CRF Deduction Survey
Results of 2012 Customer Deduction Survey

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VCF FALL CONFERENCE

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COLLABORATION 3.0:
TRANSITIONING THE TRADING PARTNER DYNAMIC
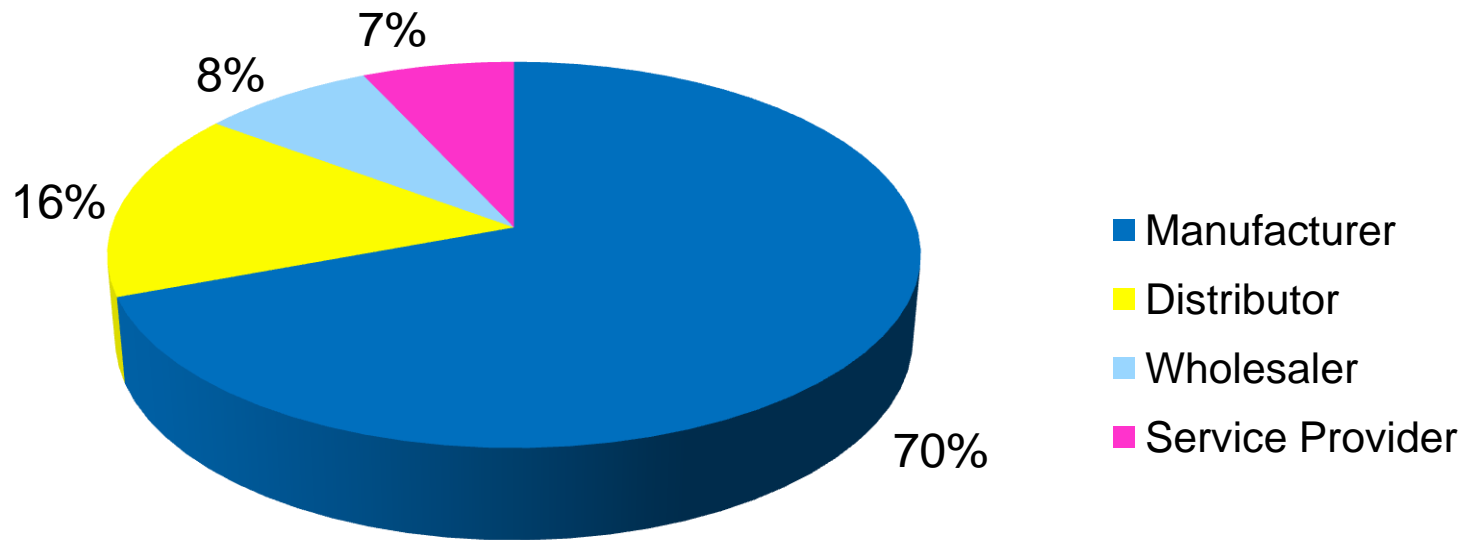
CRF 2012 Deduction Survey
Survey Overview

- Survey conducted by the Credit Research Foundation April 2012

- 493 companies responded to survey

- Analyzed data along across 23 industry lines

- Questions fell into 4 major categories:

  - Deduction Process

  - Deduction Metrics

  - Deduction Practices
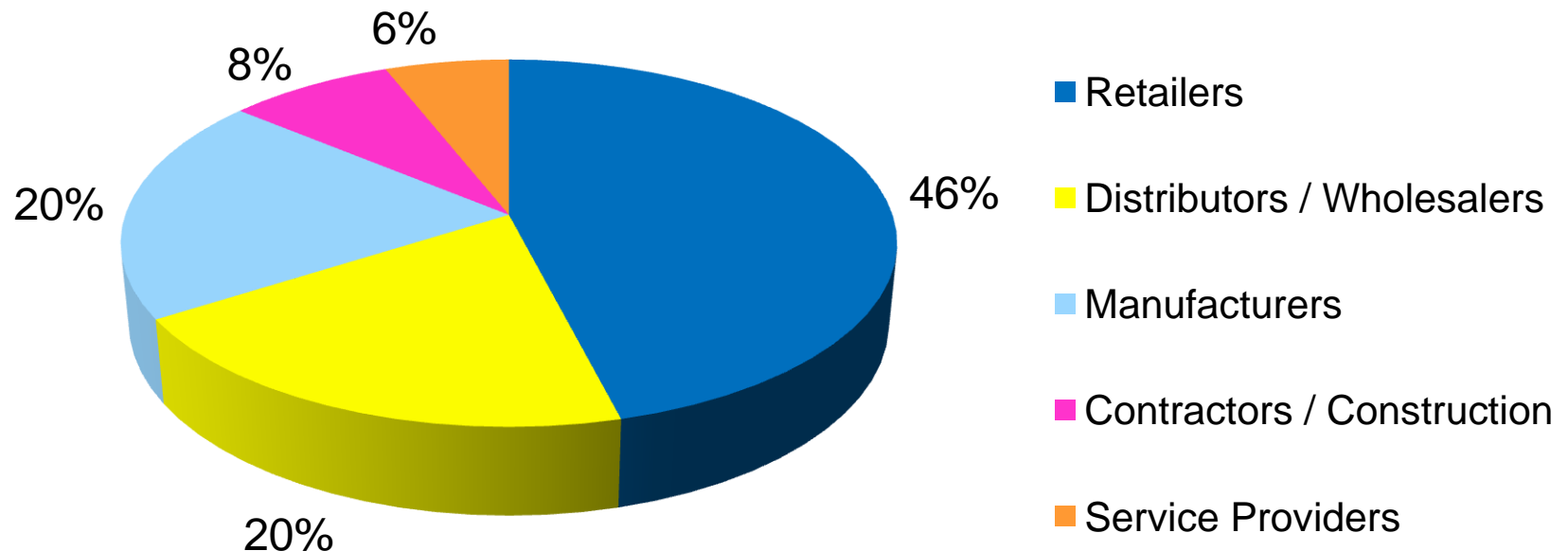
  - Internal Challenges and Actions Taken

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Nature of Business Reporting

- Manufacturer — 70%
- Distributor — 16%
- Wholesaler — 8%
- Service Provider — 7%

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CRF 2012 Deduction Survey
Survey Overview

Primary Distribution Channel

- Retailers — 46%
- Distributors / Wholesalers — 20%
- Manufacturers — 20%
- Contractors / Construction — 8%
- Service Providers — 6%

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CRF 2012 Deduction Survey
Survey Overview

Top 10 Industries Reporting
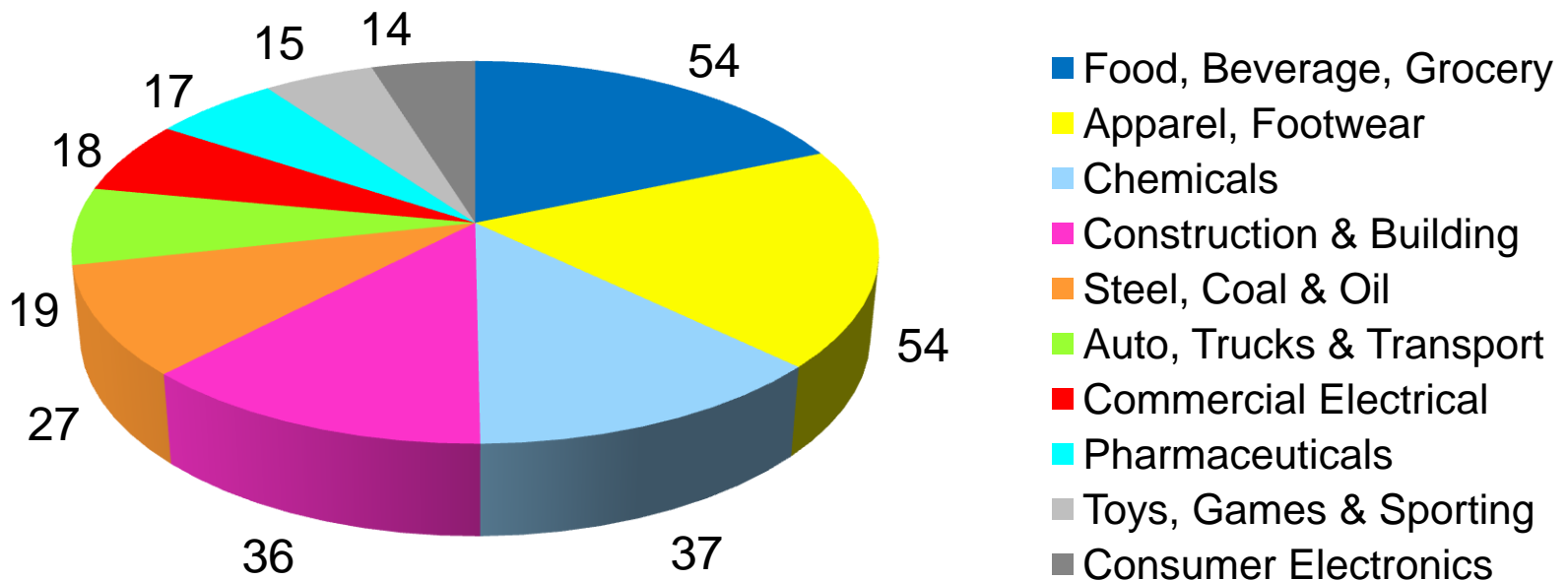
Pie chart values: 54, 54, 37, 36, 27, 19, 18, 17, 15, 14

Legend:
- Food, Beverage, Grocery
- Apparel, Footwear
- Chemicals
- Construction & Building
- Steel, Coal & Oil
- Auto, Trucks & Transport
- Commercial Electrical
- Pharmaceuticals
- Toys, Games & Sporting
- Consumer Electronics

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Survey Overview

Annual Sales

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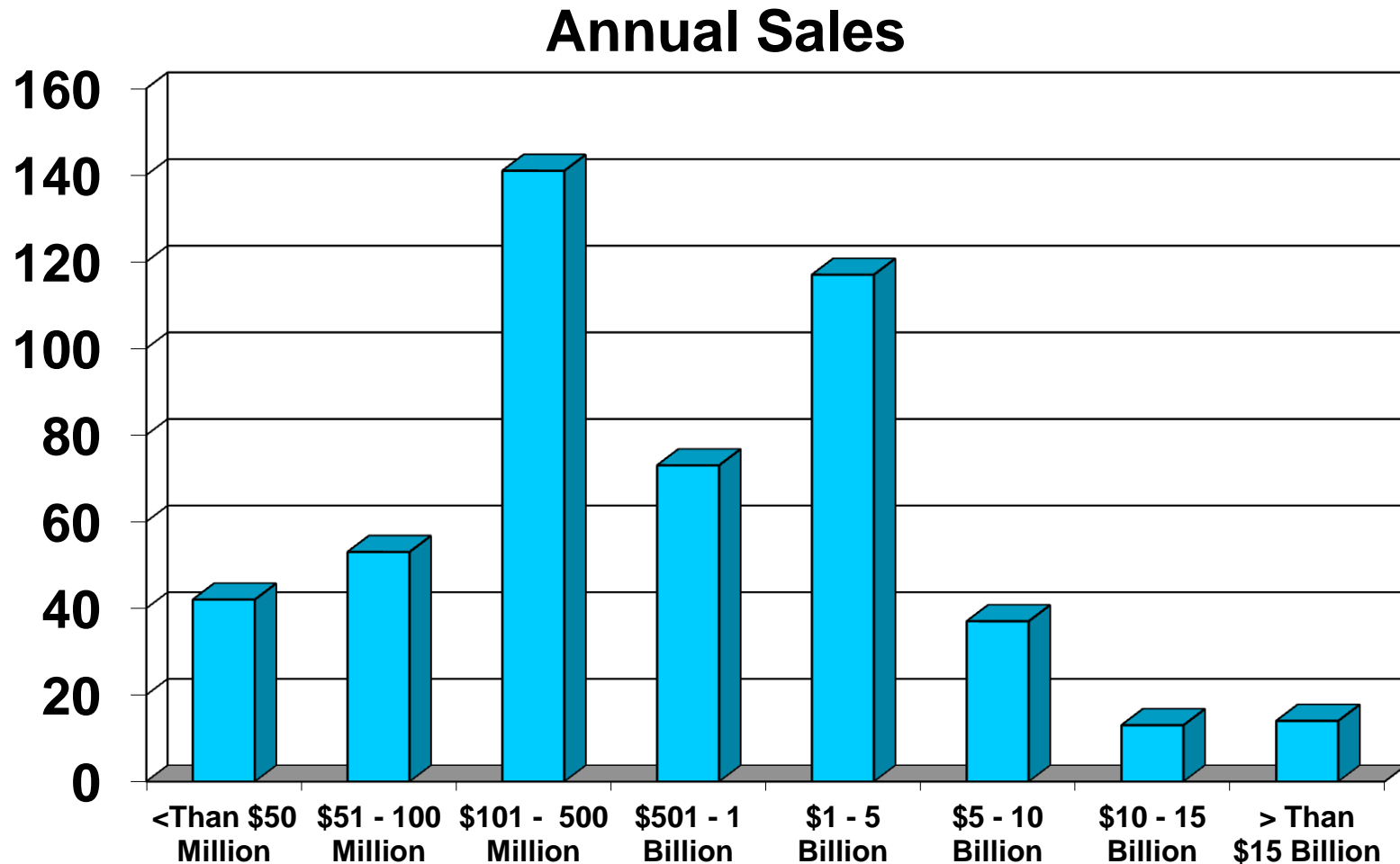
CRF 2012 Deduction Survey
Survey topics

- ## Deduction Process

  - Organizational responsibilities

  - Deduction aging

  - Time limit beyond which will not honor customer claims

  - Internal time limit for open deductions

  - Chargeback unresolved claims to business unit

  - Attempt to collect unearned cash discounts

  - Auto write-off practices

  - Approval process for issuing credits

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CRF 2012 Deduction Survey
Survey topics

- ## Deduction Metrics

  - Top deduction reasons

  - Deductions as % of sales

  - Deductions as % of AR, % > 90 days

  - % of deductions invalid / disallowed, % recovered

  - Reasons for not recovering invalid deductions

  - Change in volume of deductions / post audits in past 12 months?

  - Average time to research / resolve deduction

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Survey topics

- Deduction Practices

  - Who negotiates vendor agreements

  - ERP systems, 3rd party technologies used

  - Deduction reporting capabilities

  - Outsourcing

  - Cross-functional teams

  - Customer meetings

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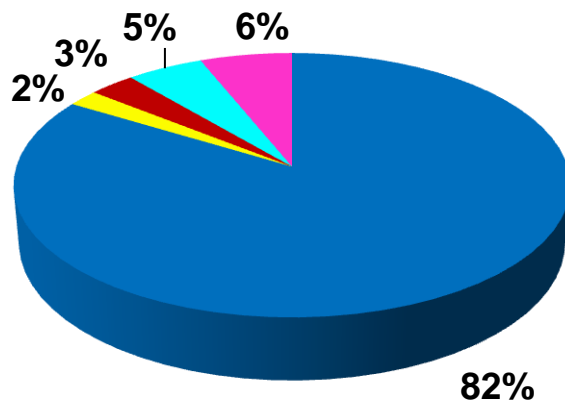# CRF 2012 Deduction Survey
Survey topics

- **Internal Challenges and Actions Taken**

  - Internal challenges in trying to control deductions

  - Actions taken to effectively ***prevent*** future deductions

  - Actions taken to effectively ***resolv***e existing deductions

  - Actions taken to effectively deal with ***post audit*** claims
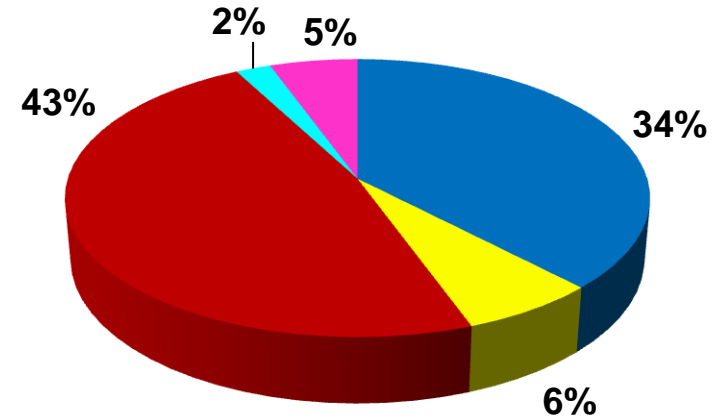
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CRF 2012 Deduction Survey
Survey Snapshots

Organizational Responsibilities

Performs initial research

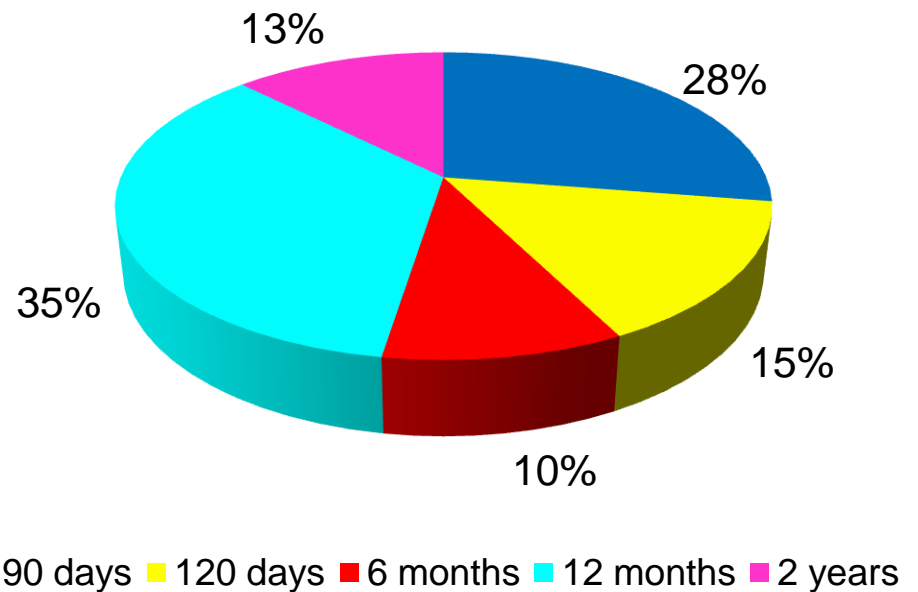**Validates sales related deductions**

Collect invalid deductions

Legend:
- Credit / AR
- Compliance
- Sales
- Customer Service
- Other
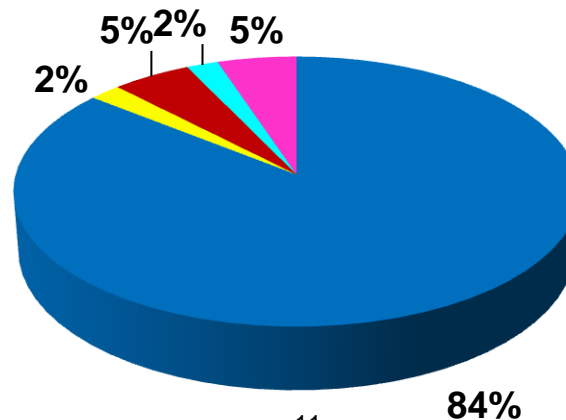
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Survey topics

Do you have a time limit beyond which a claim is not honored

40%

60%

■ Yes ■ No

What is your time limit as to how long a chargeback can remain open

13%

28%

35%

15%

10%

■ 90 days ■ 120 days ■ 6 months ■ 12 months ■ 2 years

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Survey Snapshots

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

31%

41%

27%

■ Yes ■ No ■ Depends on deduction type

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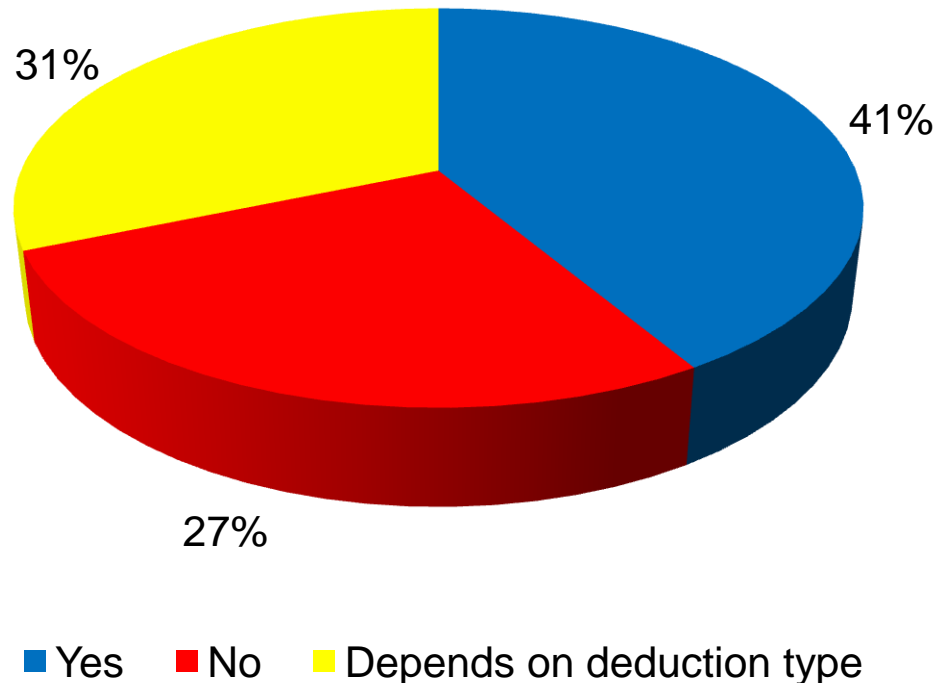
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Survey Snapshots

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

22%

78%

31% Not Very Successful

Fairly Successful

69%

■ Yes ■ No

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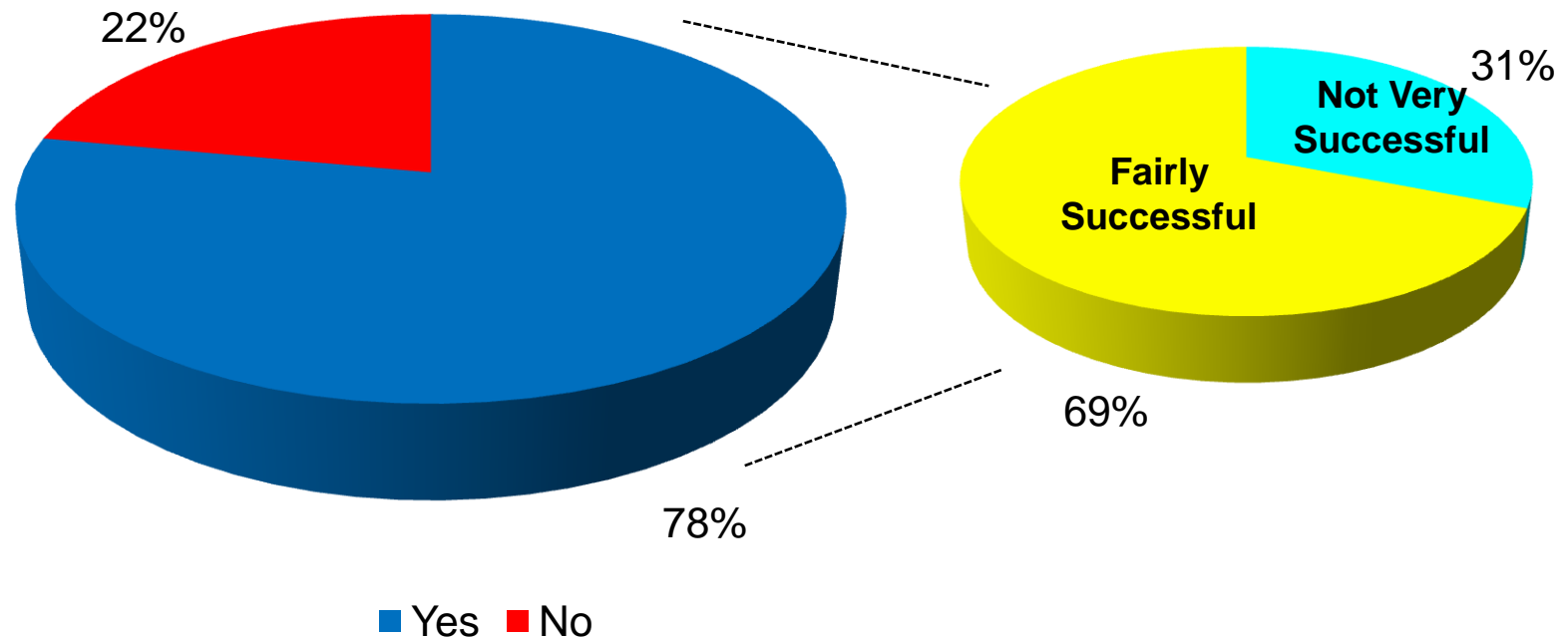
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Survey Snapshots

Allowance policies to eliminate individual claims?

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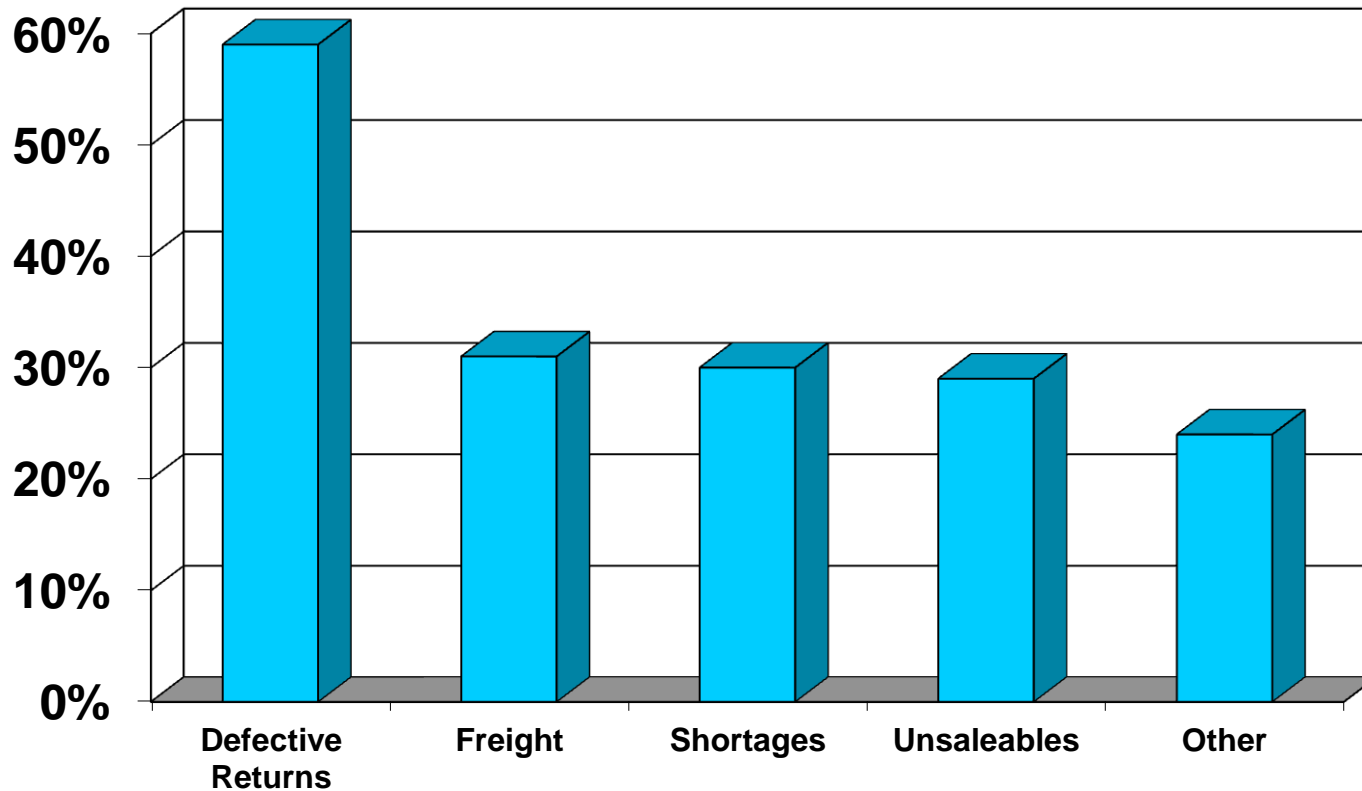
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Survey Snapshots

Do you automatically write off chargebacks below a certain value without investigation

17%

19%

65%

■ Yes ■ Depends on type ■ No

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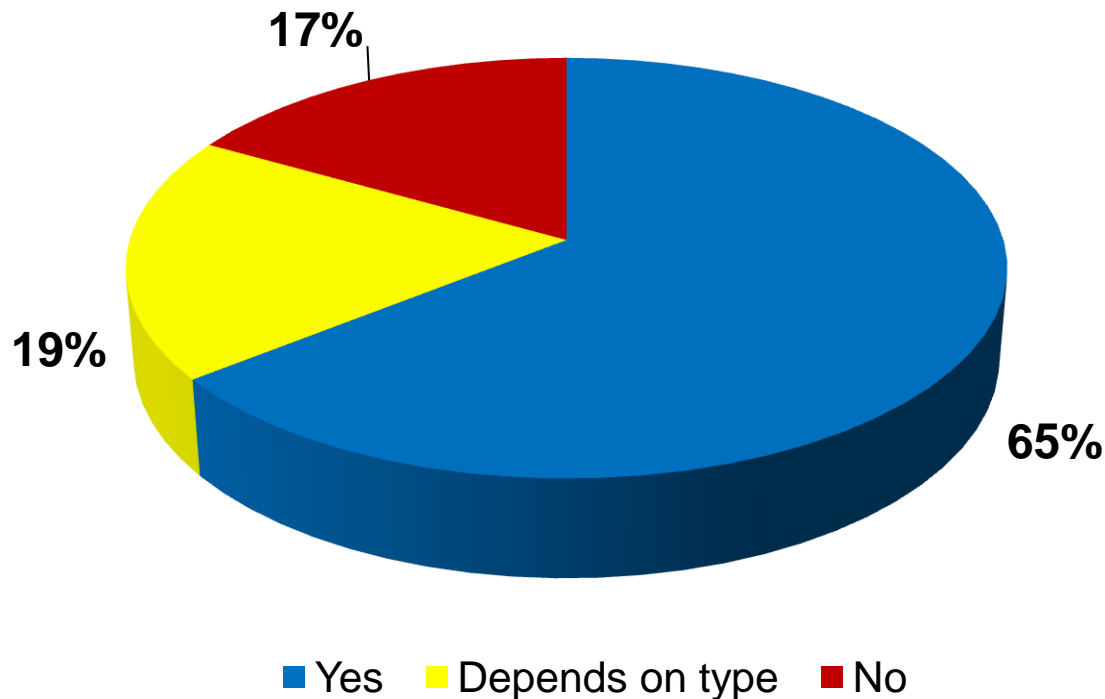
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Survey Snapshots

What is the stated amount of the automatic write off:

	Median Amount	
TOTAL ALL INDUSTRIES	**< $25.00**	
Cosmetics, Health & Beauty Aids	**$100 - $250**	
Pharmaceuticals	**$50 - $100**	
Food, Beverage & Grocery	**$25 - $50**	
Apparel, Footwear & Accessories	**< $25.00**	
Consumer Electronics	**< $25.00**	

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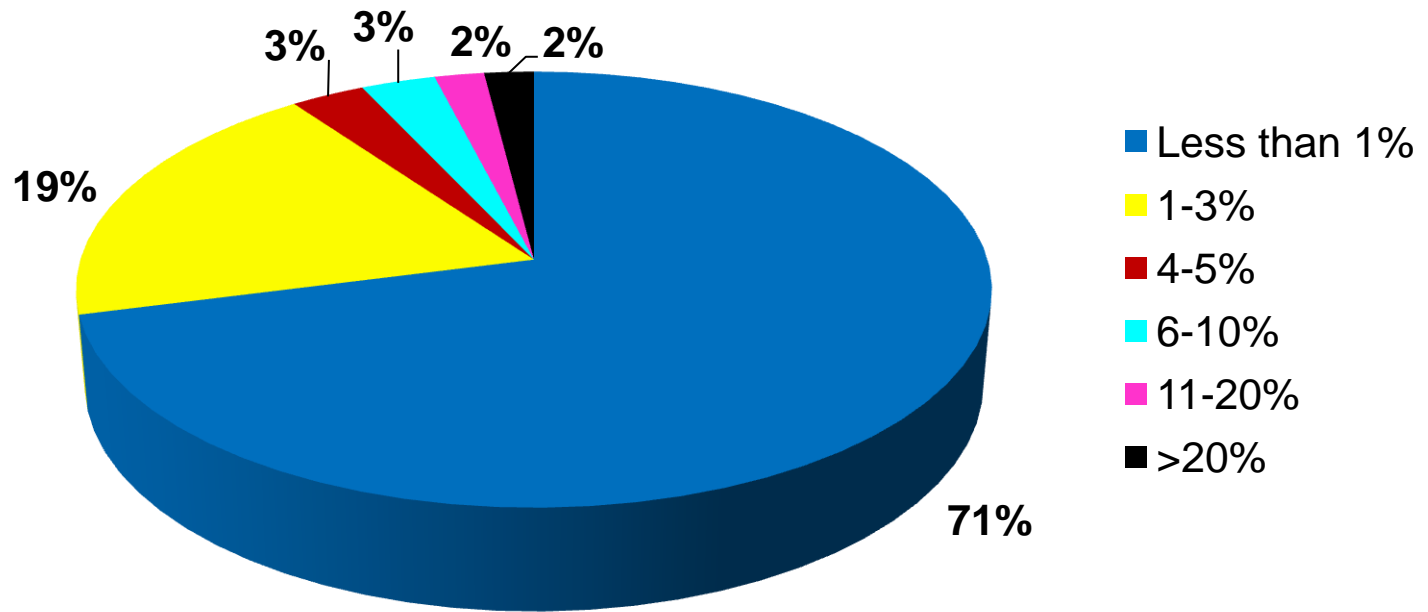
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Survey Snapshots

Trend in deduction dollars in past 12 months?

31%
43%
26%

■ Increased ■ Decreased ■ Stayed the Same
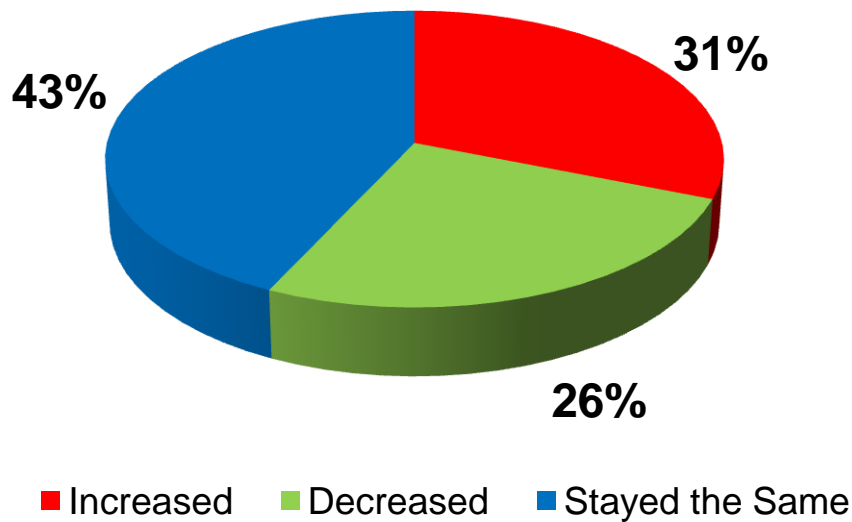
If increased, did resources increase?

18%
Yes
No
82%
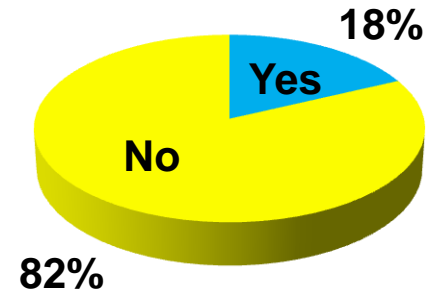
If decreased, what attribute decrease to?

17%
Other
10%
Sales Decline
Improved Processes
73%

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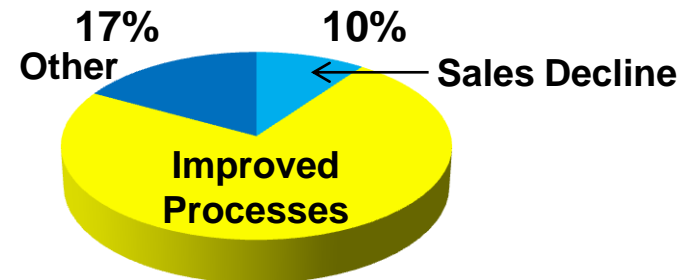
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Top 5 types of deductions ($)

1. Pricing

2. Advertising, Promo, Rebate

3. Allowances, Discounts

4. Shortages

5. Damaged / Unsaleable

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Top COMPLIANCE deductions ($)

1. **Concealed shortages**

2. **Freight / routing** (e.g., incorrect carrier / ship-to, multiple same day shipments)

3. **Early / late delivery**

4. **EDI / ASN errors**

5. **Full carton shortages**

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Survey Snapshots

Percent of Sales:

- Deductions represent 2% of sales for respondents whose primary customer in a retailer (median)

- Industry highlights:

	% of Sales
Consumer Electronics	**10%**
Cosmetics, Health & Beauty	**10%**
Housewares & Accessories	**5%**
Food, Beverage & Grocery	**3%**
Apparel, Footwear & Accessories	**2%**
Pharmaceutical & Biotech	**1%**

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Survey Snapshots

Percent of deductions invalid or disallowed:

- For all respondents, **3 – 5%** of all deduction dollars are invalid or disallowed and charged back to your customer (median).

- 15% of respondents reported that over 30% of all deduction dollars are invalid or disallowed

- Industry highlights:

	Median % invalid
Paper & Allied Products	**16-20%**
Apparel, Footwear & Accessories	**11-15%**
Pharmaceutical & Biotech	**6-10%**
Food, Beverage & Grocery	**3-5%**

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Survey Snapshots

Percent of invalid deductions ultimately recovered:

- For all respondents, **70%** of all deduction dollars that are invalid or disallowed are ultimately recovered from your customers (median)

- 32% of respondents recover 90% or more, while 13% of respondents recover 10% or less
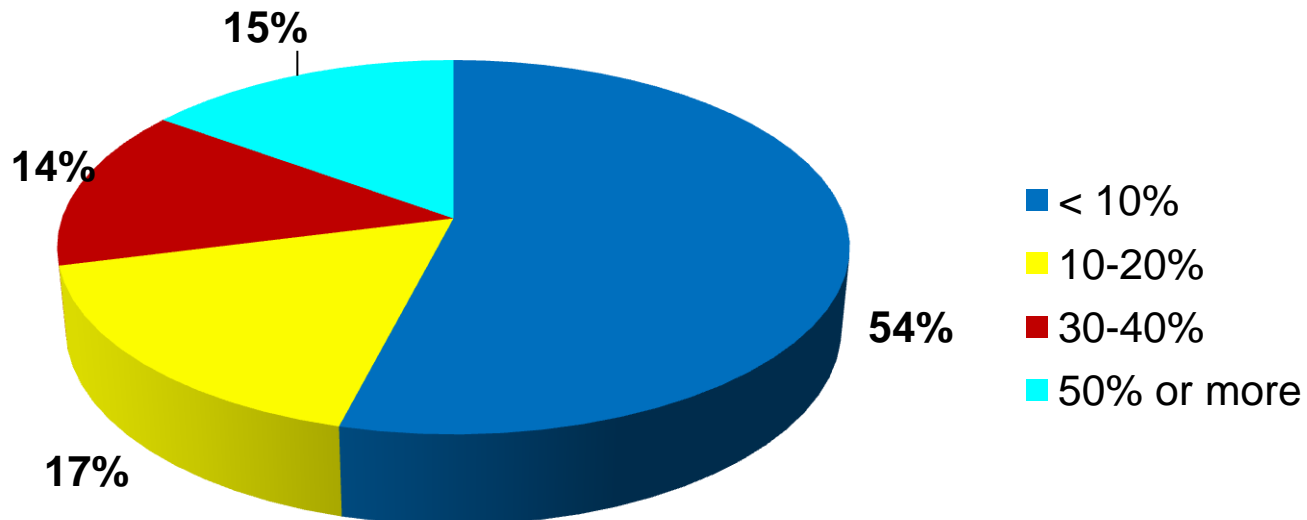
- Industry highlights:

	Median % recovered
Medical Instruments & Supplies	90%
Consumer Electronics	80%
Apparel, Footwear & Accessories	60%
Food, Beverage & Grocery	60%

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Survey Snapshots

Percent of outstanding AR:

- Deductions represent 2% of open AR dollars (median of respondents selling primarily to retailers)

- When asked what percent are > 90 days outstanding

Pie chart:
- 54% — < 10% (blue)
- 17% — 10-20% (yellow)
- 14% — 30-40% (red)
- 15% — 50% or more (cyan)

Legend:
- < 10%
- 10-20%
- 30-40%
- 50% or more

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Survey Snapshots

How would you rate your deduction reporting capabilities?

Pie chart legend:
- Excellent — 27%
- Average — 54%
- Poor — 16%
- None — 3%
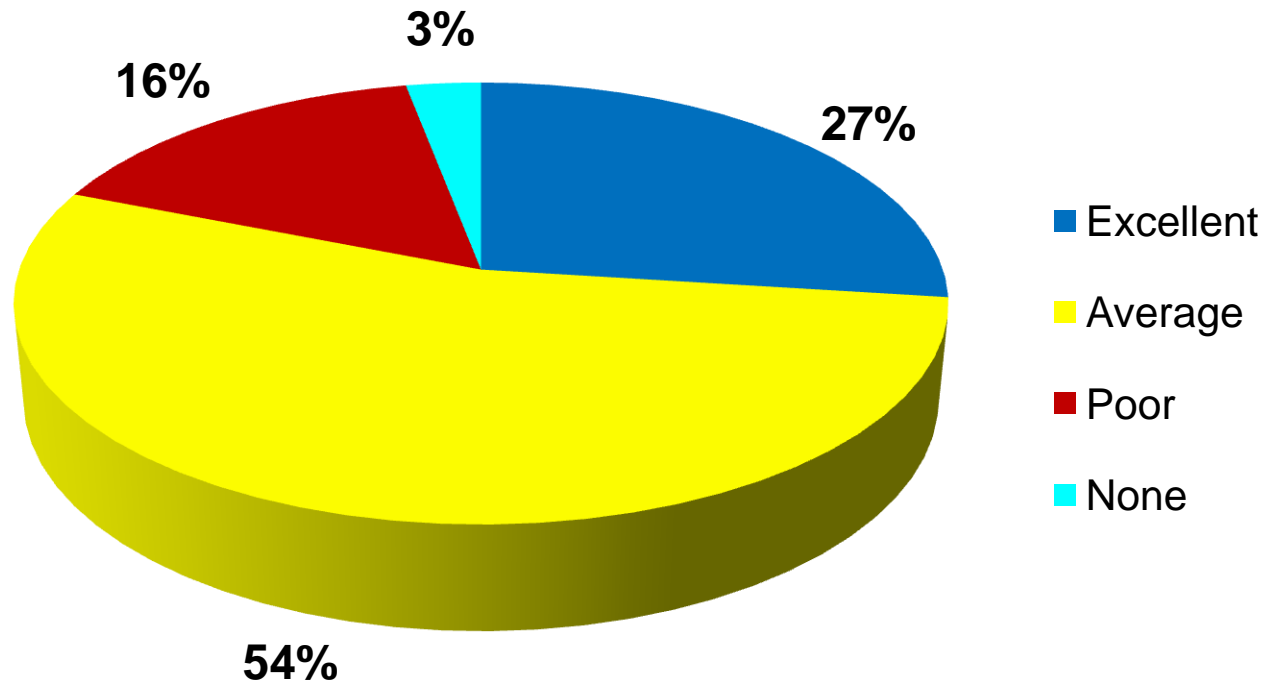
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Survey Snapshots

## Use of 3rd Party Technologies

31%

69%
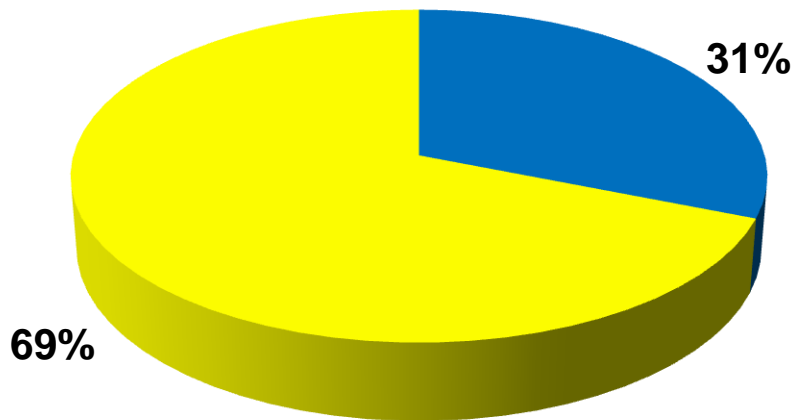
■ Use 3rd party technology

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

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Survey Snapshots

Do you Outsource any Deduction Management Tasks

6%

94%

■ Yes   ■ No
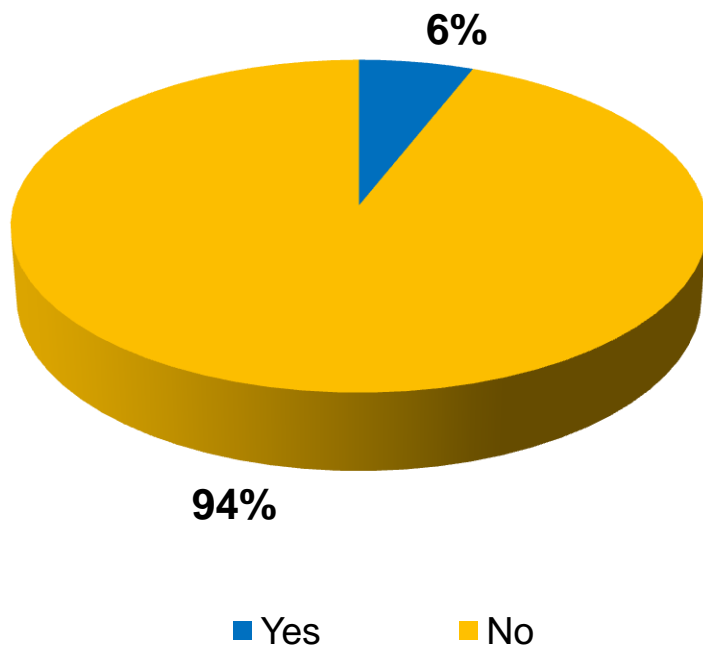
- Collection / recovery of invalid claims

- Processing of post audit claims

- Entire process after cash app

- Claims analysis & identification

- Investigation for validity

- Reconciliation of deduction balances

- Deduction management reporting

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Survey Snapshots

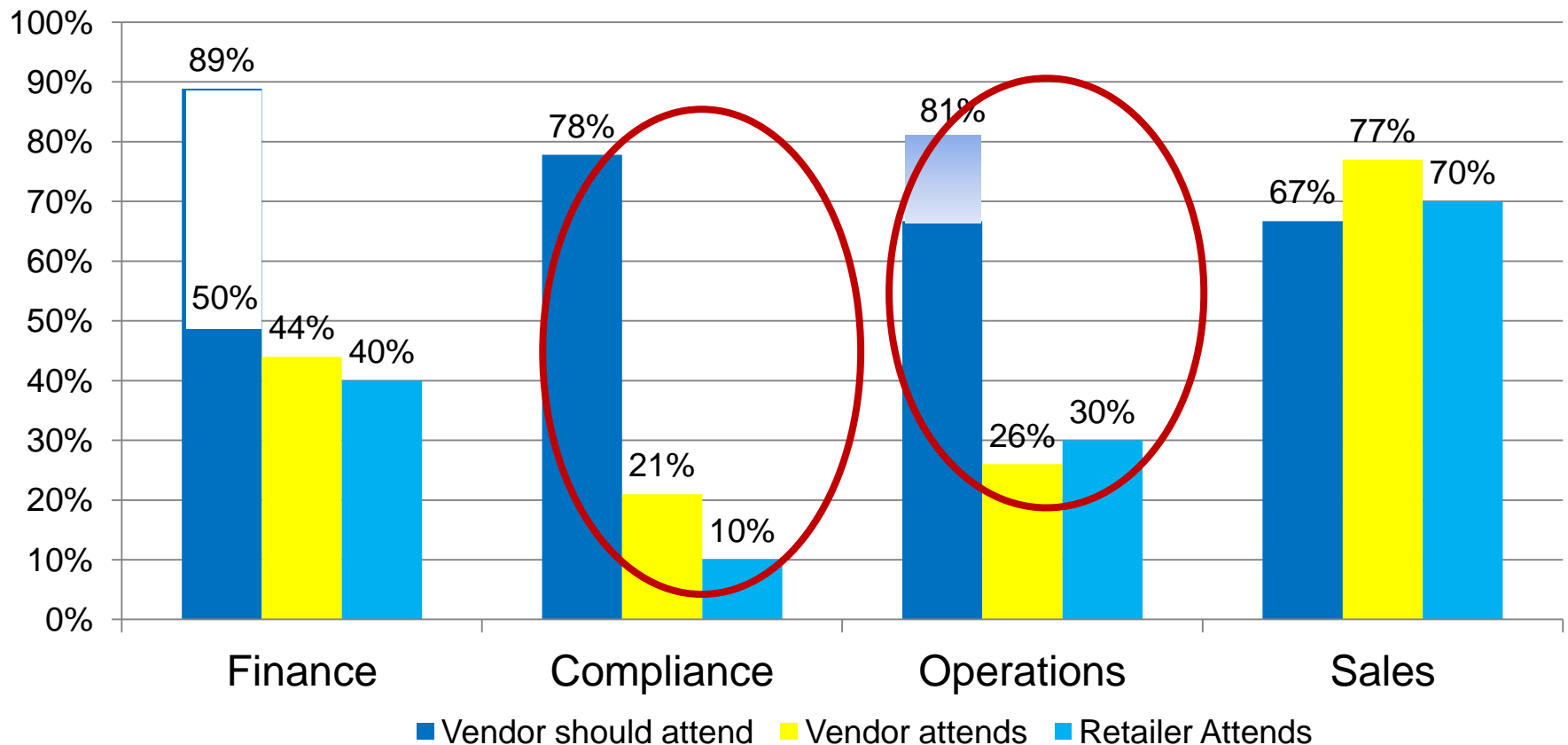**Has anyone in your company had face-to-face meetings with key customers within past 12 months to discuss deduction or compliance issues?**

- Yes
- No
- Not sure

15%

19%

67%

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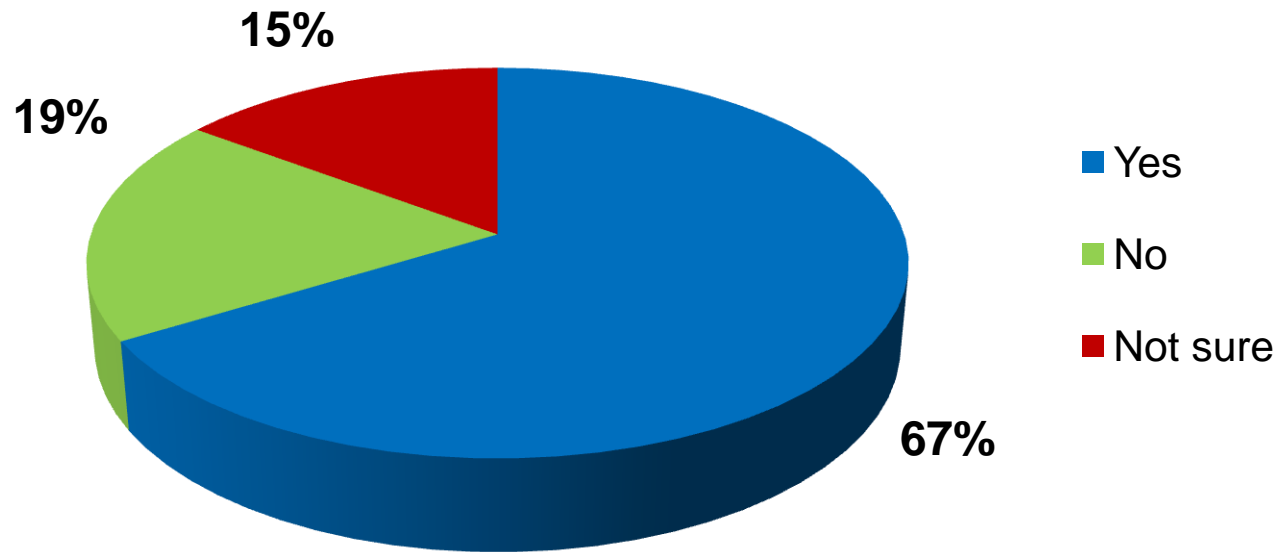
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Survey Snapshots

Meeting attendees:

Based on 2012 Retail Workshop survey, 2012 CRF survey & 2010 Joint VCF / Attain Consulting survey

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Survey Snapshots

Biggest internal challenge in controlling deductions

- Cross-departmental cooperation — 41%
- Inefficient processes — 16%
- Lack of resources — 14%
- Timely access to information — 14%
- Senior management buy-in — 5%
- Other — 10%

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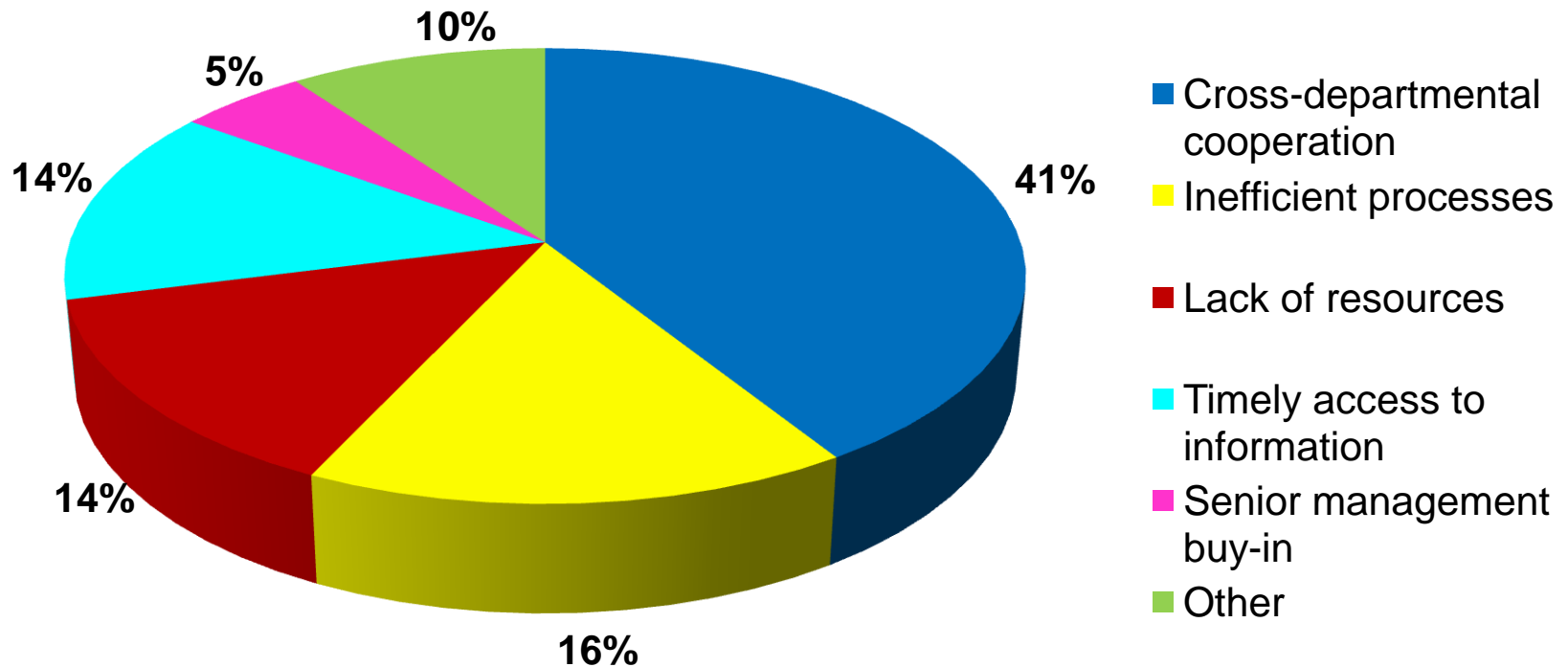
CRF 2012 Deduction Survey
Survey Overview

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

46%

54%
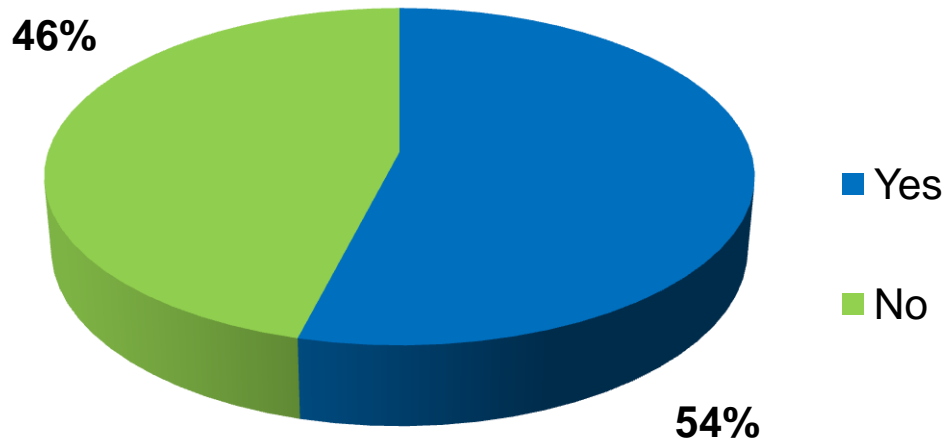
Have cross-functional teams helped reduce new deductions?

37%

63%

■ Yes

■ No

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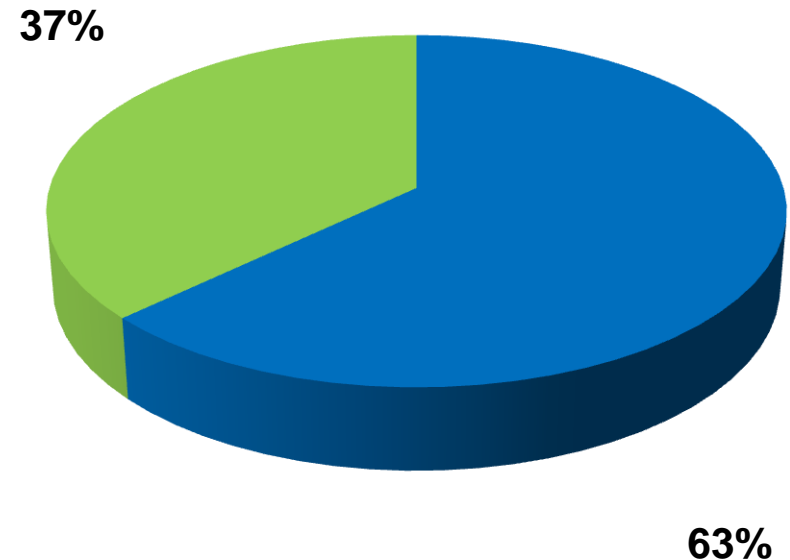
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Survey Snapshots

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)

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Survey Snapshots

Actions taken to *PREVENT* deductions

- Focused on improving order accuracy (e.g., order entry, invoicing)

- Performed '*root cause*' analysis to understand underlying reason for deductions

- Made sales and/or other departments responsible & accountable for deductions

- Implemented and/or strengthened cross-functional teams

- Better communicated our policies with customers (e.g., pricing changes, terms)

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Survey Snapshots

Actions taken to deal with *POST AUDIT* deductions

No change
Decreased
Increased

9%

10%

81%
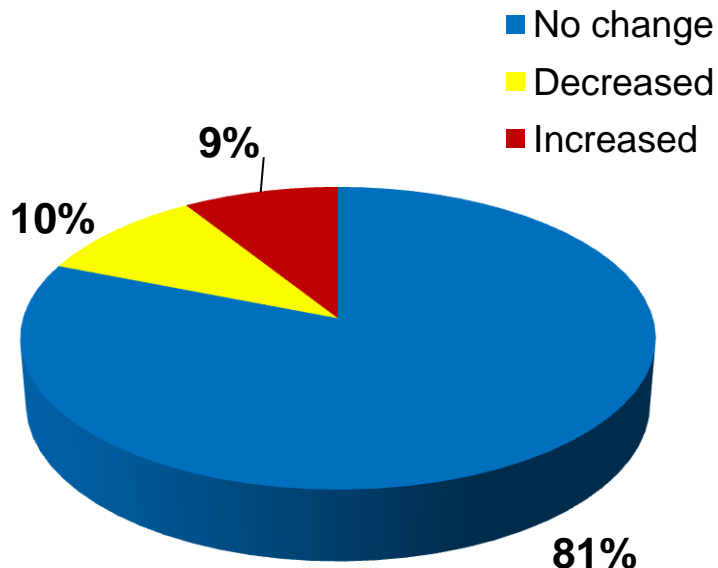
- Aggressively defend invalid claims

- Address post audit claims quickly – if possible, before the deduction is taken

- Improved sales agreement documentation to be more specific and reduce opportunity for misinterpretation

- Require supporting documentation from customer / audit firm and put burden of proof on customer

- Improve documentation retention / storage so it is easier to find information to support our position

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CRF 2012 Deduction Survey
Survey Snapshots

Quick benchmark exercise:

- Deductions represent 2% of sales

- 3–5% of all deduction dollars are invalid / disallowed

- 70% of invalid / disallowed deductions are recovered

If your annual sales are …	$100 million	$500 million	$1 billion	Your Company Data
Then based on CRF median benchmarks ...				
Total Deductions Received	$2,000,000	$10,000,000	$20,000,000	
Total Invalid Deductions	$100,000	$500,000	$1,000,000	
Reductions Recovered	*$70,000*	*$350,000*	*$700,000*	

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Survey Snapshots

Quick benchmark exercise:

- Deductions represent 2% of sales

- 3–5% of all deduction dollars are invalid / disallowed

- 70% of invalid / disallowed deductions are recovered

If your annual sales are …	$100 million	$500 million	$1 billion	Your Company Data
Then based on CRF median benchmarks ...				
Total Deductions Received		$10,000,000	$20,000,000	
Total Invalid De...	...00,000	$500,000	$1,000,000	
Reduc... ...red	*$70,000*	*$350,000*	*$700,000*	

How do you stack up?

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Deduction Management Maturity Model
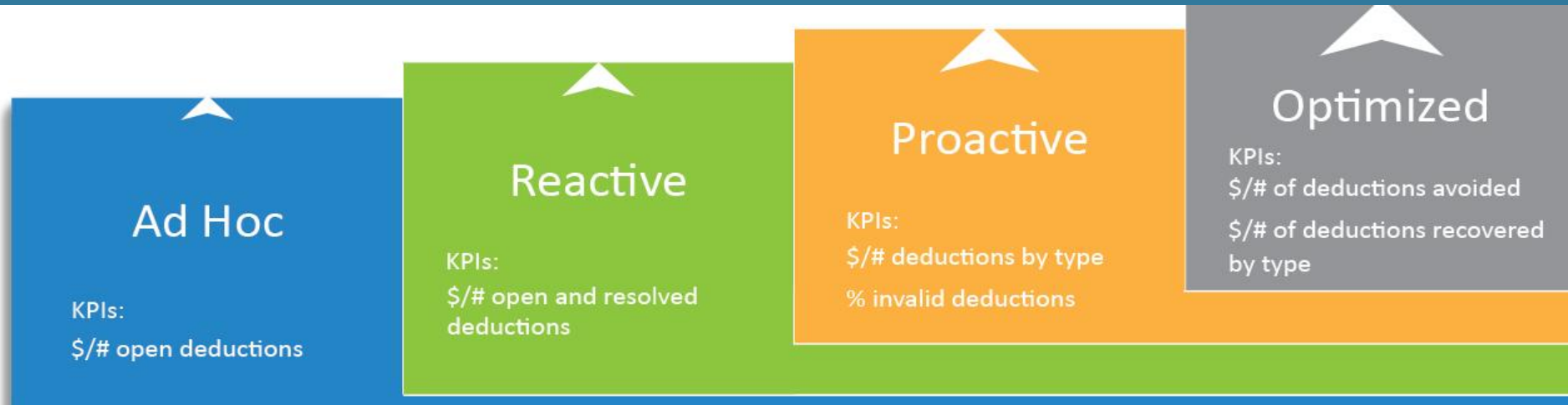
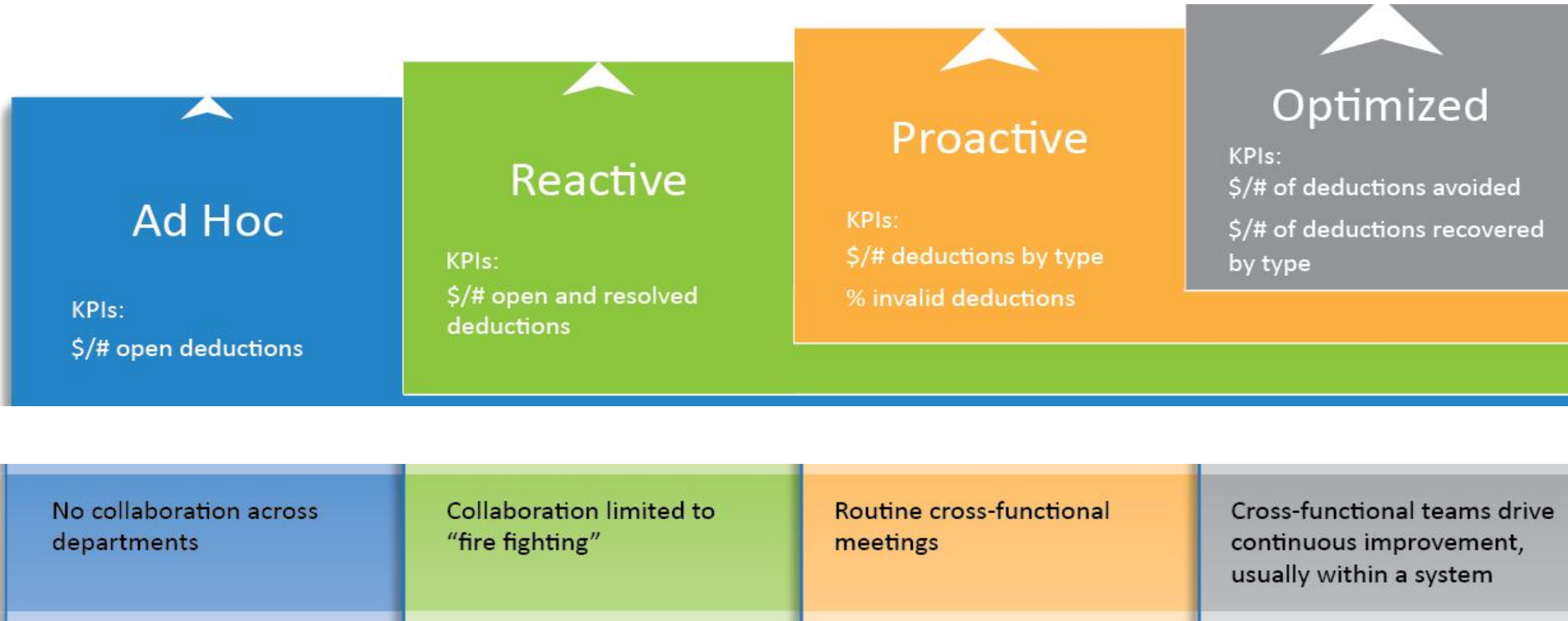- Managing customer compliance requirements
- Cross functional collaboration
- Deduction management processes
- Use of technology
- Trading partner relationship (non sales-related)
- Trade promotion management
- Key performance indicators

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Deduction Management Maturity Model
Cross-functional collaboration

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 by type

| No collaboration across departments | Collaboration limited to "fire fighting" | Routine cross-functional meetings | Cross-functional teams drive continuous improvement, usually within a system |

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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 by type
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

Deduction Management Maturity Model
Automated assessment tool

- Partnered with HighRadius to develop automated assessment tool

- Receive analysis of your relative position in the maturity model based on your responses to several questions

  - Profile of typical company in your level

  - Recommendations to evolve to the next level

  - Resources *(coming soon)*

Go to **www.highradius.com/evaluate**

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Questions?

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