Credit Research Foundation

AttainConsultingGroup

Take Control of Customer Deductions

Results of 2018 Benchmark Survey

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2018 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

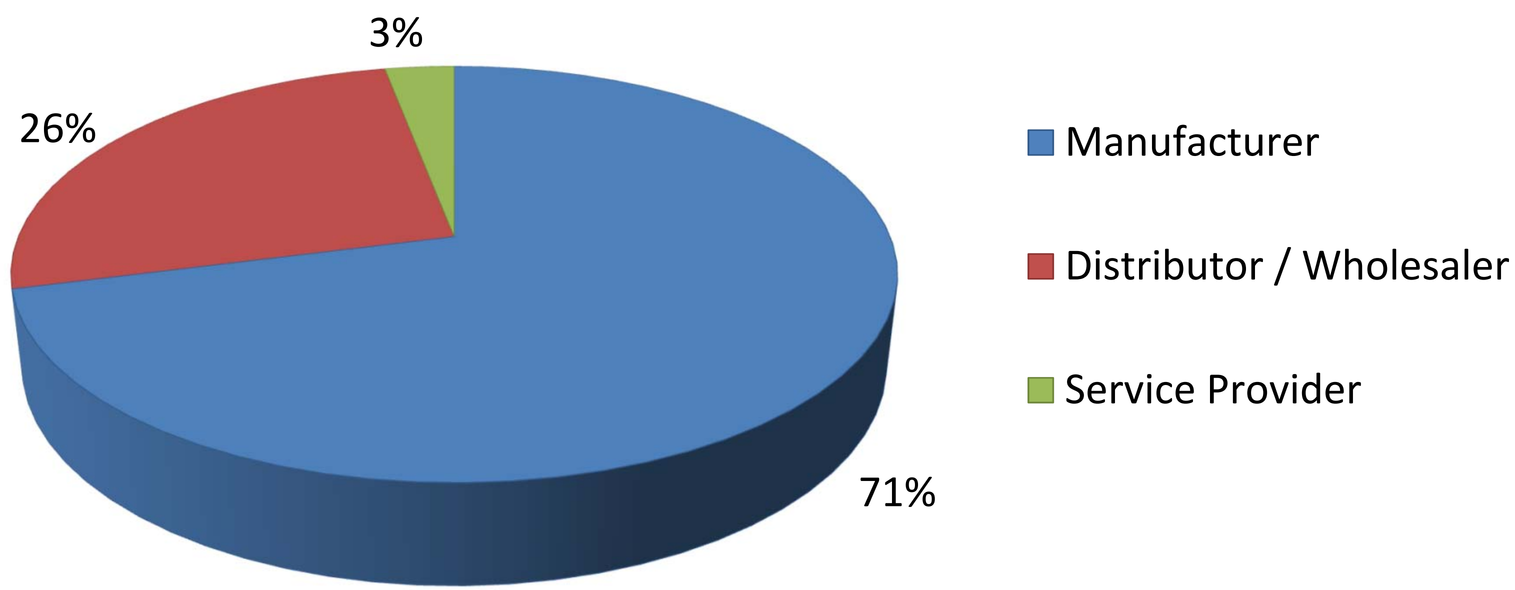
2018 Deduction Survey
Survey overview

- Survey conducted by Attain Consulting Group Jan ‘18
- 203 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

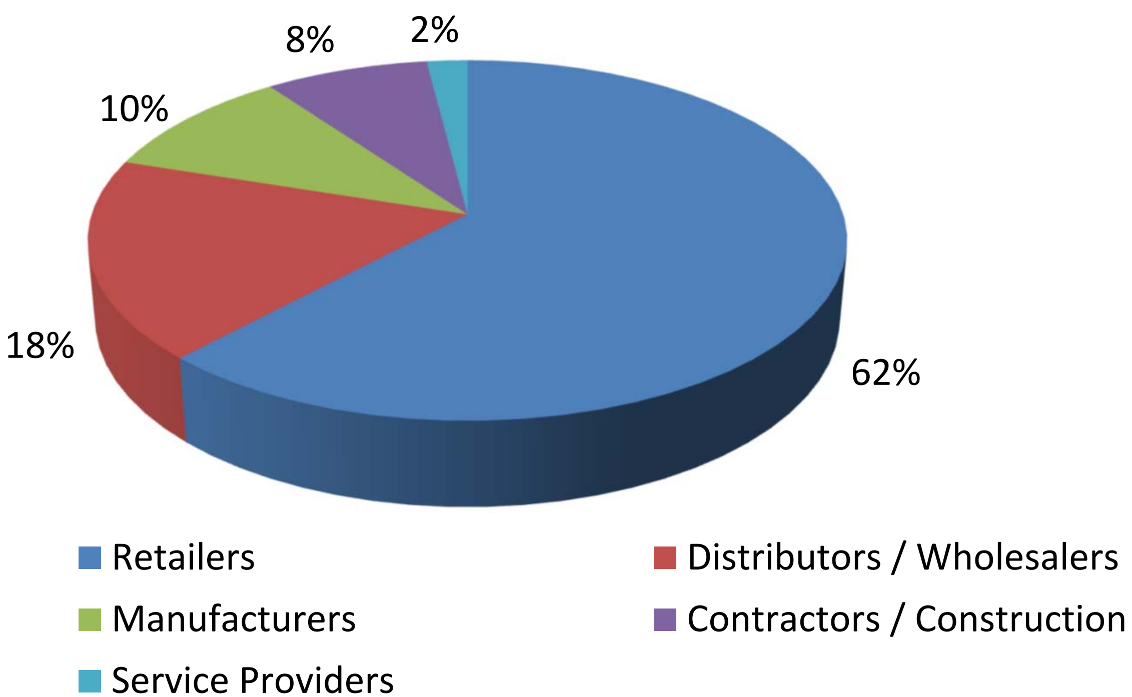
2018 Deduction Survey
Demographics

Nature of Business Reporting



2018 Deduction Survey
Demographics

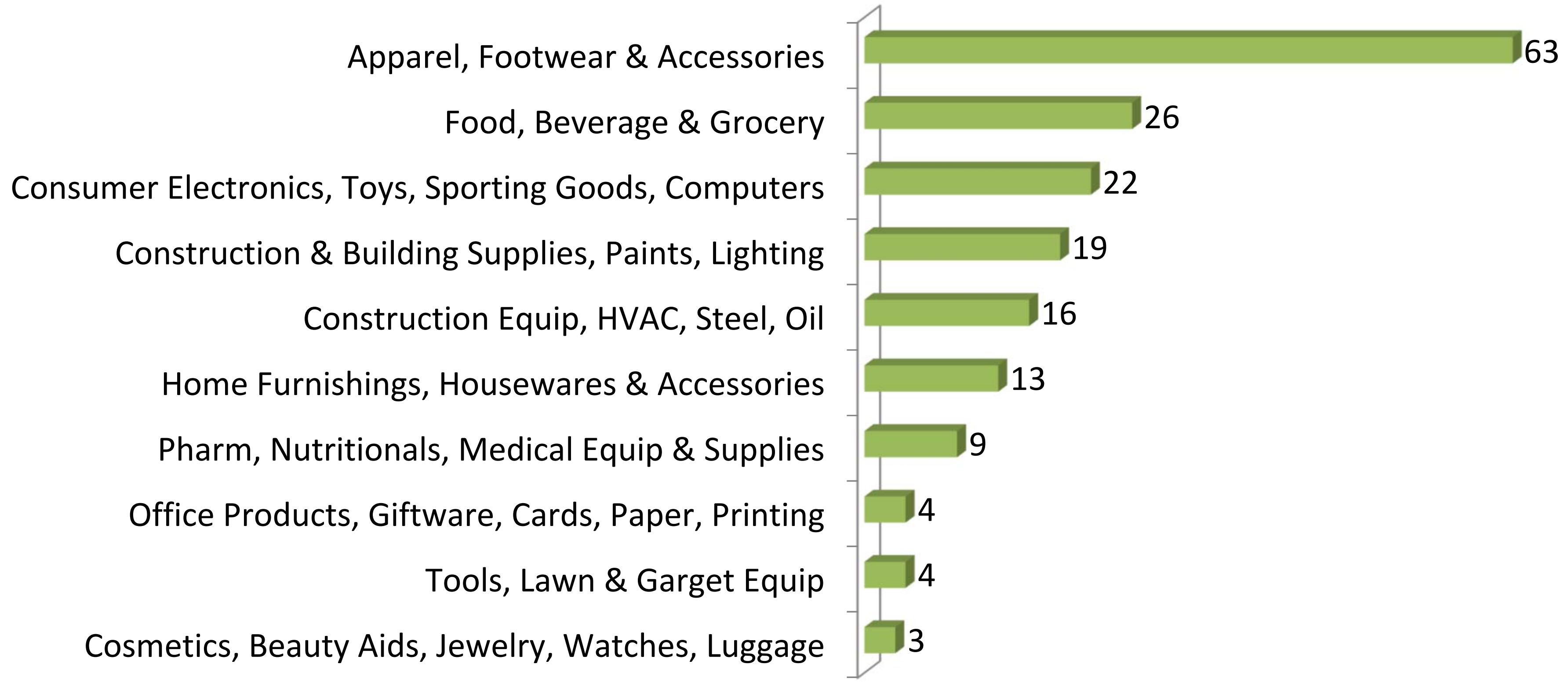
Primary Distribution Channel



… 62% of responding companies reported that their primary customers are retailers …

2018 Deduction Survey
Demographics

Respondents by Industry Group



2018 Deduction Survey
Demographics

Annual Sales

… 52% of responding companies have annual sales of ≤ $500 million …

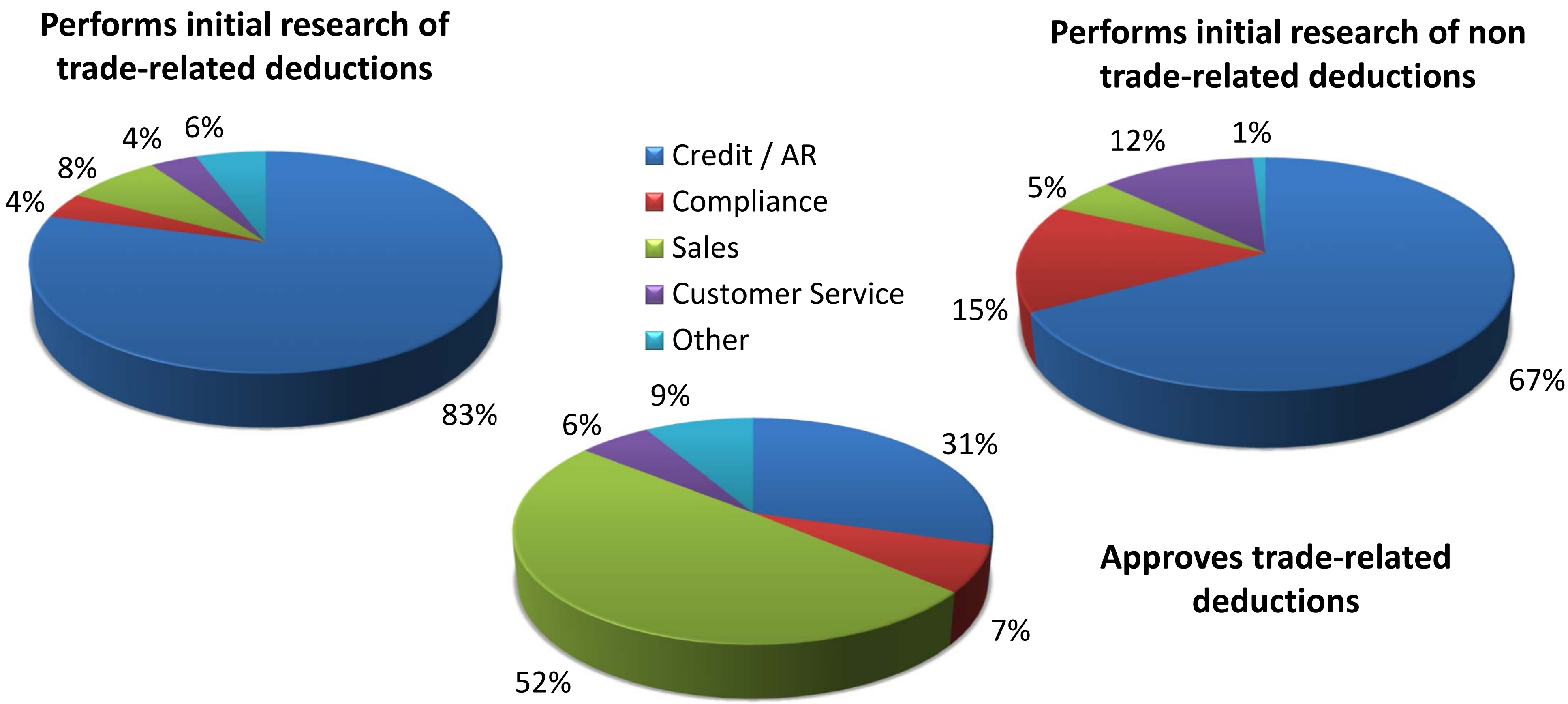
2018 Deduction Survey

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
  - ERP & Deduction Reporting
  - Outsourcing & Use of 3rd Party Technologies

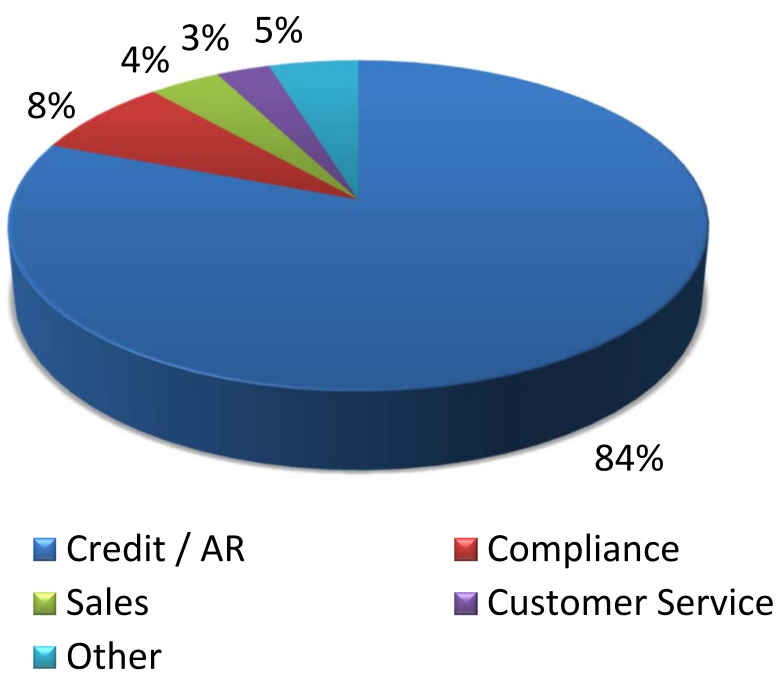
2018 Deduction Survey

Roles & responsibilities

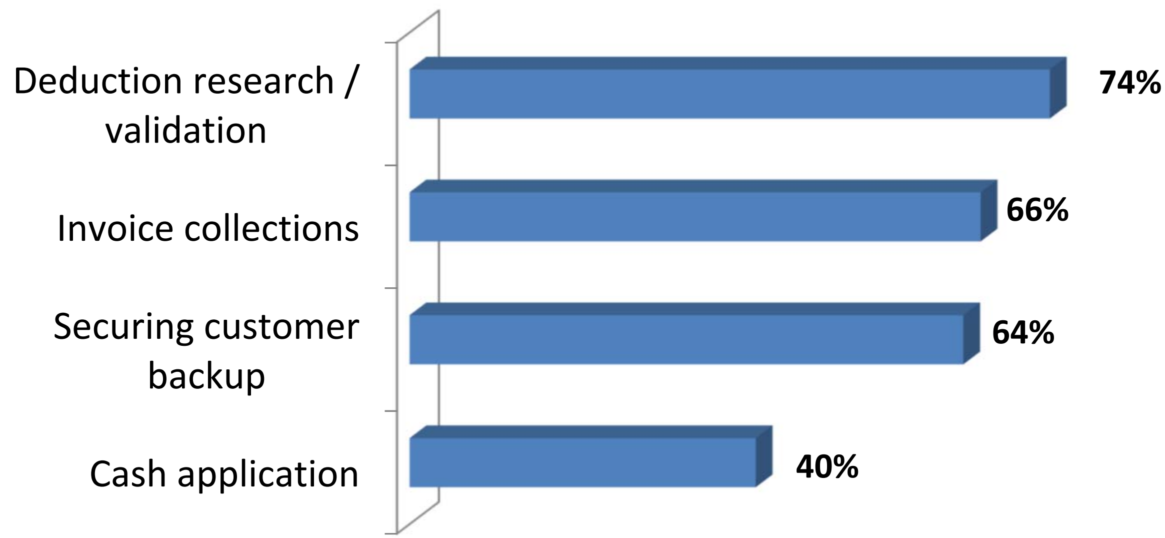


2018 Deduction Survey
Roles & responsibilities

Collects invalid deductions

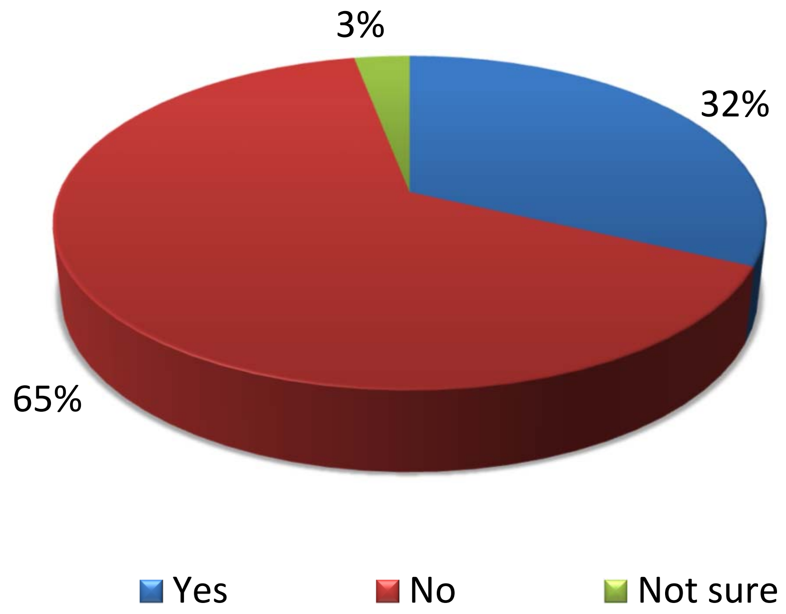


… are also responsible for …



2018 Deduction Survey
Organizational structure & accountability

Do you have a separate compliance group?

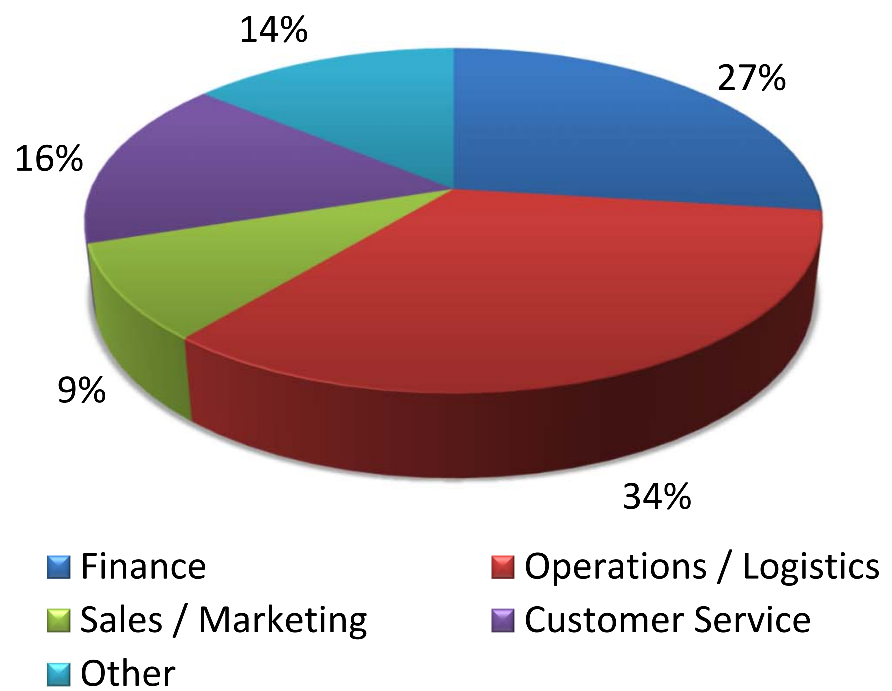


Industry Group	% with Separate Compliance Group
Home Furnishings …	58%
Apparel, Footwear …	57%
Cons. Elec, Toys, Sports…	16%
Food, Beverage …	14%
Pharma, Nutritionals …	13%

2018 Deduction Survey

Organizational structure & accountability

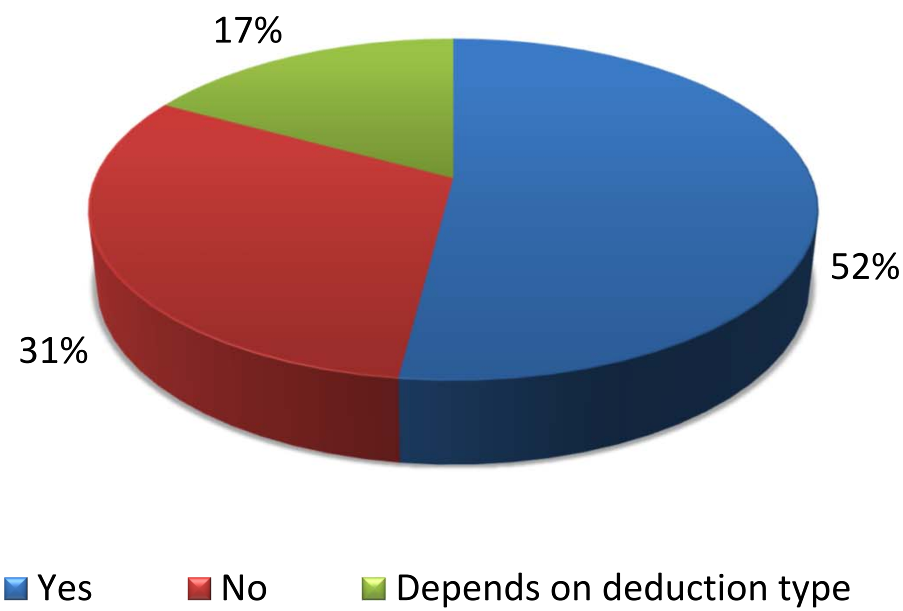
Who does compliance group report to?



Department	Annual Sales (mill) ≤$500	> $500
Finance	31%	23%
Operations/Logistics	33%	36%
Customer Service	18%	13%
Sales/Marketing	7%	15%
Other Department	15%	13%

2018 Deduction Survey
Organizational structure & accountability

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

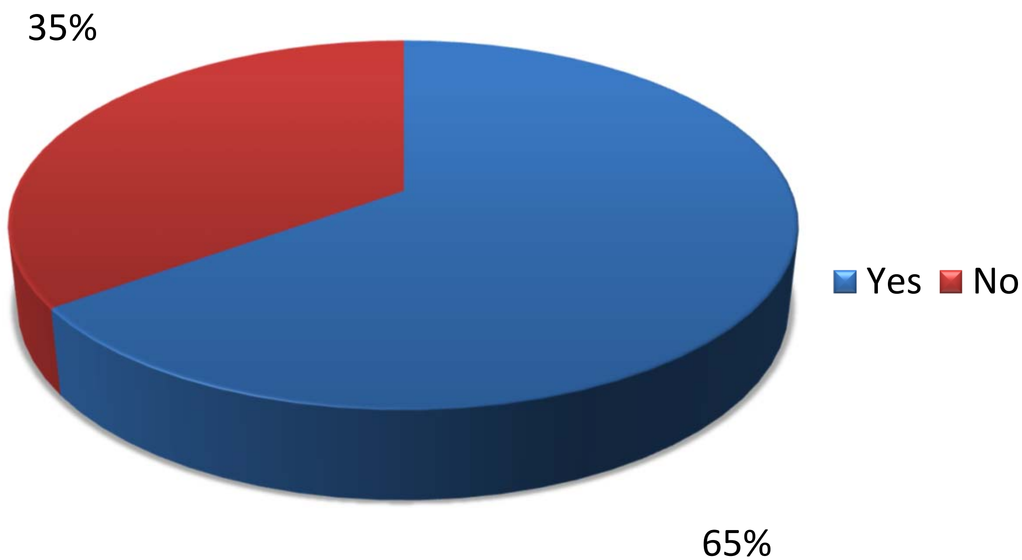


… What types of deductions might NOT be charged back to business unit? …

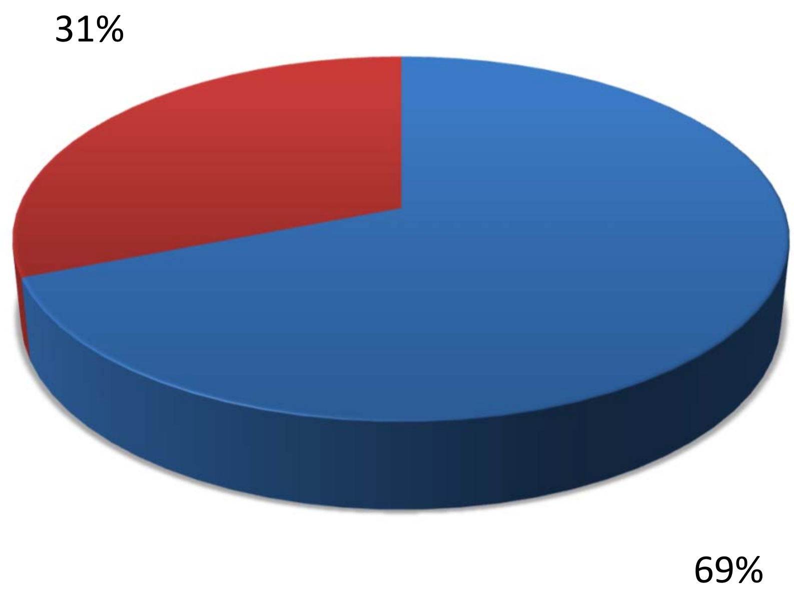
2018 Deduction Survey

Organizational structure & accountability

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

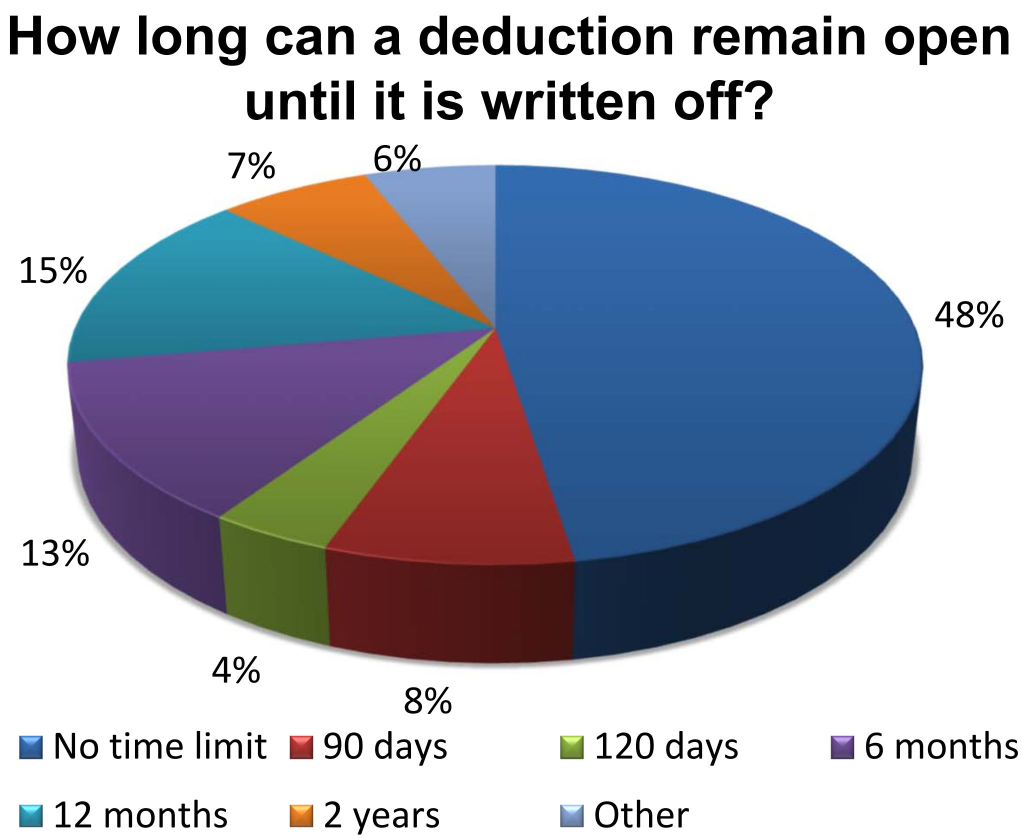


Have cross-functional teams helped reduce new deductions?



2018 Deduction Survey

Deduction aging & time limits



… 48% 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 ☺

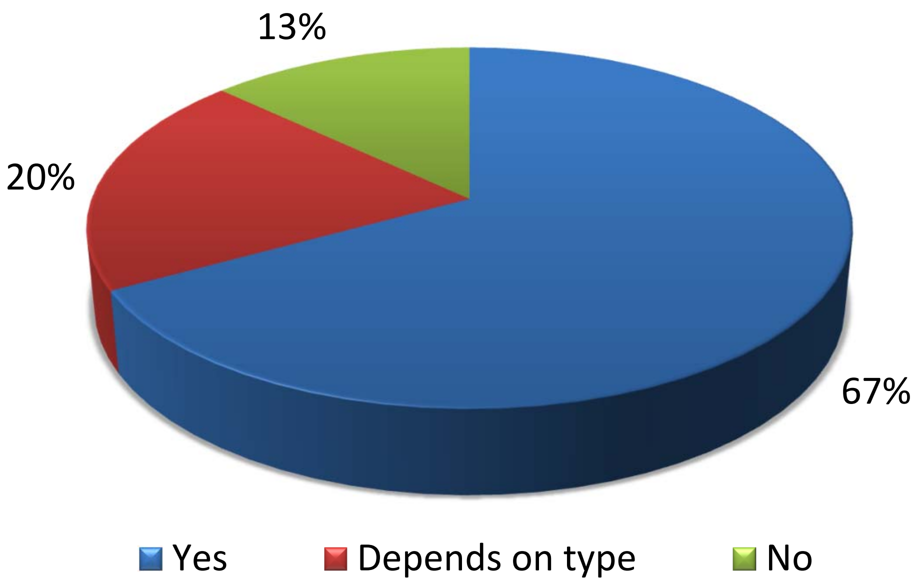
Opportunities

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

2018 Deduction Survey

Allowances & automatic write offs

Do you automatically write off deductions below a certain value?



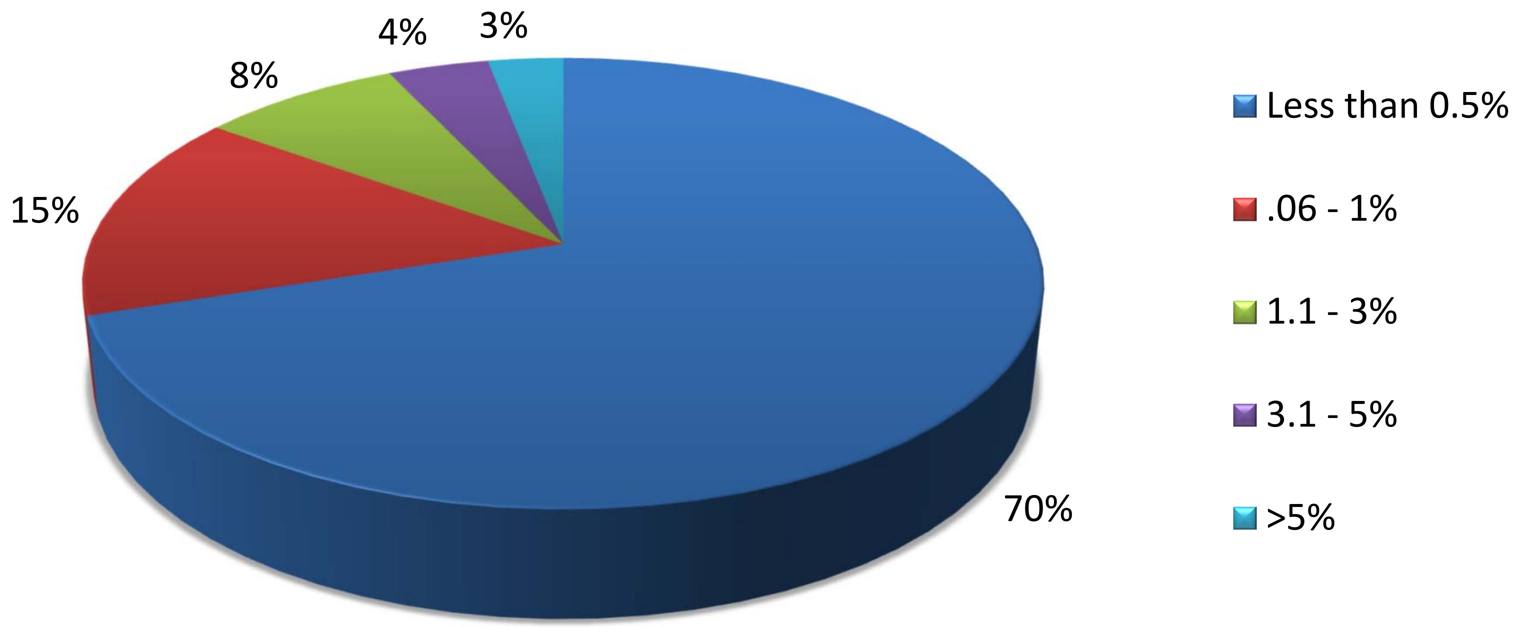
What is your automatic write off threshold?

Industry Group	Median amount
All respondents	**$10 – $25**
Food, Beverage & Grocery	$51 - $100
Pharma, Nutritionals …	$26 - $50
Apparel, Footwear & Access	$10 - $25

2018 Deduction Survey

Allowances & automatic write offs

What percent of total deduction dollars are automatically written off?



2018 Deduction Survey

Primary deduction reasons

Top 5 deduction reasons

Rank	# Received	$ Received
1.	Shortages	Adv / Promo / Rebate
2.	Pricing	Shortages
3.	Adv / Promo / Rebate	Tie: Allowances / Discounts & Pricing
4.	Allowances / Discounts	
5.	Damage / Unsaleable	Damage / Unsaleable

2018 Deduction Survey

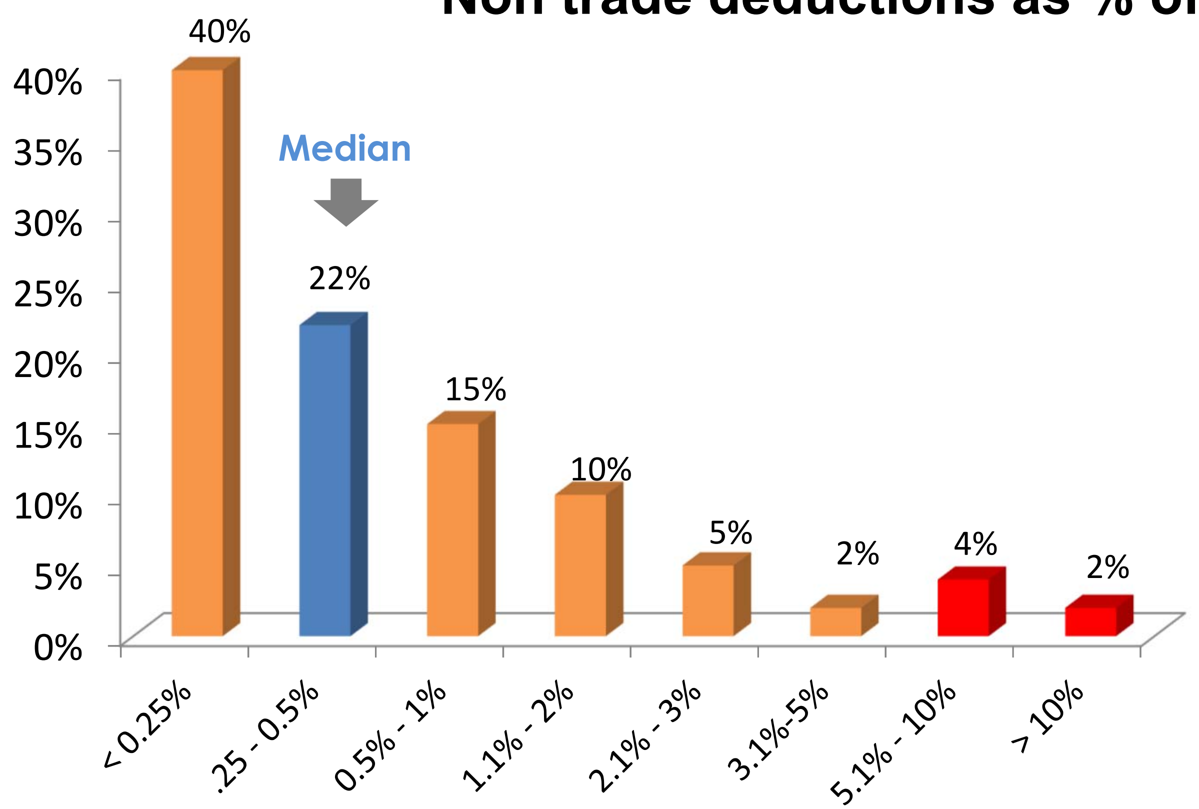
Primary deduction reasons

Top 5 compliance deduction reasons

Rank	# Received	$ Received
1.	Concealed shortages	Concealed shortages
2.	Transp., freight, routing	Transp., freight, routing
3.	Early / late delivery	Early / late delivery
4.	EDI / ASN errors	Full carton shortage
5.	Full carton shortage	EDI / ASN errors

2018 Deduction Survey
Deduction metrics

Non trade deductions as % of sales



Observations

- Median is ¼ - ½ % of sales
- 6% reported > 5% of sales

Opportunities

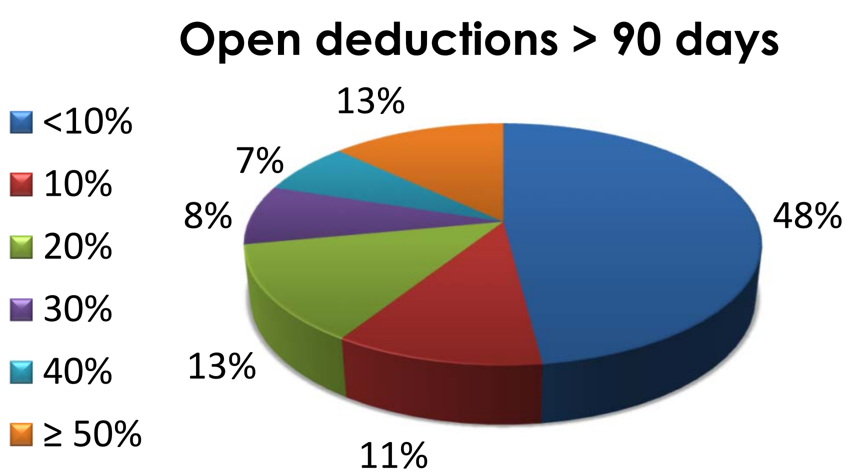
- Many of these deductions are preventable and should be considered the 'cost of doing business poorly'
- Cross functional collaboration, process improvements, automation technologies are keys to taking control and reducing

2018 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	1.1 - 3%

… but, be careful about drawing conclusions…



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

- Smaller companies appear to clear deductions faster than larger companies

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).
- 10% of respondents reported that over 50% of all deduction dollars are invalid or disallowed
- Industry highlights:

	Median % Invalid 2018	Median % Invalid 2015
Apparel, Footwear & Accessories	15.1-20%	6-10%
Pharmaceutical, Nutritional	6-10%	11-15%
Cons. Elec, Toys, Sport, SW / HW	5.1-10%	6-10%
Food, Beverage & Grocery	1.1-5%	1-5%

2018 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)
- 17% of respondents recover 90% or more, while 15% of respondents recover 10% or less
- Industry highlights:

	Median % recovered
Cons Elect, Toys, Sporting, HW / SW	70%
Food, Beverage & Grocery	70%
Pharma, Nutritionals & Medical	60%
Apparel, Footwear & Accessories	50%

2018 Deduction Survey

Net Recovery Rate

INDUSTRY GROUP	ALL RESPONDENTS				ANNUAL REVENUE ≤ $500 MILLION				ANNUAL REVENUE > $500 MILLION			
	(N)	25th	Median	75th	(N)	25th	Median	75th	(N)	25th	Median	75th
TOTAL ALL INDUSTRIES	***(159)***	***0.40%***	***2.50%***	***11.70%***	***(81)***	***0.35%***	***1.50%***	***12.50%***	***(78)***	***0.50%***	***2.70%***	***10.80%***
Apparel, Footwear & Accessories	(50)	0.35%	5.00%	20.00%	(31)	0.40%	4.00%	21.00%	(19)	0.25%	5.00%	10.80%
Construction Equipment, Plumbing/HVAC, Rubber & Plastics, Steel, Coal, Oil	(14)	0.35%	0.43%	8.00%	(10)	0.35%	0.40%	7.50%	(4)	*Not enough data to report*		
Construction/Bldg Supplies & Mtls, Paints, Chemicals, Lighting/Electrical, Vehicles & Parts	(15)	0.35%	0.90%	6.50%	(5)	*Not enough data to report*			(10)	0.80%	2.55%	10.50%
Consumer Electronics, Computer Hardware/Software, Toys, Games, Sporting Goods	(16)	1.03%	3.60%	13.50%	(9)	0.03%	2.10%	10.40%	(7)	1.80%	10.80%	31.50%
Food, Beverage, Grocery Products	(20)	0.43%	2.25%	3.35%	(4)	*Not enough data to report*			(16)	0.43%	2.25%	3.35%
Home Furnishings, Fixtures, Housewares & Accessories	(9)	7.20%	10.40%	12.60%	(6)	0.45%	8.80%	11.70%	(3)	*Not enough data to report*		
Pharmaceuticals, Nutritionals & Sundries, Medical Equipment & Supplies	(7)	0.65%	4.80%	9.10%	(3)	*Not enough data to report*			(4)	*Not enough data to report*		

2018 Deduction Survey
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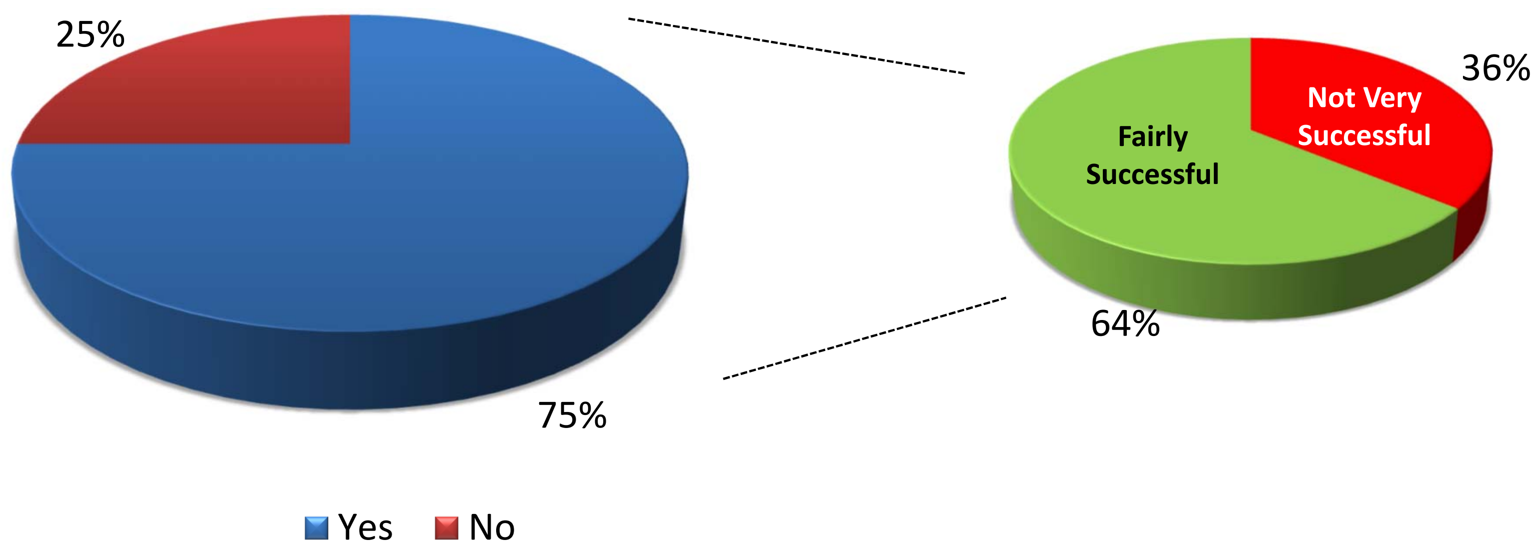
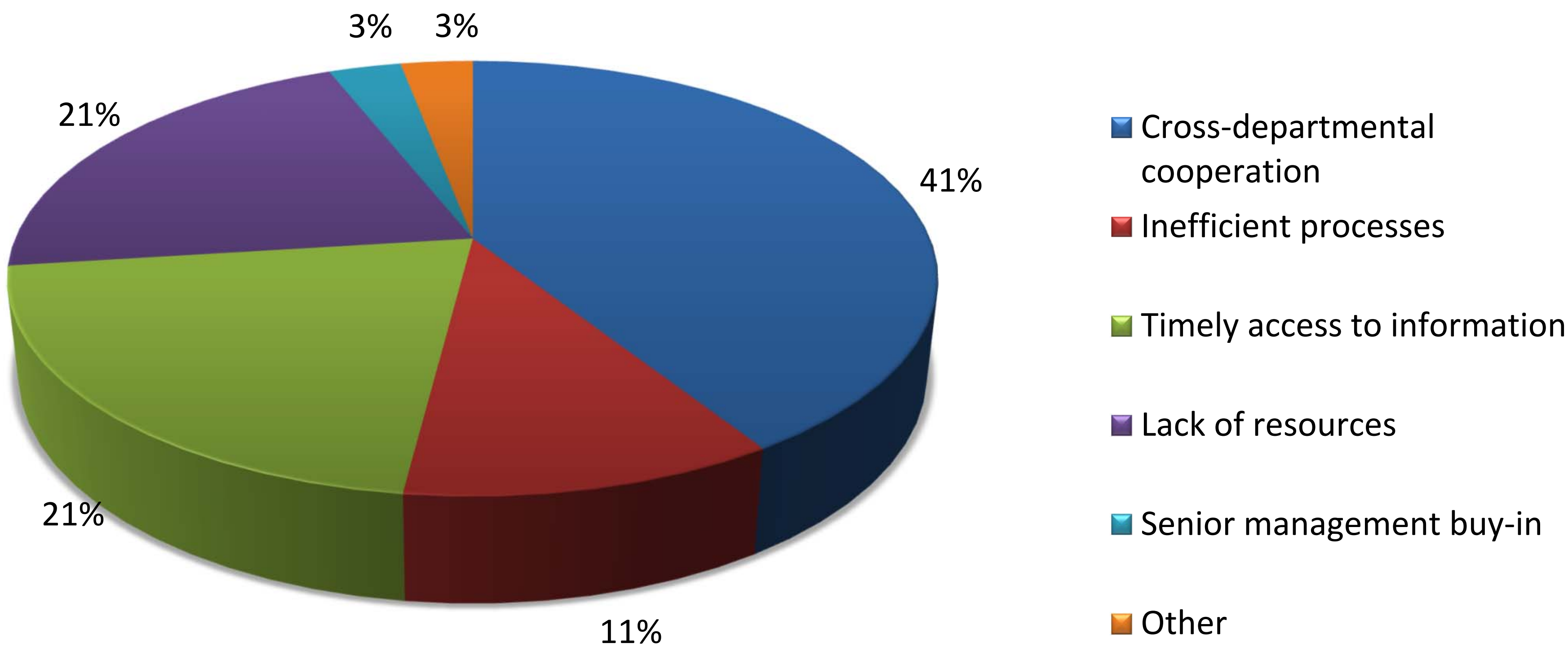
INDUSTRY GROUP	ALL RESPONDENTS				ANNUAL REVENUE ≤ $500 MILLION				ANNUAL REVENUE > $500 MILLION			
	(N)	25th	Median	75th	(N)	25th	Median	75th	(N)	25th	Median	75th
TOTAL ALL INDUSTRIES	*(94)*	*65 days*	*44 days*	*30 days*	*(41)*	*80 days*	*48 days*	*36 days*	*(53)*	*60 days*	*38 days*	*24 days*

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



2018 Deduction Survey
Internal challenges

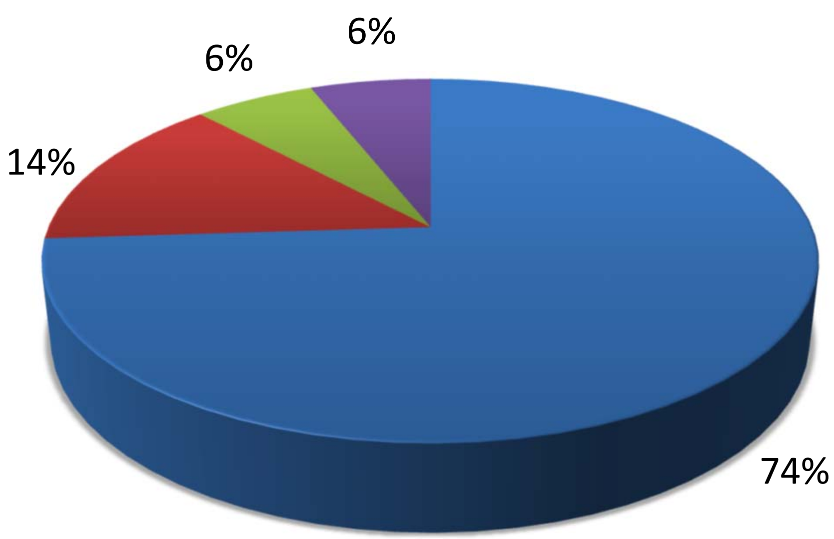
Biggest internal challenge in controlling deductions



2018 Deduction Survey

Internal challenges

How well are you able to comply with customer's dispute windows?



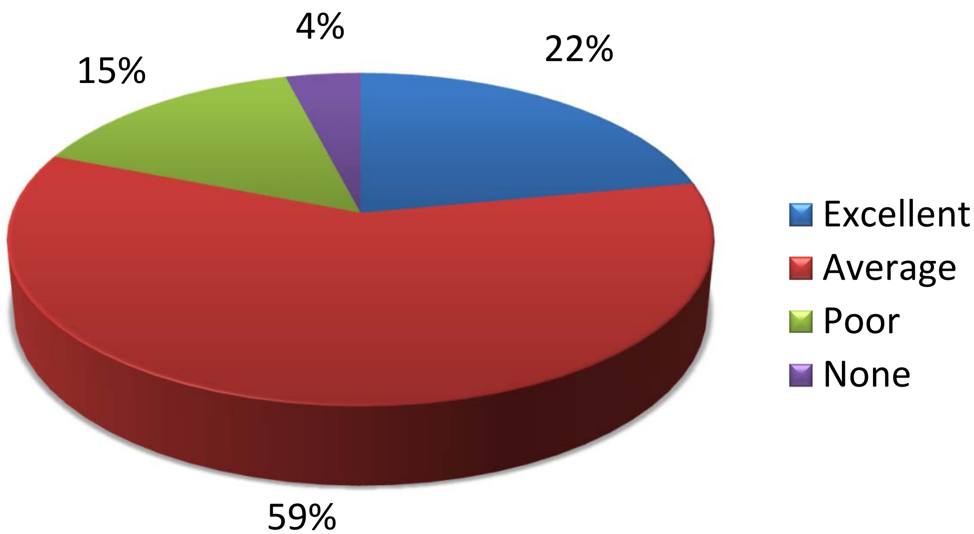
- **Usually on time**
  We prioritize our research / validation activity so that we are usually able to complete our work within the customer's dispute window
- **Often Late - Customer Still Accepts**
  For some customers we are often not able to complete our work within their dispute window – they usually still accept and review our disputes
- **Often Late - Customer Won't Accept**
  For some customers we are often not able to complete our work within their dispute window – they usually WILL NOT accept and review our disputes
- **Often Late - Just Write Off**
  For some customers we are often not able to complete our work within their window – we usually don't dispute, just write off

2018 Deduction Survey
ERP & Deduction reporting

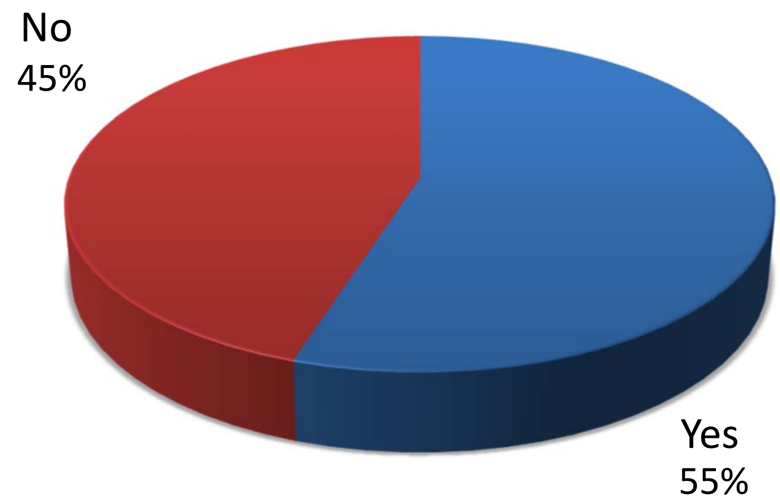
… 61% of responding companies with revenue > $500 million use SAP as their ERP system as compared with 18% reported by smaller companies …

2018 Deduction Survey
ERP & Deduction reporting

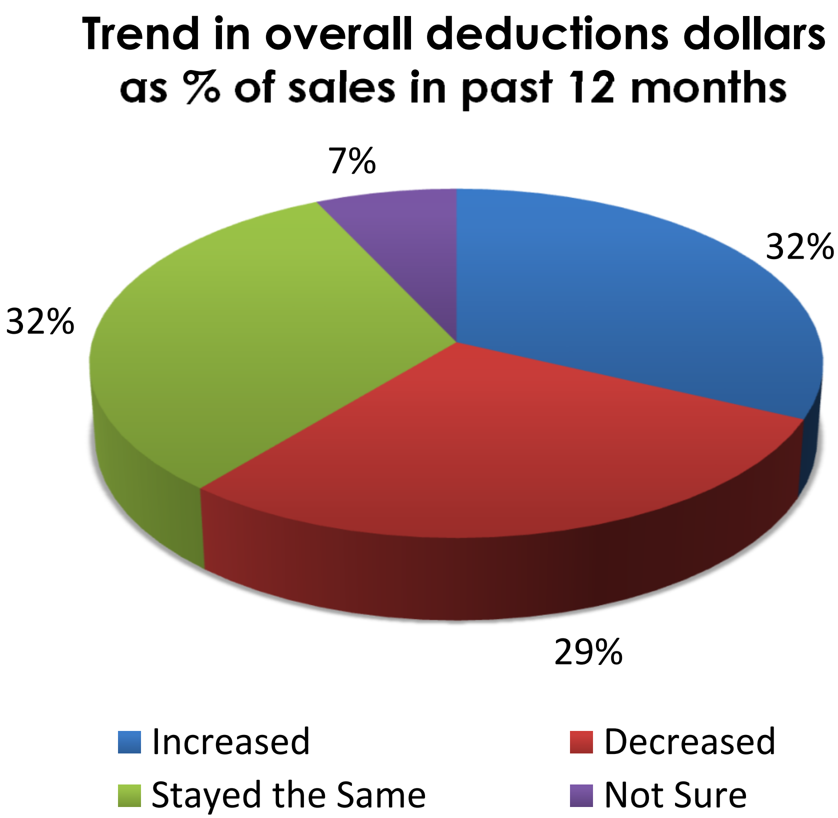
How would you rate your deduction reporting capabilities?



Do you have a deduction 'dashboard' routinely shared with senior management?



2018 Deduction Survey
Deduction trends & corrective actions



… results consistent with those reported in 2015…

Observations

- When asked whether there were any changes in the types of deductions received, 27% of respondents indicated that they felt new compliance rules or deduction types were being created

2018 Deduction Survey
Deduction trends & corrective actions

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
- Better communicated our policies with customers (e.g., pricing changes, terms)
- Improved / implemented deduction reporting

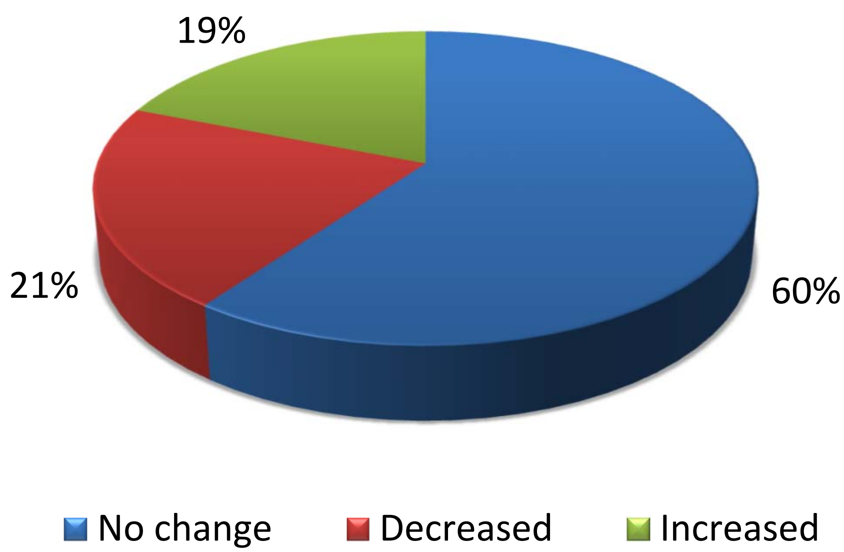
2018 Deduction Survey
Deduction trends & corrective actions

Actions taken to *PREVENT* deductions

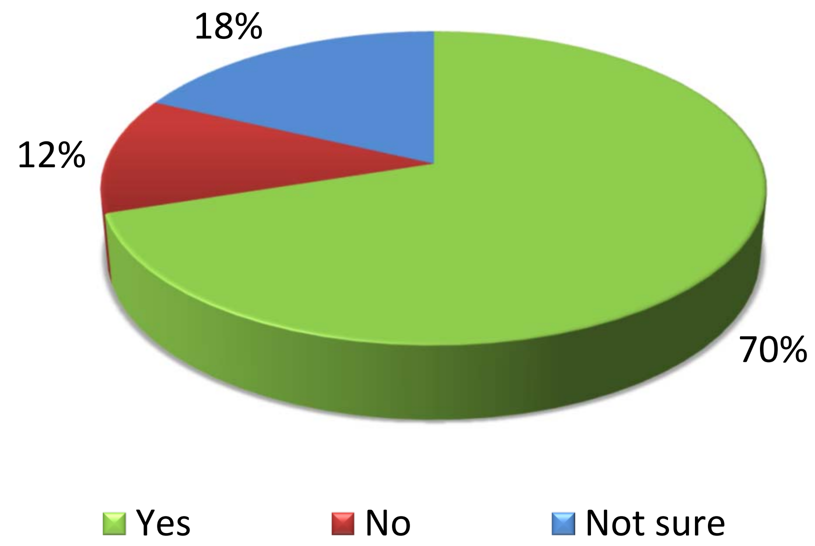
- Improved order accuracy (e.g., order entry, invoicing)
- Made sales and/or other departments responsible & accountable for deductions
- Involved other depts in customer onboarding and/or deal / promotion
- Better communicated our policies with customers (e.g., pricing changes, terms)
- TIE: Performed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

2018 Deduction Survey
Deduction trends & corrective actions

Trend in post audit claims past 12 months



Are most post audit claims taken within 2 years?



2018 Deduction Survey

Deduction trends & corrective actions

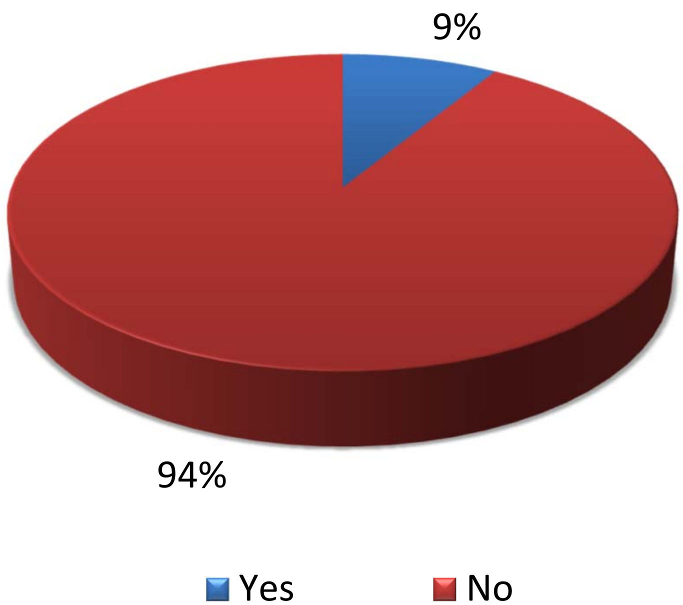
Actions to deal with POST AUDIT deductions

- 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

2018 Deduction Survey

Outsourcing & use of 3rd party technologies

Do you Outsource any Deduction Management Tasks?

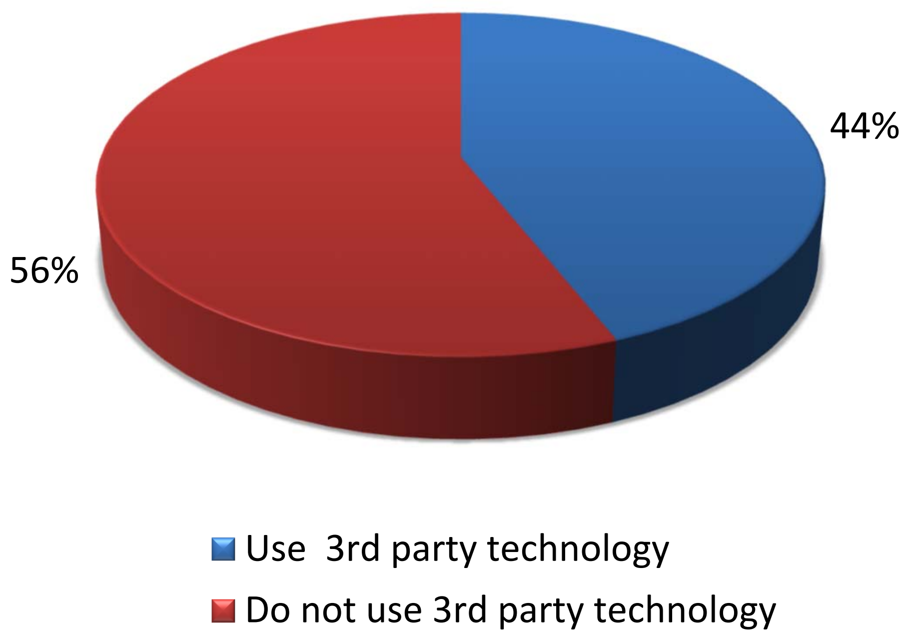


Outsource	≤$500	>$500
	0%	18%

- Collection / recovery of invalid claims (42%)
- Trade Promotion Management (32%)
- Deduction identification and/or analysis (26%)
- Entire process after cash app (21%)
- Research / recovery of small dollar deductions (16%)
- Research / recovery of specific deduction reasons (16%)
- Deduction management reporting (11%)
- Processing of post audit claims (5%)

2018 Deduction Survey
Outsourcing & use of 3rd party technologies

Use of 3rd Party Technologies



3rd Party Tech	≤$500	>$500
	30%	58%

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

2018 Deduction Survey

Evaluate your company's performance

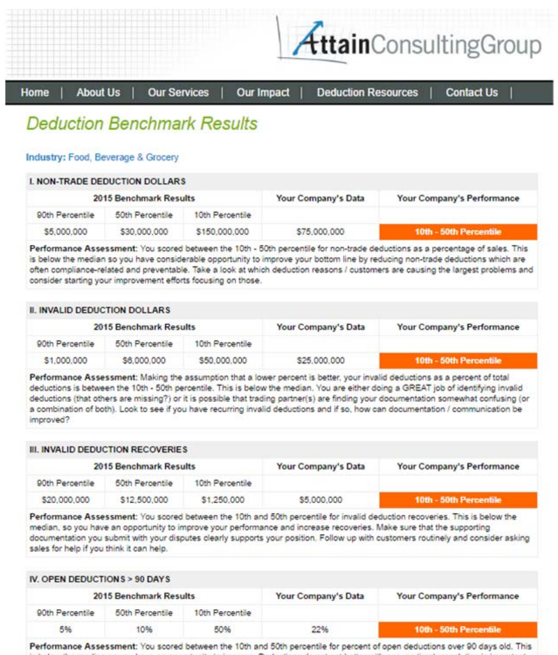
1. Against 2018 Survey Benchmarks

www.attainconsulting.com

Survey pdf

Online Assessment

Attainconsulting.com/benchmark



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Deduction Benchmark Results

Industry: Food, Beverage & Grocery

I. NON-TRADE DEDUCTION DOLLARS

2015 Benchmark Results			Your Company's Data	Your Company's Performance
90th Percentile	50th Percentile	10th Percentile		
$5,000,000	$30,000,000	$150,000,000	$75,000,000	10th - 50th Percentile

Performance Assessment: You scored between the 10th - 50th percentile for non-trade deductions as a percentage of sales. This is below the median so you have considerable opportunity to improve your bottom line by reducing non-trade deductions which are often compliance-related and preventable. Take a look at which deduction reasons / customers are causing the largest problems and consider starting your improvement efforts focusing on those.

II. INVALID DEDUCTION DOLLARS

2015 Benchmark Results			Your Company's Data	Your Company's Performance
90th Percentile	50th Percentile	10th Percentile		
$1,000,000	$8,000,000	$50,000,000	$25,000,000	10th - 50th Percentile

Performance Assessment: Making the assumption that a lower percent is better, your invalid deductions as a percent of total deductions is between the 10th - 50th percentile. This is below the median. You are either doing a GREAT job of identifying invalid deductions (that others are missing?) or it is possible that trading partner(s) are finding your documentation somewhat confusing (or a combination of both). Look to see if you have recurring invalid deductions and if so, how can documentation / communication be improved?

III. INVALID DEDUCTION RECOVERIES

2015 Benchmark Results			Your Company's Data	Your Company's Performance
90th Percentile	50th Percentile	10th Percentile		
$20,000,000	$12,500,000	$1,250,000	$5,000,000	10th - 50th Percentile

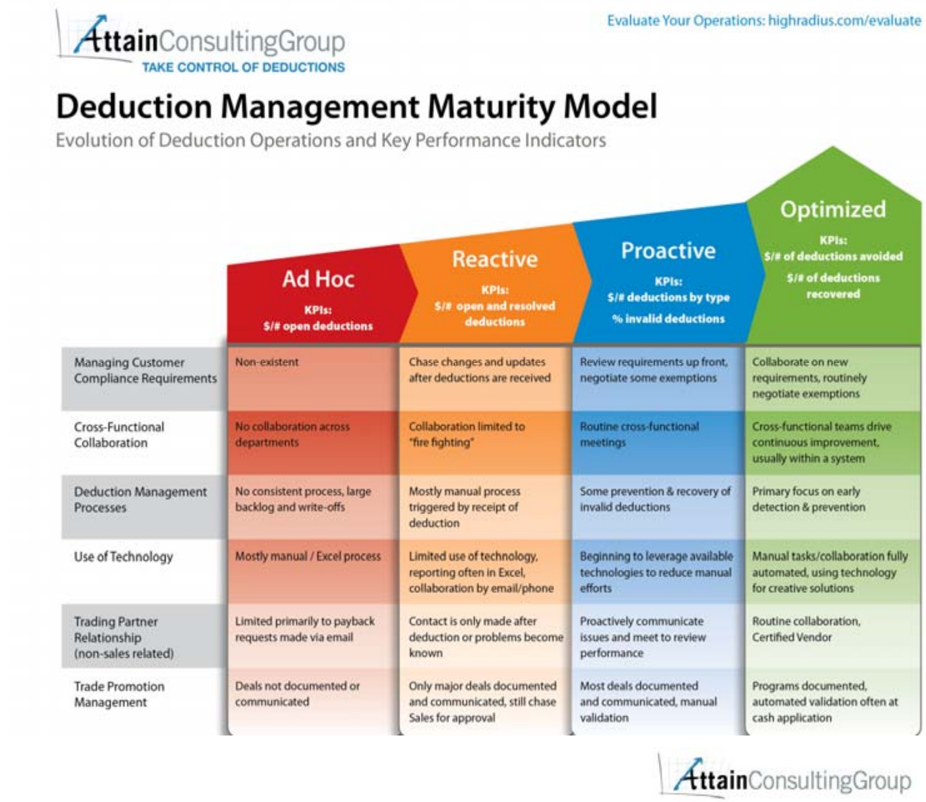
Performance Assessment: You scored between the 10th and 50th percentile for invalid deduction recoveries. This is below the median, so you have an opportunity to improve your performance and increase recoveries. Make sure that the supporting documentation you submit with your disputes clearly supports your position. Follow up with customers routinely and consider asking sales for help if you think it can help.

IV. OPEN DEDUCTIONS > 90 DAYS

2015 Benchmark Results			Your Company's Data	Your Company's Performance
90th Percentile	50th Percentile	10th Percentile		
5%	10%	50%	22%	10th - 50th Percentile

Performance Assessment: You scored between the 10th and 50th percentile for percent of open deductions over 90 days old. This

2. Deduction Management Maturity Model



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TAKE CONTROL OF DEDUCTIONS

Evaluate Your Operations: 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

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2018 Deduction Survey

Evaluate your company's performance

Deduction Management Maturity Model

Evolution of Deduction Operations and Key Performance Indicators

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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

What we do

Attain Consulting Group *(www.attainconsultinggroup.com)*

One-on-one deduction management assistance, including:

- Deduction Check-Up
- Deduction Improvement “Roadmap” & Assistance
- Deduction System Implementation (Cloud Based)
- Key Trading Partner Strategies
- Process and SOP Design & Documentation
- Trading Partner Sales Agreement
- Deduction Training & Coaching
- Negotiation Workshops & Training
- Process & Procedures Design / Development
- Customer Meeting Preparation
- Cross-Functional Team Facilitation
- Deduction Reporting

Take control of deductions
Stay informed with Attain Consulting

Attain Academy – *Deduction Training*
Stay informed of on-line training courses, upcoming webinars, on-site workshops and conferences

Attain Advice – *Deduction Tips, Strategies & Publications*
Best practices on current deduction issues. White papers, articles and other publications available

Attain Answers – *Be Part of the Deduction Solution*
Be part of Attain Consulting Group's growing network of deduction problem solvers and support group. Participate in periodic quick surveys on current deduction issues.

Attain Consulting Group – *Stay Connected & Covered*
Receive personal email every six months to check in regarding your specific deduction issues & needs

The Customer Deduction Insider – *LinkedIn Group*
Join our LinkedIn group dedicated to peer-to-peer communication to discuss deduction issues

Credit Research Foundation

AttainConsultingGroup

Thank you

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