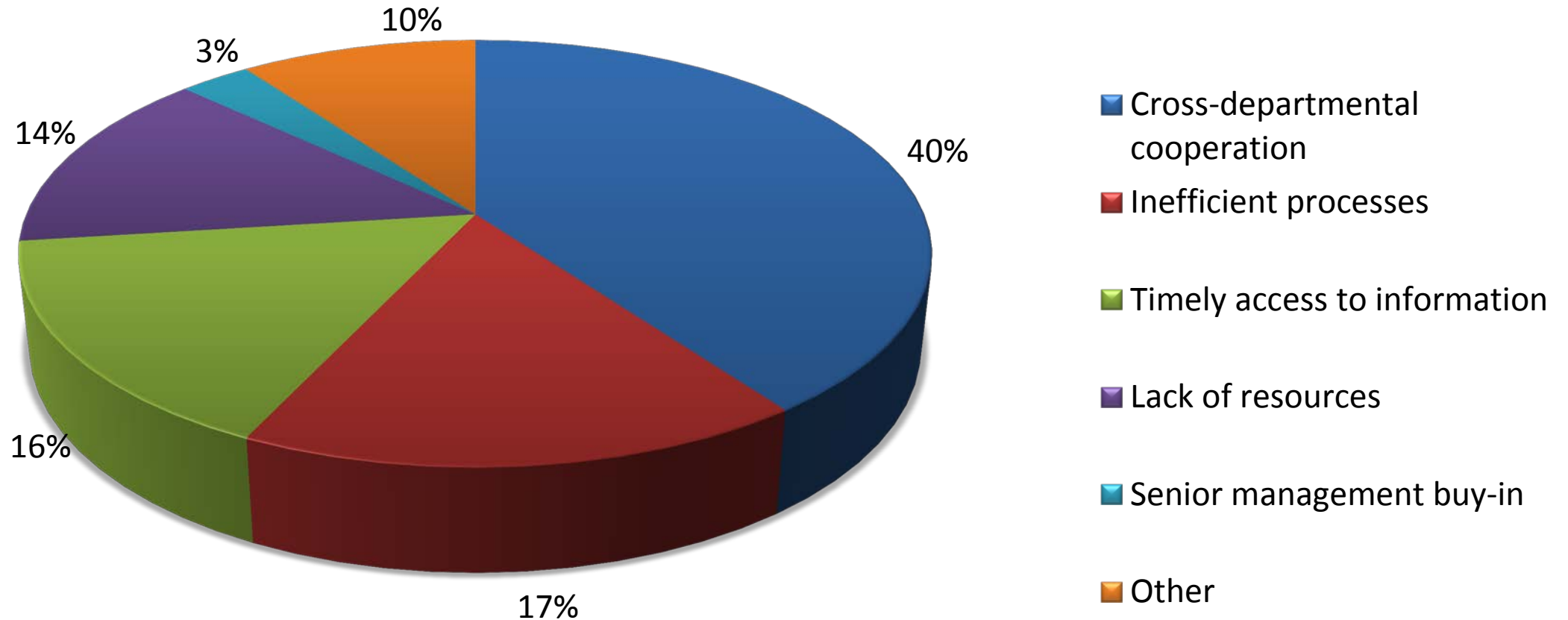
# 2015 Deduction Survey

## *Invalid deductions & recoveries*

**Do you attempt to collect unearned cash discounts back from customers?**



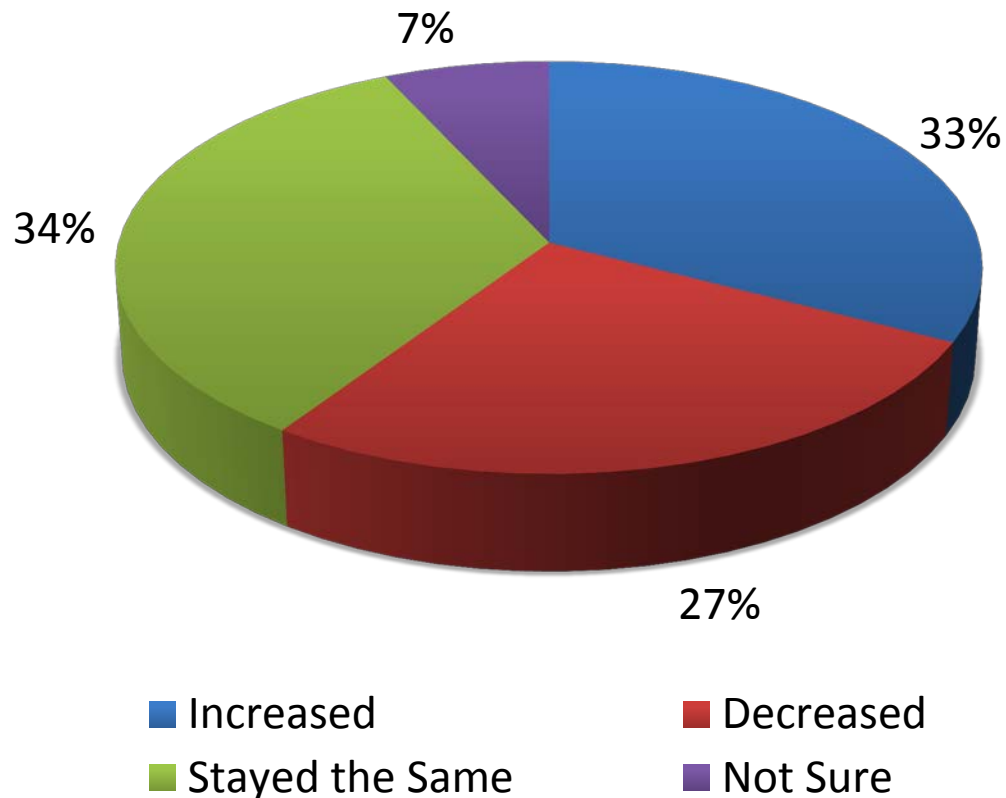
### Biggest internal challenge in controlling deductions



# 2015 Deduction Survey

## *Deduction trends & corrective actions*

Trend in overall deduction dollars in past 12 months



... slight increase over 2012 results where 30% reported increase in deduction dollars received...

### Observations

- 74% of companies reporting deduction dollars declined attribute it to improved processes

---

## **Actions taken to *RESOLVE* deductions**

---

- Focused on timely review and follow up
- Made sales and/or other departments responsible & accountable for deductions
- Implemented and/or strengthened cross-functional teams
- Improved / implemented deduction reporting
- Better communicated our policies with customers (e.g., pricing changes, terms)

---

### **Actions taken to *PREVENT* deductions**

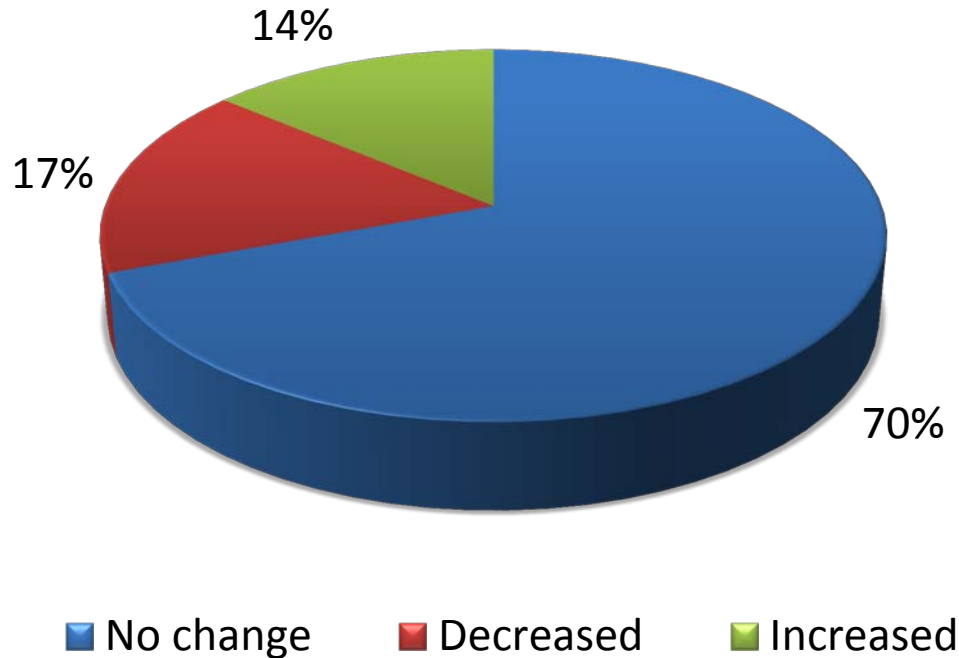
---

- Improved order accuracy (e.g., order entry, invoicing)
- Performed root cause analysis to understand underlying reasons for deductions
- Better communicated our policies with customers (e.g., pricing changes, terms)
- Made sales and/or other departments responsible & accountable for deductions
- Implemented and/or strengthened cross-functional teams

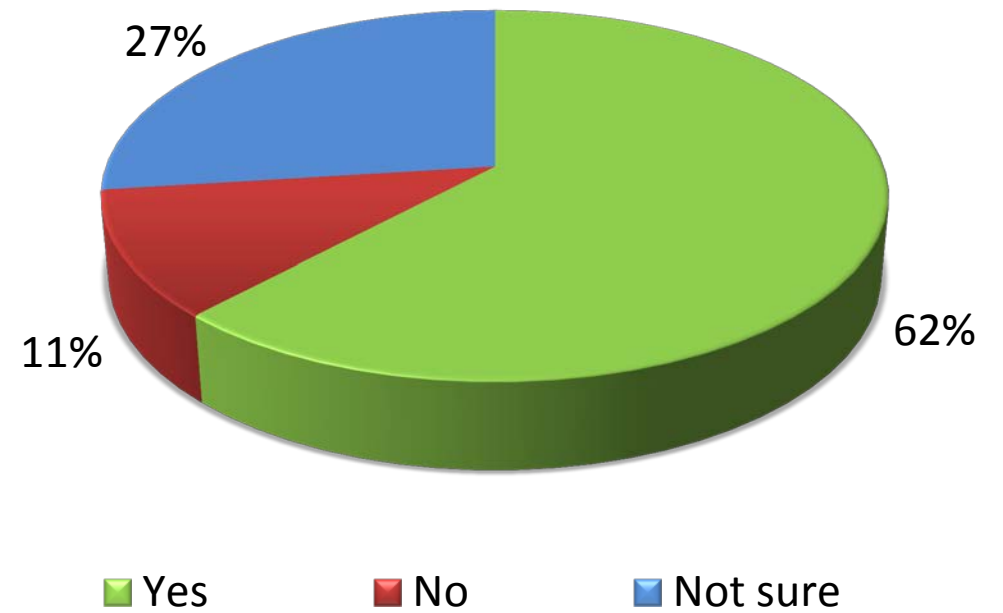
# 2015 Deduction Survey

## *Deduction trends & corrective actions*

### Trend in post audit claims past 12 months



### Are most post audit claims taken within 2 years?



---

## **Actions to deal with POST AUDIT deductions**

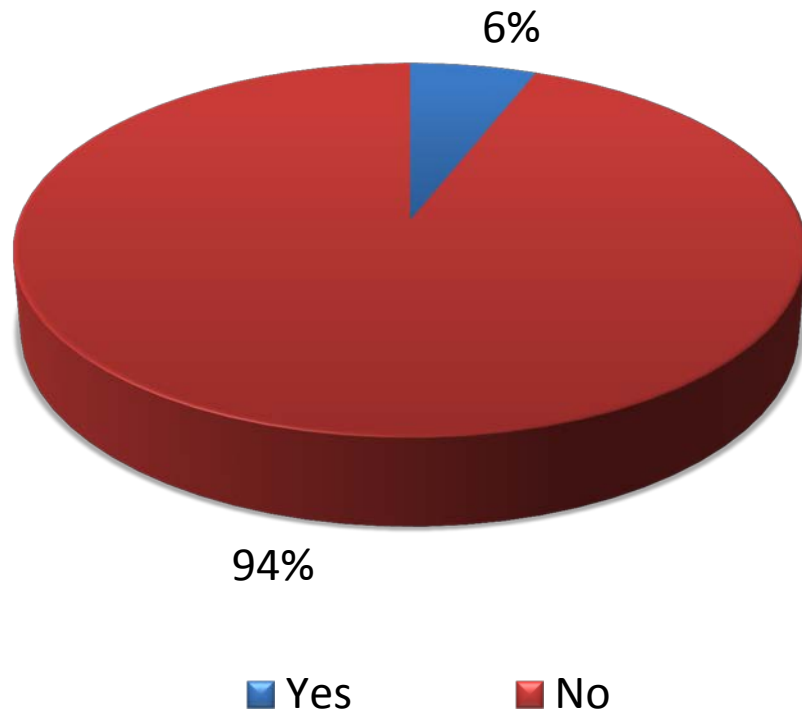
---

- Aggressively defend invalid claims
- Focus on quick resolution – if possible before deduction taken
- Require supporting documentation from customer / audit firm
- Improve sales agreement documentation – close loopholes
- Improve document retention / storage

# 2015 Deduction Survey

## *Outsourcing & use of 3<sup>rd</sup> party technologies*

### Do you Outsource any Deduction Management Tasks?



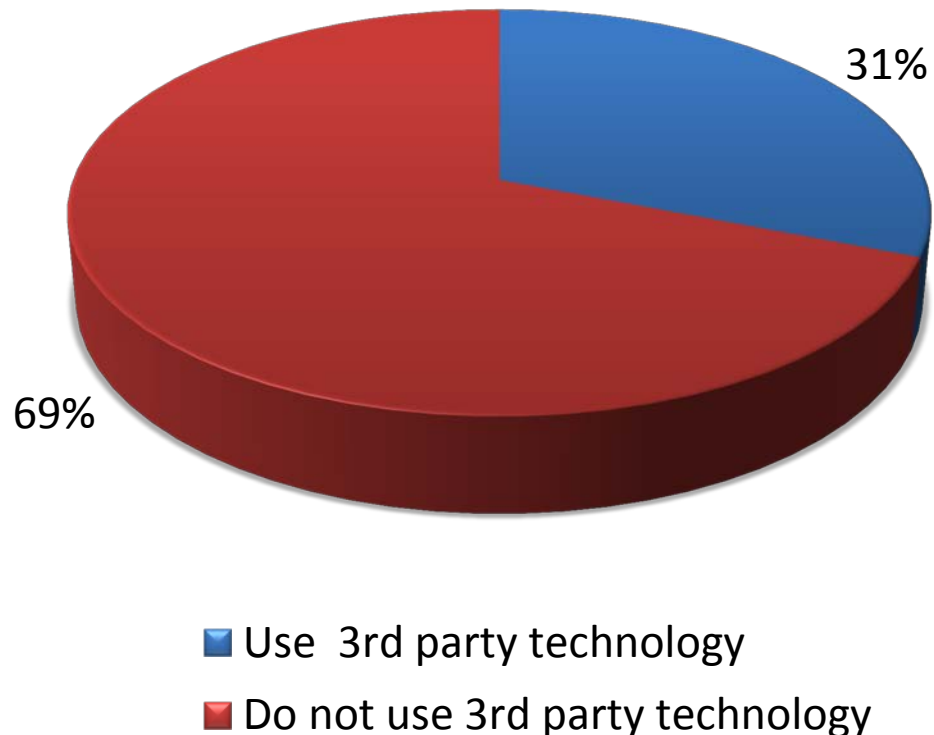
- Entire process after cash app (39%)
- Processing of post audit claims (28%)
- Collection / recovery of invalid claims (28%)
- Research / recovery of specific deduction reasons (28%)
- Research / recovery of small dollar deductions (11%)
- Deduction identification and/or analysis (11%)
- Deduction management reporting (6%)



# 2015 Deduction Survey

## *Outsourcing & use of 3<sup>rd</sup> party technologies*

### Use of 3<sup>rd</sup> Party Technologies



- Cash App / pre-processing
- Collections
- Deduction reporting
- Overall deduction management
- Deduction workflow
- POD / claims retrieval automation
- Claims reconciliation / validation
- OCR / scanning
- Trade promotion management

# Process improvements using automation



## Claims Retrieval

Login, Retrieval and download of claims from retailers websites, emails, papers etc.



## POD Retrieval

Login, Retrieval and download of PODs from carrier websites, emails, papers etc.



## Unified View of Deduction

Collating all deduction backup documents and linking it back to the original deduction



## Workflows

Creating workflows between teams for seamless tracking and collaboration



## Deduction Correspondence

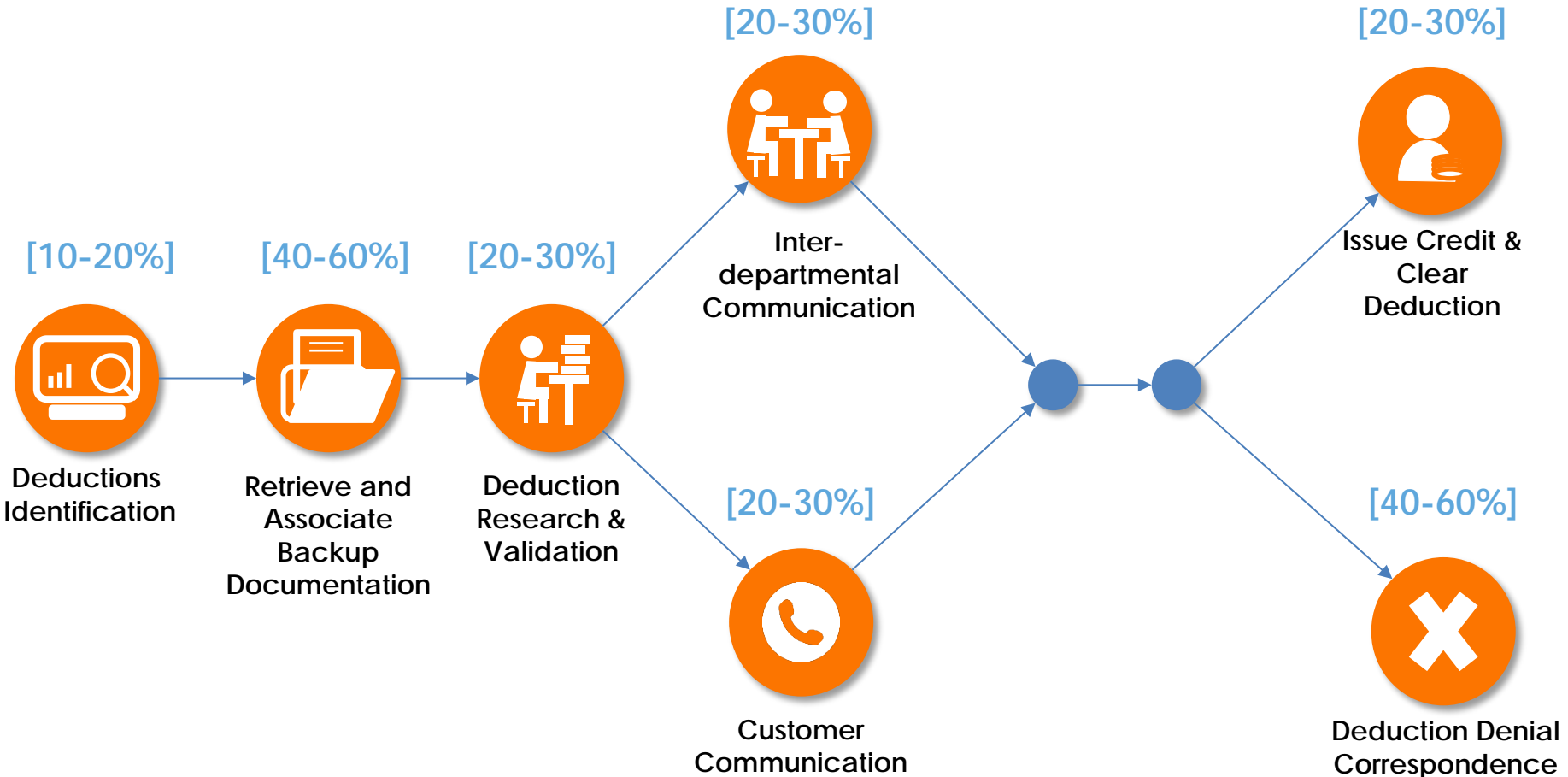
Automating the correspondence with pre-filled data and dispatch operations



## Trade Promotions Matching

Trade Promotion Settlement by reconciling data from Trade Promotion Management system and Deduction Management system

# Process improvements using automation



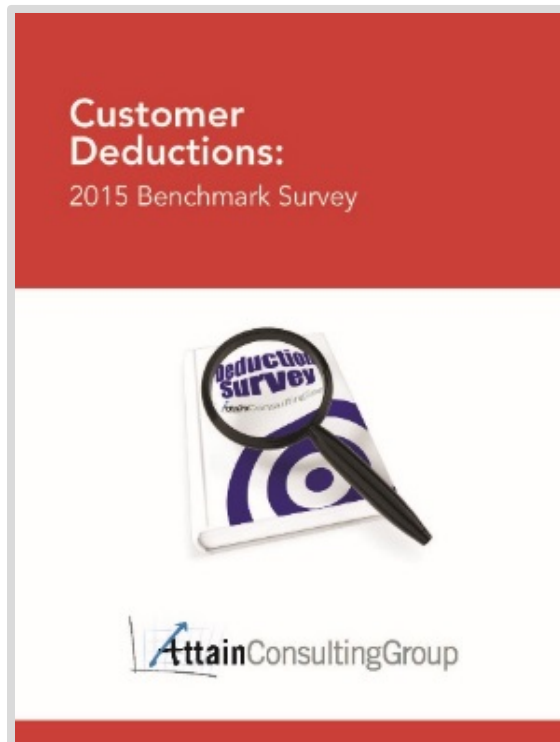
Source: HighRadius

# 2015 Deduction Survey

## Evaluate your company's performance

### 1. Against 2015 Survey Benchmarks

- For a pdf copy of the survey results, visit: <http://attainconsultinggroup.com/2015-benchmarks-survey-results/>



### 2. Deduction Management Maturity Model



Evaluate Your Operations: [highradius.com/evaluate](http://highradius.com/evaluate)

#### Deduction Management Maturity Model

Evolution of Deduction Operations and Key Performance Indicators

	Ad Hoc KPIs: \$/# open deductions	Reactive KPIs: \$/# open and resolved deductions	Proactive KPIs: \$/# deductions by type % invalid deductions	Optimized KPIs: \$/# of deductions avoided \$/# of deductions recovered
Managing Customer Compliance Requirements	Non-existent	Chase changes and updates after deductions are received	Review requirements up front, negotiate some exemptions	Collaborate on new requirements, routinely negotiate exemptions
Cross-Functional Collaboration	No collaboration across departments	Collaboration limited to "fire fighting"	Routine cross-functional meetings	Cross-functional teams drive continuous improvement, usually within a system
Deduction Management Processes	No consistent process, large backlog and write-offs	Mostly manual process triggered by receipt of deduction	Some prevention & recovery of invalid deductions	Primary focus on early detection & prevention
Use of Technology	Mostly manual / Excel process	Limited use of technology, reporting often in Excel, collaboration by email/phone	Beginning to leverage available technologies to reduce manual efforts	Manual tasks/collaboration fully automated, using technology for creative solutions
Trading Partner Relationship (non-sales related)	Limited primarily to payback requests made via email	Contact is only made after deduction or problems become known	Proactively communicate issues and meet to review performance	Routine collaboration, Certified Vendor
Trade Promotion Management	Deals not documented or communicated	Only major deals documented and communicated, still chase Sales for approval	Most deals documented and communicated, manual validation	Programs documented, automated validation often at cash application

Thank you



Jessica Butler  
(201) 280-4773  
[jbutler@attainconsultinggroup.com](mailto:jbutler@attainconsultinggroup.com)