

Deduction Management at Industry Level

Situation

Off invoice deductions by retailers is an increasing profit issue for manufacturers. These companies, regardless of size, are impacted by the deduction processes of their customers. The issue is compounded by the fact that preauthorized deductions may be used, by the manufacturer, as a method of payment or promotion. The “profit leakage” issues for manufacturers are centered on “unauthorized deductions” – those that are unplanned or unanticipated by manufacturers.

The direct costs of deductions are both evident and painful. In addition, there are significant hidden activity costs in the handling and resolution of deductions by trading partners. The complaints are common across manufacturers but the causes and corrective actions are more illusive.

This was a point of persistent discussion and debate within a trade group. The organization represents over a hundred manufacturers of a consumer packaged goods category that participates in every retail distribution channel. The trade group sought a means to assist members with the unauthorized deduction problem.

Solution

DHC worked with a sub-committee of the trade organization charged with addressing the deduction issue in the industry. A multiphase approach was used to address unauthorized deductions.

Member Survey & Retailer Interviews: It was determined that deductions are among the most significant issues facing manufacturers, unauthorized deductions represent 4% of sales (>\$550 million in deductions annually). Four broad levels of deductions were identified; specific discrepancies, alternative interpretation, policy conflicts, and cash flow enhancements (retail). Root causes for common deductions were identified. A report to the membership was issued.

Tool and Training: DHC then established common definitions / terminology, developed a tracking tool, and rolled out a training program. The training involved results of the survey [state of the deductions within the industry], share group methodology on approaches for avoiding deductions, and a tool for tracking / reporting deductions. The tool was used by member companies and had industry roll-up functionality.

Industry Database: Trade organization members began using the tool kit to manage their deductions. Those members with deduction tracking programs already in place would populate the tracking tool for roll-up. DHC receives monthly / quarterly updates from members and rolls-up the details of unauthorized deductions to an industry level.

Best Practices: The trade organization issues a quarterly newsletter that summarizes the unauthorized deduction details at the industry level. Members compare results to industry averages by type of deduction and class of trade, and take corrective action to reduce deduction level. The newsletter contains suggested “best practice” approaches for this purpose.

Results

The members of the trade organization have a consistent approach to measure and discuss the unauthorized deduction opportunities. The trade organization has provided a tool for tracking deductions. Members have been trained in root causes. The trade organization has begun the establishment of an industry-wide database on deductions by type and class of trade.

Several beta users of the tool reported dramatic improvement in both the level and processing time of their unauthorized deductions. Although still early, the industry database is designed to lead to replication of these early results through the development of industry wide best practices. These assist the membership in the implementation of consistent programs and processes that lower the deduction levels.