

# **A Streamlined Approach to Deduction Codes: Why Fewer is Better**

**Jessica Butler, Attain Consulting Group**

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# Who We Are – Claudia Swendseid



**Claudia Swendseid**  
**Senior Vice President**



- An expert & thought leader in the payments industry, especially on B2B payments & fraud
- Oversees payments & support departments at the Minneapolis Fed & leads Federal Reserve industry relations directed at business end users

## About the Federal Reserve:

- Central Bank of U.S.
  - Sets & executes monetary policy
  - Seeks to ensure safe & secure financial institutions & markets
  - Provides payment services to financial institutions & U.S. government
- Mission in payments is to foster integrity, efficiency, & accessibility of U.S. payment & settlement systems in support of financial stability & economic growth

# Disclaimer

The opinions expressed are those of the individual presenter & not those of the Federal Reserve System or any Federal Reserve Bank

# Who We Are – Jessica Butler



**Jessica Butler**  
**Principal**



- An expert & thought leader in deduction management & negotiation
- Leads a group of companies to develop deduction best practices on current chargeback & deduction issues through Compliance Advisory Board
- Speaks frequently at conferences & seminars on deduction management

## **About Attain Consulting:**

- A deduction & chargeback management advisory firm providing practical, experience-based solutions to help companies “Take Control of Deductions”
- Attain Consulting Group, LLC is dedicated to helping companies increase profitability by reducing & controlling chargebacks & deductions

# Agenda

1. Simplifying EDI Deduction Codes
2. Other Remittance Coalition Initiatives
  - Getting Involved



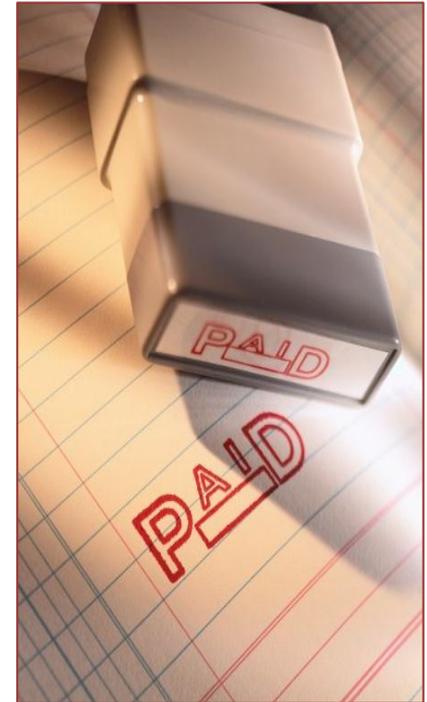
# SIMPLIFYING EDI DEDUCTION CODES

# Remittance Data Defined

## **Remittance Data Definition:**

Information shared between a buyer & seller to provide detailed accounting of what the payment is for

- Buyer initiates remittance data to:
  - Inform seller of payment details
  - Justify amount being paid (e.g., explain deductions)
- Seller uses remittance data to:
  - Close an open accounts receivable entry
  - Acknowledge that payment was received
  - Determine other liabilities (e.g., adjustments, rebates, promotional efforts, special pricing, etc.)



# Understanding Deductions

- Deductions can account for up to 10% of sales
- Over 60% of deductions are “the cost of doing business”
- Some deductions result from poor internal processes
- Deduction processing costs can run \$200-\$300 per deduction

# Addressing Deduction Code Problems

- Over 600 codes defined in X12 standard “426 adjustment reason code”
  - Used in various EDI transactions (e.g., 820 Payment & Remittance Advice, 812 Credit/Debit Adjustment)
  - Used in other remittance exchanges (e.g., email remittance)
- Unclear definitions & descriptions lead to:
  - Inconsistent usage across business entities
  - Manually processing of remittance data or customizing software to ensure compatibility with trading partners



# Case in Point: Advertising Deduction Codes

- Multiple codes with similar definitions are confusing & increase errors:
  - At least 6 codes concern advertising allowance – which one should be used? Are all 6 codes needed?



Current 426 Codes Related to Advertising	
56	Advertising Allowance Taken
71	Advertising Allowance
79	Cooperative Advertising
AV	Advertising Contribution
M1	Advertising Unidentified
MA	Marketing Allowance

**Can we consolidate these into one advertising code & simplify the process?**

# Remittance Coalition's Simplified Deduction Code Project

- Work group formed to develop a subset of EDI adjustment codes to meet needs of “most” businesses
- Proposed codes based on existing X12 EDI codes
- Goal is to provide a simpler, standard usage of discount & adjustment codes



# Remittance Coalition's Simplified Deduction Code Project

## Goal: Develop Common Standards

- Identified about 70 codes as essential for deduction processing
  - Developed a short list of “core” codes along with higher level categories for roll up
  - Includes the 12 codes allowed in X12 STP 820
- Mapped to “best fit” codes from 426 code list to minimize need to convert – *426 codes can still be used*
- Codes may be carried in X12 messages or other electronic formats OR may be included in other remittance information exchanges (*e.g., spreadsheet, e-mail*)

# Remittance Coalition's Simplified Deduction Code Project

## Proposed Categories for "Core" Adjustment Codes

Allowance

Billing

Freight

Non-Compliance

Post Audit

Pricing

Rebates

Returns / Refused

Miscellaneous

# Remittance Coalition's Simplified Deduction Code Project

Category	Proposed Short List Reasons	Short List Code
Allowance	Advertising Allowance	71
	Billback Allowance Deduction	GH
	Competitive Allowance	77
	Coupon Related	GB
	Defective Allowance	82
	Floor Stock Protection	95
	Guarantee Fee	AF
	Margin Contribution	RW
	Mark Down Allowance	RX
	Market Development Fund Deduction	GC
	New Store Allowance	A3
	Promotional Allowance	A8
	Slotting Charge	GE
	Testing Charge	C6
	Truckload Allowance	MJ
	Unsalable Merchandise	GG
	Warehouse Allowance	MK
Billing	Covered by Credit Memo	CM
	Covered by Debit Memo	E2
	Credit as Agreed	81
	Discount The dollar value of the discount applied	L2
	Duplicate Billing	19
	Duplicate Payment	86
	Early Payment Allowance	90
	Evaluated Receipt Settlement (ERS) Delivery Charge	83
	Invoice Amount Does Not Match Account Analysis	IA
	Payment	PT
Total Order Not Received	75	
Freight	Pickup Allowance	MB
	Shipping and Freight Charge	SF
Miscellaneous	Miscellaneous Deductions	L7

Category	Proposed Short List Reasons	Short List Code
Non Compliance	Advanced Ship Notice Not Received	70
	Bill of Lading Does Not Match 856 Advance Ship	O1
	Handling Charge	97
	Hanger Charge	BI
	Incorrect Product	07
	Item not received	59
	Label Placement	RV
	Late Shipment of Goods	99
	Logistics Label - Incorrect Label Format	FY
	Logistics Label - Label Does Not Scan	GP
	Not Shipped on Date Authorized	S3
	Overage	A5
	Packing - Problem with Pack List	GX
	Packing Violations	A6
	Pallet/Container Charge Error	10
	Paper Bill of Lading Non Standard VICS Format	KE
	Purchase Order Number Incorrect on Invoice	MG
	Quantity Contested	06
	Receiving Discrepancy	RD
	Required Documents Missing	44
Routing Violation	B8	
Ship Notice - Carton Content does not Match Ship	EU	
Ship Notice - Received Late	F2	
Ticketing Error	C8	
Transportation Issue	T1	
Post Audit	Audit An itemized charge has been adjusted to	L1
Pricing	Contract Price Error	Q6
	Extension Error	03
	Invoice Price Protection	E5
	Pricing Error	01
	Volume Discount	D5
Rebates	Rebate	B2
Returns/Refused	Difference On Returns	RG
	Freight Inbound Return Merchandise	K8
	Freight Outbound Return Merchandise	K9
	Item Not Accepted - Damaged	04
	Item Not Accepted - Quality	05
	Return Merchandise Charge	K4
	Returned Material	RM
	Returns - Damage	11
	Returns - Promotion	14
	Returns - Quality	12
	Returns - Recall	15
	Stock Balance	C4

# Remittance Coalition's Simplified Deduction Code Project

## Mapping from Core Codes to 426 Adjustment Codes

Category	Proposed Short List Reasons	Short List Code	DEFINITION & EXPLANATION	CODE
Allowance	Advertising Allowance	71	Advertising - Unidentified	M1
			Advertising Allowance	71
			Advertising Allowance Taken	56
			Advertising Contribution	AV
			Cooperative Advertising	79
	Billback Allowance Deduction	GH	Billback Allowance Deduction	GH
			Manufacturer to Distributor Billback Allowance	QF
			Manufacturer to Retail Bill-Back Allowance	MR
	Competitive Allowance	77	Allowance Error	Q2
			Allowance/Charge Error	2
Competitive Allowance			77	

# EDI Compatibility Issue

- Identified potential issue with older EDI versions
  - Core Adjustment Codes were developed using 426 codes available in EDI Version 6040
  - Many companies are using older EDI versions, where certain current adjustment codes are not available
  - Challenge was to use most current adjustment code information while ensuring compatibility with older EDI versions
- Created cross-reference table mapping Core Adjustment Codes across multiple EDI versions

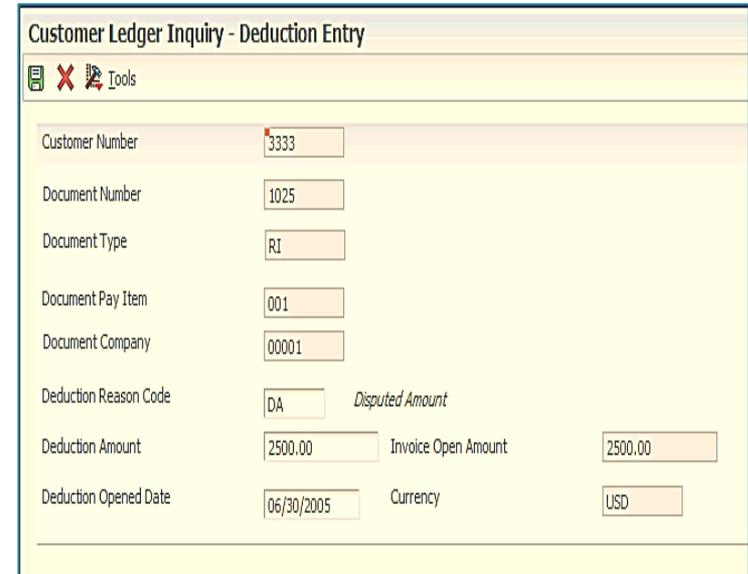
# Cross Reference Mapping

If your EDI version is ... map the short list codes to the following code									
Proposed Codes	006040	005040	005020	005010	004050	004050	004030	004020	004010
Ship Notice - Carton Content does not Match Ship Notice	<b>EU</b>	EU	EU	EU	RD	RD	RD	RD	RD
Ship Notice - Received Late	<b>F2</b>	F2	F2	F2	44	44	44	44	44
Logistics Label - Incorrect Label Format	<b>FY</b>	FY	FY	FY	A6	A6	A6	A6	A6
Coupon Related	<b>GB</b>	GB							
Slotting Charge	<b>GE</b>	GE							

If your EDI version is ... map the short list codes to the following code									
Proposed Codes	006040	005040	005020	005010	004050	004050	004030	004020	004010
Ship Notice	<b>EU</b>	EU	EU	EU	RD	RD	RD	RD	RD
Received Late	<b>F2</b>	F2	F2	F2	44	44	44	44	44
Label Format	<b>FY</b>	FY	FY	FY	A6	A6	A6	A6	A6
Pickup Allowance	<b>MB</b>	MB	SF						
Purchase Order Number Incorrect on Invoice	<b>MG</b>	MG	L7						
Truckload Allowance	<b>MJ</b>	MJ	SF						
Warehouse Allowance	<b>MK</b>	MK	A8						
Bill of Lading Does Not Match 856 Advance Ship Notice (ASN)	<b>O1</b>	O1	O1	O1	44	44	44	44	44
Payment	<b>PT</b>	PT							
Contract Price Error	<b>Q6</b>	Q6	01	01	01	01	01	01	01
Receiving Discrepancy	<b>RD</b>	RD							

# Remittance Coalition Deduction Code Project: Next Steps

1. Publish jointly as technical report by X12, the ANSI accredited standards organization for electronic data interchange (EDI), & X9, the ANSI accredited standards organization for financial services
2. Encourage software vendors to support simplified “core” code list
3. Educate business practitioners about the core code list & encourage adoption



Customer Ledger Inquiry - Deduction Entry			
Customer Number	3333		
Document Number	1025		
Document Type	RI		
Document Pay Item	001		
Document Company	00001		
Deduction Reason Code	DA	Disputed Amount	
Deduction Amount	2500.00	Invoice Open Amount	2500.00
Deduction Opened Date	06/30/2005	Currency	USD

# OTHER REMITTANCE COALITION INITIATIVES

# Remittance Coalition

- **Participation** National group of associations, small & large businesses, financial institutions, technology & software vendors, standards development organizations & others
  - Formed in 2011
  - 304 members & growing
  - No dues or criteria for joining other than a willingness to work together
- **Mission** Work together to solve problems related to processing remittance information associated with B2B payments in order to promote use of electronic payments & straight through processing (STP)



# Remittance Coalition Survey: What Respondents Said

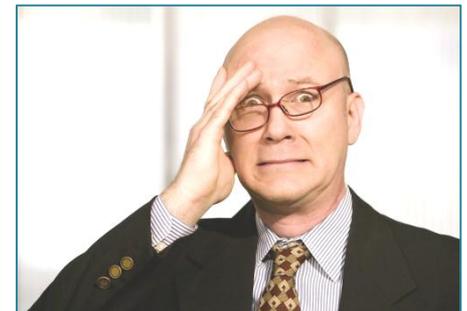
***“Remitters cannot or will not send quality remittance data in the payment addenda. Separate email forces a completely manual process.”***

***“Missing data elements & lack of consistency in formatting cause us to post remittances to our customers late & often requires communication back & forth between us & the customer to determine what they are paying.”***

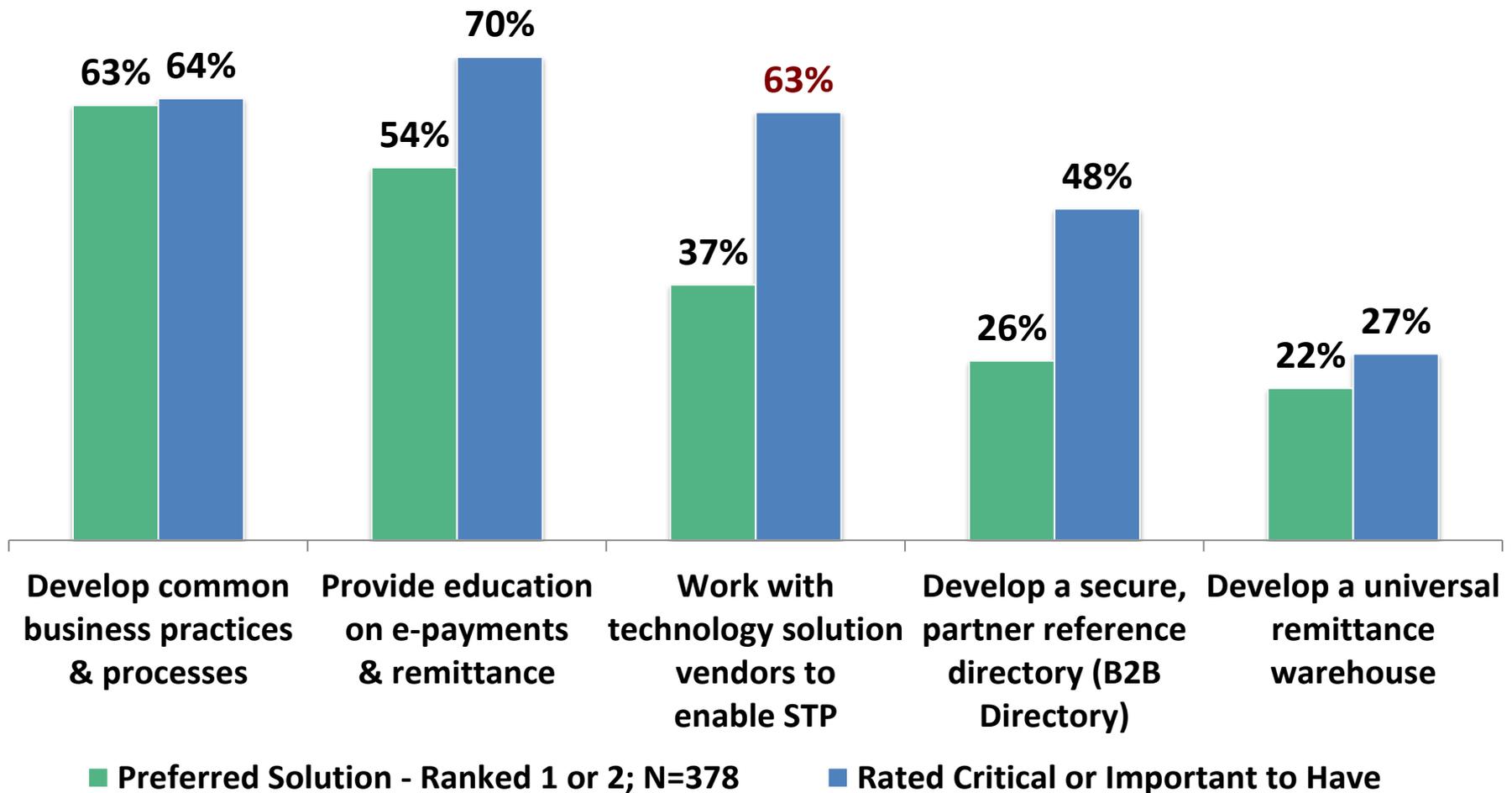
***“Multiple formats for remittance information create a reconciliation nightmare – it is not easy to automate.”***

***“Many of our vendors are small &/or located in remote areas & do not accept or receive electronic remittance information.”***

Source: 2012 Remittance Coalition Survey



# Survey Results: Solutions Practitioners Want



Source: 2012 Remittance Coalition Survey

# Current Coalition Initiatives

- Glossary of remittance terms to promote education & common understanding
- Inventory of existing remittance standards & their uses
- New ISO 20022 stand-alone, extended remittance standard (like EDI today, but uses XML technology)
- Focus group at Retail Value Chain Federation (RVCF) conference to identify common biz processes & practices needed



# Ongoing: Education & Outreach

- Present at industry conferences & publish articles in industry press to promote Coalition mission, vision & actions
- Share information among Coalition members about member-led initiatives
- Promote adoption of new solutions that enable STP: extended remittance information in wire transfers; Balance & Transaction Reporting Standard; ISO 20022 Stand-alone Extended Remittance standard; NACHA ACH XML remittance program
- Target education to small businesses to encourage usage of e-payments & e-remittance exchanges



# Ongoing: Technology Vendor Outreach

Promote adoption of solutions that enable straight-through-processing

- New formats carry extended remittance information in wire transfers
- Balance & Transaction Reporting Standard
  - An X9 standard for reporting of bank balance & transactions to corporate customers; format updated to include wire & ACH remittance data & streamline codes
- Establish vendor discussion group to encourage adoption of new, interoperable remittance standards



# New: B2B Directory Project

**Problem:** A barrier to sending electronic payments is the difficulty of obtaining financial information, such as bank & account numbers, of trading partners

**Work group scope:** Develop use cases, outline specifications, identify & evaluate alternatives, & propose a framework for a secure, open, interoperable, & ubiquitous B2B directory service designed to serve small to medium businesses

**Deliverable:** publish a white paper with conclusions & recommendations in 2014



# Remittance Coalition Communications

- The Federal Reserve Bank of Minneapolis posts information about the Remittance Coalition on its public website:

<http://www.minneapolisfed.org/about/whatwedo/paymentsinformation.cfm>



Visit the website to:

- Join the Remittance Coalition
- Volunteer on a project
- Learn about activities

# Federal Reserve Public Consultation Paper: Seeking Your Views

- [www.FedPaymentsImprovement.org](http://www.FedPaymentsImprovement.org)
- Download & read brief paper *“Payment System Improvement – Public Consultation Paper”*
- Complete online survey or submit opinions & comments via email by December 13, 2013

*Your input will help guide & advance solutions to improve the end-to-end speed, safety, & efficiency of the U.S. payment system*

# Contact Information



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# Resources

- Remittance Coalition web page:

<http://www.minneapolisfed.org/about/whatwedo/paymentsinformation.cfm>

- Results of Survey of Corporate Practitioners
- Current projects; presentations from conferences; publications
- Draft of Core Deduction Reason Code Technical Report

- Fedwire extended remittance format:

<http://www.frbervices.org/campaigns/remittance/>

- CHIPS extended remittance format:

[http://www.chips.org/reference/docs\\_payresearch/072249.pdf](http://www.chips.org/reference/docs_payresearch/072249.pdf)

- Balance Transaction and Reporting Standard:

<http://x9.org/standards/btrs/>

- NACHA XML: [www.nacha.org/XML-ACH-Remittance](http://www.nacha.org/XML-ACH-Remittance)