

# *Resolving Trade Promotion Deductions Faster: A Value Based Approach to Automation for A/R Leaders*

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## ***Abstract***

*Automation plays a crucial role in helping companies return their focus on the high value activities. This article analyzes the nature of deductions and the best-in-class automation options available for speeding up the resolution process.*

## **Executive Summary**

Deductions volumes continue to grow, making it more challenging for companies to handle these problematic receivables. A Credit Research Foundation survey observed that hardly a third of the polled credit managers noticed a decline in the volume of deductions over the last 12 months, and in fact 86% of the respondents from the personal care, jewelry and accessories segments and 45% of the respondents in the apparel segments have seen a year-over-year rise in deductions.

Among deduction types, trade deductions comprise the largest segment of deductions for many companies. In most cases, trade deductions constitute more than 50% of all the deductions received. Currently, analyzing trade deductions requires significant effort and limits the ability of accounts receivable (A/R) teams to innovate and invest time in high value activities, such as deduction research, follow-up, and policy reviews. By reducing the effort to resolve trade deductions, the deductions analyst has more time for the complex non-trade deductions that require more attention.

Automation plays a crucial role in helping companies return their focus on the high value activities. This article analyzes the nature of deductions with a focus on trade deductions and the best-in-class automation options available for speeding up the resolution process.

## **Introduction**

The complex buying and selling of products in a B2B environment has many challenges. Typically, manufacturers identify distribution channels to sell their products. The distribution channels are composed of retailers, distributors, dealers, service providers or other manufacturers. Complexities arise due to the following practices:

- The flow of goods and the flow of money have different end-points and different cycles as various departments and teams are involved in bulk delivery, payments, procurement and so forth.
- The unit price of the product varies based on customer reputation, sales, volume, promotions and seasonality.
- A gap exists between the shipment of goods and the receiving of payments, which has to be accounted for by the receivables team in the form of days sales outstanding (DSO).

Managing deductions, disputes and chargebacks are among the challenges that arise due to this complex buying and selling process. During the payment process, the customer may pay less than what is outlined in the invoice due to earned discounts, faulty deliveries, etc. The amount short on the invoice in the payment process is termed a *deduction*.

Typically, deduction practitioners divide the incoming deductions into two types:

### **1. Trade Deductions**

The deductions which arise from promotions, discounts, markdowns and advertising are called trade deductions. Such deductions are easy to investigate and resolve because the promotions and discounts are generally planned in advance, and tracking a deduction against a trade promotion is easier to navigate.

### **2. Non-Trade Deductions**

Non-trade deductions make up all other types of deductions, such as shortages, damaged deliveries, invoice errors, etc. Such deductions might be of mixed types, are often unpredictable and complex, and may require collaboration from teams across the organization.

A rise in deductions volume is indicative of a few different circumstances. It could mean that retailers and distributors have become more aggressive in claiming deductions. It could also mean that suppliers and manufacturers have not been able to successfully avoid preventable deductions. Deductions left unaddressed could make a significant dent in the bottom line. But the heavy manual effort required to resolve deductions has traditionally meant that the cost of fixing the issues would overrun the benefits. A deduction could take anywhere from a few days to more than six months to get resolved, depending on the nature of the deduction. Many manufacturers

prefer to write off low and medium value deductions to make things simpler, which unfortunately adds up over time, leading to significant losses in the long term.

As volumes continue to rise, the problem demands a fresh perspective. Companies have had to increase their efforts on the timely review and follow-up of deductions, and establish cross-functional teams for better accountability. However, all these undertakings are resource intensive and the costs could run high. Therefore, the value to automate processes for deductions management is tremendous, and especially high for trade deductions, which account for the largest proportion of all deduction types.

In a recent CRF survey, almost 50% of the all surveyed participants cited trade promotions (in the form of advertising, discounts, rebates, etc.) as a major cause of deductions. The same response is much higher – around 70% - for a few specific industries such as apparels, footwear, cosmetics, accessories and food & beverages.

Trade deductions have two important traits:

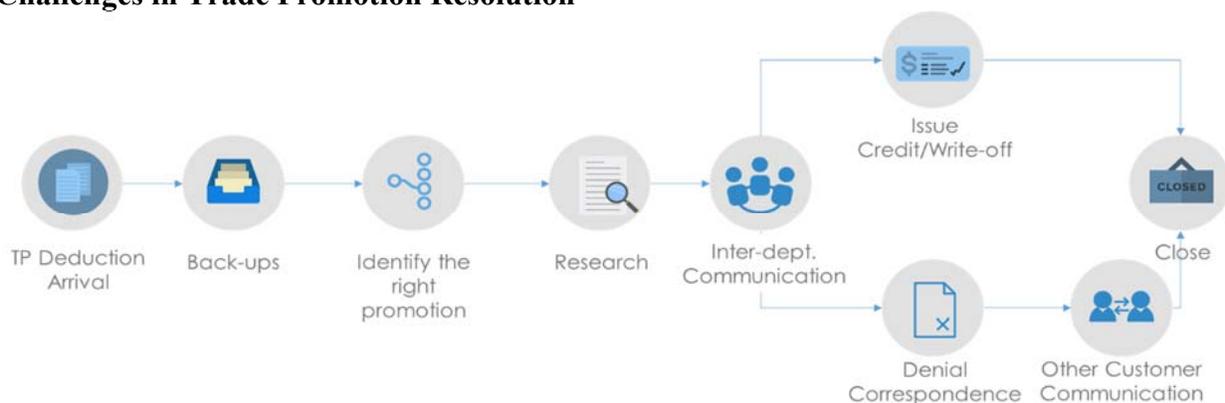
- Trade deductions arrive in bulk
- Trade deductions are easy to resolve compared to some of the other deduction types

These traits make trade deductions ideal candidates for automation because:

- A large part of the monotonous day-to-day deductions work could be automated
- Complex analysis is not required, so human intervention could be minimized

The next sections will reveal the challenges and explore the automation possibilities for trade deductions.

## Challenges in Trade Promotion Resolution



*Figure 1: Resolution Process for Trade Promotion Deductions*

Typically, a trade deduction proceeds through a set of stages for resolution (See Figure 1). After the deduction arrives, the back-up documentation, such as claims, PODs, etc. need to be collected from different sources. Once all the information and proof of documentation have been compiled, the individual trade deductions need to be matched against the correlated trade promotion and verified for legitimacy. Additional cross-team research, typically involving the sales teams, needs to be carried out, usually before invalidating a deduction. If the trade promotion deduction is found to be valid, credit is issued or the amount is written off and the deduction is closed. If the deduction is found to be invalid, the deduction is denied and the amount is sent back for collections.

Deductions teams face several challenges at various stages in the process as outlined below.

### **Identify Trade Promotion Deductions**

From the different types of deductions arriving from various sources, the trade deductions need to be identified and coded for processing separately from other deductions or claims.

### **Maintain the Document Backups**

Downloading, sorting, indexing and linking deduction documentation is an onerous and time-consuming task. The multiple, varying sources from which the claims and POD documents need to be retrieved (website, email, EDI, mail) makes the task difficult to standardize. Additionally, time is lost extracting relevant trade promotion and deduction data from the aggregated documents before research is even able to start.

### **Match Deduction Cases to the Corresponding Trade Promotion**

Currently, the deductions analyst has to toggle between the ERP, trade promotions management and deductions management systems to identify the trade promotion from which the deduction has been taken. Data from the trade promotion, such as the promotion ID, committed amount, disbursed amount, etc., needs to be carefully matched before approving the deduction.

### **Research the Deduction Cases**

Trade deduction cases may require follow-up with the sales, marketing and customer relationship teams. Without a systematic way to track the case, scrolling through thousands of deductions becomes extremely difficult. The end result is delayed resolution and poor accountability.

### **Customer Correspondence**

Deduction correspondence letters, such as denial correspondence or follow-up on invalid deductions needs to be composed, scheduled and tracked across thousands of cases. Manual handling of correspondences leads to poor customer relationships, irregular or no follow-up and low deduction recovery.

## **Automation Techniques**

Automation of manual, repetitive and low-value tasks is a very successful method to speed up trade deduction resolution. In the resolution process discussed earlier, each step of the process contains many repetitive tasks which could be automated and the resources freed-up for working on high-value and complex activities. These techniques also bring down the cost of processing trade deductions drastically. The sections below cover the automation of low-value tasks in detail.

### **Backup Aggregation**

Many medium and large customers upload their claim documents to a web portal and provide the suppliers/manufacturers with the login. Many customers use other formats, such as emails, EDI, and paper documents to share the details of the claims. Backup aggregation involves downloading and maintaining documents, such as claims and PODs from these various sources before starting the deductions research. Collecting backup for thousands of deductions cases every day becomes a time-consuming and tedious task. Moreover, extracting the associated deductions documentation is only the beginning of the overall deductions research workflow.

Fortunately, backup aggregation is a routine task with fairly consistent steps for most of the incoming debit memos. Modern technology provides options that allow analysts to shift their attention from these mundane tasks to more valuable tasks. Best-in-class backup automation solutions identify the source, read and understand the source message, extract the data and standardize it.

### **Critical Properties for Backup Automation**

#### **Efficiency**

The purpose of implementing backup automation technology is to free-up as much resource time as possible by automating manual tasks. It is important to measure and benchmark the percentage of the manual work being eliminated in this fashion. For example, if someone is required to manually identify sources before the automation technology is able to download it, it is not efficient enough. Additionally, businesses are looking to rapidly implement solutions and realize the benefits faster. Only a few vendors are able to provide a plug-and-play solution for backup aggregation in deductions management.

#### **Versatility**

Versatility is the degree to which the technology is source-agnostic. In selecting a solution, be sure to find one that supports extraction from all types of sources such as websites, email, images, and EDI. Check for accuracy in standardizing the document backups to simplify research for deduction analysts. Also, be sure the solution provides pre-integrated download facilities to all the major retailers' claim websites in the customer portfolio.

A solution with end-to-end process automation could automate as much as 95%, if not more, of the A/R tasks to resolve trade deductions. Additionally, about 20% of the time spent by the deductions team could be freed-up using automation technology.

### **Aggregate-Segregate**

Downloading backup documentation in a source-agnostic, efficient and accurate way is only a part of the whole solution. Linking these documents to the original trade promotion deduction case and sorting, indexing and categorizing the documents must also be addressed. Sometimes the volumes are so immense that companies with a large inflow of deductions need to employ additional teams to handle the document management overflow.

Every deduction document needs to be sorted and indexed in a particular way so that the analyst is able to easily locate the piece when required. This is done based on various parameters, for example, the type of deduction (trade or non-trade), the responsible department (operations, sales, or warehouse), customers by buying volume (large and small), customers by products, and so on. This quickly becomes very complex when all deduction categories are added together for thousands of customers.

The next step to this process is the linking/matching of each document to a particular deduction. Again, this is a manual process that involves identifying attributes on debit memos, including claim ID, debit memo number and dates, searching the open deduction in the ERP or other applications, and tying the document to a particular deduction when a match is found. Current technology reduces this humongous scale of work to three easy steps as follows:

#### **1. Identification**

The type of document and the details within, such as customer ID, amount and type of deduction, purchase order and invoice number, need to be identified to link it to the appropriate deduction case. However, most existing software solutions are unable to accurately extract the information due to legacy technology issues. Consider the claim document image shown in Figure 2:



RPA modularizes the automation steps and provides end-to-end process automation by emulating real-world business steps. The solution operates as several “process automation units” performing in tandem to enhance the task output for the business users. RPA orchestrates across all the automation steps for trade promotion deductions.

## 2. Linking

Once the information is successfully extracted from the document, the claim needs to be linked to the actual deduction or dispute case. The open A/R details are required by the linking software to match it to the data extracted from the claim and POD documents. A robust linking engine would extract the required details from open A/R and align to the matching claim document.

## 3. Research-Ready Deductions

Displaying the completely matched deduction case with the documents and details is the final step in preparing the deduction case for research and analysis. Deductions analysts should be able to pick up each deduction item with all the details and documents available upon login.

### Trade Promotions Matching

Customers often negotiate rewards, discounts, rebates, and other promotions, then use short payments to recoup the reward benefits. However, this creates extra work for the deductions team as every trade promotion deduction needs to be validated against the promotion to which it applies. Deductions analysts have to find, match and analyze the trade deduction before reaching a conclusion. Automation plays a critical role in not only helping the deductions analyst clear the trade promotion deductions rapidly, but also frees additional time for the analysts to review the more complex deduction items and resolve them. See Figure 3 for a typical trade promotion deduction to be researched by an analyst.

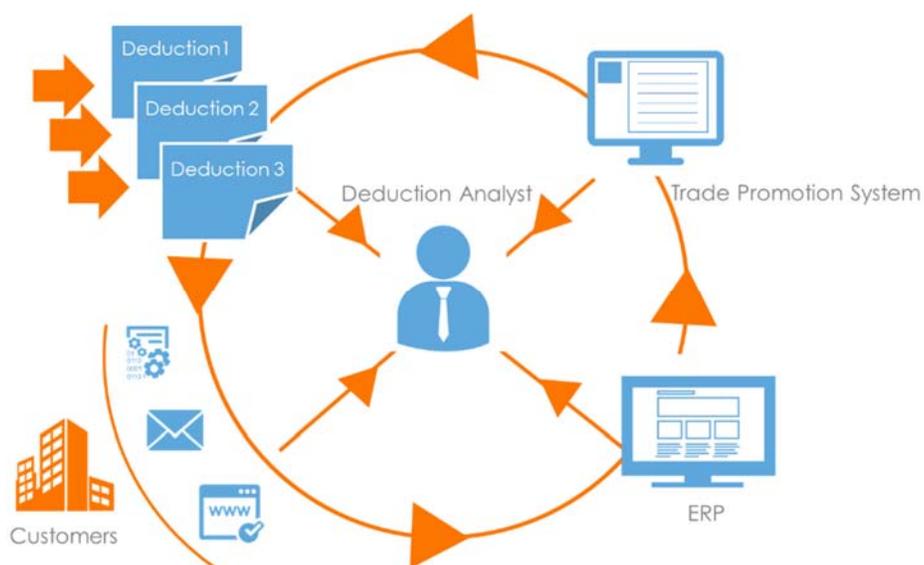


Figure 3: Deductions Analyst Tasks - Researching Trade Deductions

The deduction analyst is at the center of the resolution activity. The analyst has to gather information from various sources, such as:

- The incoming claims and deductions
- The ERP which contains the details on the deduction
- The customer systems from where the claim document is to be downloaded
- The trade promotion system which contains the details of the promotion against which the customer has taken a deduction

The time taken to collect the relevant details, and the monotony of doing the same activity over and over for every trade deduction, drastically reduces the efficiency of analysts. As a result, the deductions which are easy to process take more time and the complex deductions related to shortage, compliance, etc. are not allocated enough time for quality analysis (See Figure 4). Furthermore, due to the aging limits on a deduction, the critical items are written off, leading to an unwanted revenue loss.

Deduction Line Item	Deduction Type	Customer Name	Amount	Status
	TP			Resolved
	TP			Processing
	TP			Pending
	Shortage			Pending
	Delivery			Pending
	Labeling			Pending
	Compliance			Pending

Manual efforts in less value tasks

Delays in addressing complex issues

Figure 4: Tasks Delayed due to Manual Processes

Technology helps match the claim details to the trade promotion details automatically and provides suggestions to enable deduction analysts to make quick decisions and close the deduction. Further, analysts could use the hours saved to investigate critical deductions.

## **Research and Workflows**

The most critical parts in the lifecycle of handling trade deductions are the research, root-cause analysis and decision-making on the open deduction cases. This activity needs an expert lead investigation because of the variability and complexity in the nature of deductions. A/R teams perform deductions research in 66% of companies, while sales teams approve trade deductions in 55% of companies. Various other departments might also be involved in linking trade deductions within the organization.

Keeping track and following up on hundreds of deductions simultaneously across departments is not only expensive, but also time consuming. Ultimately, much of the dollar amounts associated with deductions are written off because of the rising cost of investigations. This creates a strong case for conducting a trade deductions workflow with the following attributes:

- **Coordination and Collaboration:** Employ easy assignment, access and approval methods to help teams organize their activities, prioritize the cases and communicate the resolution rapidly.
- **Visibility and Accountability:** Utilize comprehensive tracking and reporting mechanisms to understand bottlenecks in the approval and investigation chain, and thereby improve accountability.
- **Speed:** Streamline deductions processing using workflows to reduce DDO, improve deductions resolution time, and boost the coverage and recovery for more deductions.

## **Correspondence**

Traditionally, correspondence templates have been a nightmare for the A/R department. To a large extent, this arises from the IT dependency to incorporate any changes on the letters and template.

Correspondence letters need flexibility around the email format, attachment options and content. Correspondence solutions should provide the following benefits to the credit and A/R teams.

### **High Accuracy**

Irregular or inaccurate notifications impact customer relationships and deduction recovery rates significantly. Every correspondence template requires specific types of documents or information attached or copied within the emails. For bulk dispatch, a system's ability to accurately dispatch the correspondence is essential for analysts to remain productive.

### **Ease of Setup**

The ease with which correspondence dispatch is setup and executed has an impact on the level of automation achieved in the dunning process. Best-in-class solutions should be able to execute the correspondence effort in a few clicks, allowing business users to manage them on their own and eliminate the need for IT involvement.

## **Improved Tracking**

Being able to systematically track history and fine tune correspondence strategies is a powerful functionality for credit and A/R teams. Correspondence history provides many benefits, including:

- A quick summary of interactions with customers
- Details on customers who are not responsive to email communication
- Details on correspondence that works best
- The optimal time-gap between correspondence, and many more

This intelligence could be used to improve the correspondence strategy and to help adopt best practices for customer communication.

## **Potential Savings from Deductions Automation**

The success of any automation project should be measured similarly to other business process alignment and outsourcing projects. For example, an outsourced project could be measured in terms of costs, quality and timeliness. Similarly, a KPI alignment project could be measured by determining the achieved KPI improvement over the targeted improvement.

The success of a deductions automation project could measure:

1. Operational efficiency by throughput – deductions resolved per unit of time
2. KPI improvement using software automation – Days Deductions Outstanding, number of open deductions, dollars of open deductions, etc.

The automation of trade deductions will generate savings in the following categories:

1. Process improvement savings
2. DDO improvement savings
3. Deduction recovery improvement savings from non-trade deductions due to more resources being available to research
4. Deduction recovery improvement savings from trade deductions, though this is usually a small number

## **Process Improvement Savings**

We have discussed the low-value tasks related to deductions in the previous sections. Automation could eliminate these low-value tasks and provide improvement in the following eight areas:

- Identifying deductions
- Retrieving and associating backup documentation
- Researching and validating deductions
- Issuing credit and clearing deductions
- Generating deduction denial correspondence

- Improving interdepartmental communication
- Improving customer communication
- Reviewing other / ad-hoc deductions

Each of the steps above have a certain percentage of manual activity associated with it that could be automated. For example, backup retrieval automation could reduce manual tasks by 40-60%, and deductions research automation could reduce manual tasks by 20-30%.

### **DDO Improvement Savings**

For deduction teams, DDO is an important KPI to track and measure. A higher DDO is an indicator of lax processes in the deduction resolution cycle. Best-in-class automation helps to decrease DDO by reducing:

1. The time taken to determine the validity of a deduction once it arrives
2. The time taken to recover an invalid deduction

The median time taken for determining validity is around 30 days, while the time taken for recovering an invalid deduction is approximately 60 days. Streamlined and automated business processes could help reduce DDO by more than 30%.

### **Deduction Recovery Improvement Savings**

Invalid deductions for some industries go beyond 10% of the overall deductions, while the recoveries could be a meager 50%. Due to lack of resources, follow-up is not systematic and invalid deductions are often not recovered.

A leading technology firm working with multiple customers has seen that a 10% improvement in deduction recovery for a \$1 billion company would roughly result in \$100,000 in savings annually. With the right solution, the coverage of deductions and percentage of deductions recovered could be improved to a considerable extent.

Other noteworthy factors to consider are outlined below.

### **Implementation Duration**

The implementation cycle could take a few hours to several months based on vendor capabilities. A quick go-live is mission critical and a must for a positive ROI on an automation project.

### **Degree of Flexibility**

Not all businesses are the same, therefore, the software application needs to be configurable so that it is able to be easily fine-tuned to the requirements of each organization. Business users should be able to make configurational changes without IT being involved to introduce code changes often.

## **User Adoption**

Have a good understanding of what type of ramp-up for new users is expected once the software is implemented. Also, figure out how much time would be required to train the users on the system.

## **Reporting and Analytics**

Check the reporting mechanism for the software and determine if the solution provides out-of-the-box dashboards to understand the performance on deductions management.

## **Summary**

Deductions automation has a clear value. By automating these types of deductions, the largest portion of overall deductions could be optimized. It adds business value in all the stages of the resolution chain, including identification of trade deduction, backup aggregation, trade promotion matching, research, correspondence and closure. Best-in-class solutions use the concepts of Robotic Process Automation (RPA) and Artificial Intelligence (AI) to achieve higher automation percentages and reduce the manual, low-value tasks to a bare minimum.

Additionally, business value for deductions automation could be measured by three different indicators to include operational efficiency, DDO reduction and improvements in deductions recovery. The ROI model should take these improvements into consideration and measure the dollar benefits to determine the success or failure of the project.

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