Deductions Management Playbook

Navigating Risk And Seeding Innovation

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The Deductions Management Playbook: Navigating Risk And Seeding Innovation, a PYMNTS and Inmar collaboration, examines how deductions management automation can help CPG firms mitigate risks and the role that technical innovation plays in guiding their decisions. The report features an interview with a senior executive at a CPG firm about its deductions management strategies, highlighting challenges and the company's tangible results.

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Introduction

Accounts receivable (AR) managers are facing daunting challenges in this uncertain economy. While the pandemic impeded supply chains and disrupted retail access, manufacturers managing revenue loss also felt increased pressure to optimize their diminished revenues by improving AR management efficiency.[1] Today, AR managers must remove friction from retailer relationships while simultaneously protecting their margins and ensuring that scaling their businesses does not unleash a new element of risk: increased deductions.

Deductions occur when buyers fail to pay manufacturers the full price for their products as listed on their invoices, which may occur for several reasons. Buyers could receive damaged or defective products, for example, or they may have received more inventory than they purchased. Manufacturers have established deductions policies to deal with these issues, but as much as 25% of buyers' deductions either do not satisfy those policy requirements or are deemed preventable.[2] This can significantly affect manufacturers' margins if costs are not recouped.

Deductions management remains a trial-and-error process for many companies, especially those in the consumer packaged goods (CPG) space. Higher-volume sales often lead to a rise in deductions, and CPG firms' CFOs may have little time to research, test and implement a deductions management strategy as they court enterprise buyers. Smaller manufacturers, meanwhile, may have fewer resources to devote to developing a custom approach to limiting deductions risk.

Despite these barriers to innovation, many CFOs have initiated strategies that allow them to limit their vulnerability to deductions and future-proof their sales growth against deduction-related revenue losses. Currently, as much as 20% of deductions made for retailers could be disputed, indicating that there could be a significant financial gain for CPG brands willing to optimize their deductions management strategies.[3]

The Deductions Management Playbook: Navigating Risk And Seeding Innovation, a PYMNTS and Inmar collaboration, examines how deductions management automation can help CPG firms mitigate risks and the role that technical innovation has played in guiding their decisions. The report features an interview with a CPG company executive about its deductions management strategies as well as a short case study highlighting a challenge and the company's tangible results.

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[1] NEW DATA: Pandemic Pushes 70 Pct Of Businesses To Automate Accounts Receivables. PYMNTS.com. 2020. https://www.pymnts.com/news/b2b-payments/2020/automating-accounts-receivables/. Accessed June 2020.

[2] Riccordella, R. How Automating Deductions Management Protects Margins. Inmar. 2022. https://www.inmar.com/blog/thought-leadership/how-automating-deductions-management-protects-margins. Accessed June 2022.

[3] Deductions Tech Helps Small CPG and Pharma Suppliers Manage Disputes with Enterprise Buyers. PYMNTS.com. 2022. https://www.pymnts.com/commerce-connected/2022/deductions-tech-helps-small-cpg-pharma-suppliers-manage-disputes-with-enterprise-buyers/. Accessed June 2022.

Case Study

Himalaya On Reaping The Benefits Of Deductions Management Automation



Automating repetitive tasks in deductions management and using technology to sift through invalid deductions claims has not only saved accounting time but has also helped streamline sales and customer relations processes as well, according to Jordan Bodine, senior manager of sales operations and planning at Himalaya, a CPG firm that sells natural products in the supplement and body care space. Himalaya's offerings include natural toothpaste and herbal supplements, such as ashwagandha and turmeric that are sold directly to consumers, though the bulk of their sales are made directly to businesses.

"Managing deductions is an accounting function, and my role is in sales, but it still crosses over quite a bit," Bodine said. "The challenges we face are related to the sheer number of deductions: managing the work it takes to verify them, track them, report on them and look into whether they're for legitimate causes. Having to dispute deductions can be time-consuming, as is trying to manage the reporting around if we get repaid or not. It's a very cumbersome part of our business."

Automating repetitive deductions management tasks has freed up Himalaya's team to focus on growing the business while also leading to better and more accurate reporting, according to Bodine.

"Reporting is a big aspect of tracking and reconciling every month, and automating that allows the team to not focus their energies on that," he said. "Instead, they can focus on more important areas of the business that drive revenue. It also makes reporting more accurate. Whenever you have human intervention in reporting, there's naturally going to be errors. And we find that every month when we reconcile. When it's automated, that takes [human error] out of there and makes everything just perfectly accurate."

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How technology streamlines the management of invalid deductions claims

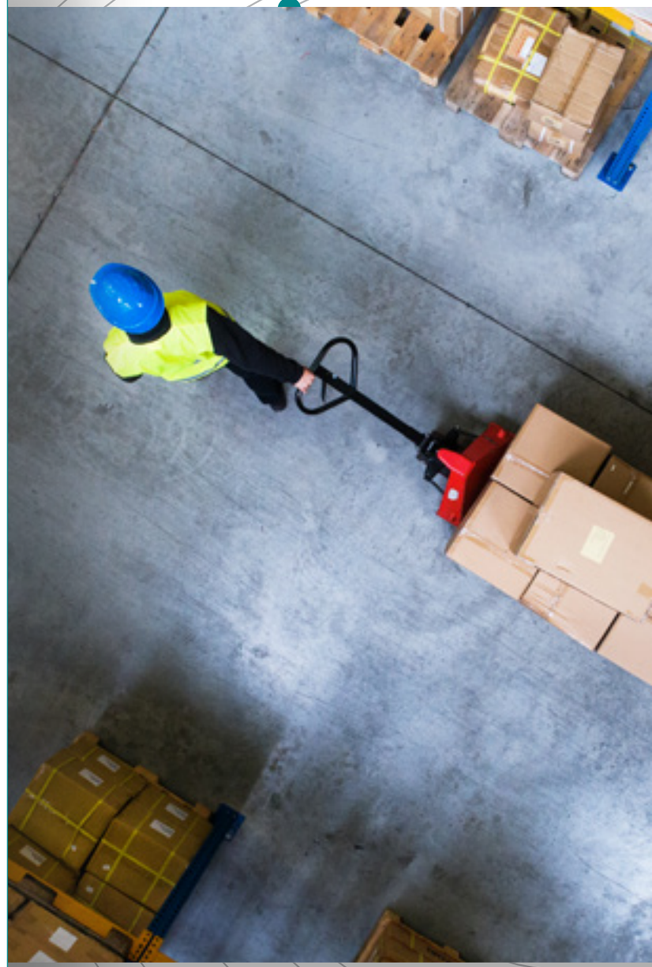
Sifting out invalid deductions claims is a key challenge that organizations face, and technology has helped streamline the process, according to Bodine. Using email to verify and manage deductions has become a thing of the past.

“For one, it helped us [to] not have to email as much,” he says. “A lot of times, we get something that we think needs to be researched. And so, now I’m emailing the warehouse team, and then they’re emailing me back, and then I’m back to emailing either customer service or accounting. Now we use just one portal, and with that, everyone’s streamlined; they know where to check to make sure everything’s legitimate. If there is any need for disputing, the proof of deliveries or bill of ladings are all in there. And then, we’re able to utilize that in the dispute process as well.”

The bottom line, according to Bodine, is that automating deductions management helps protect profit margins, especially when it is possible to lose money due to human error. Reduced labor cost is another key benefit.

“[Automating deductions management] keeps us from losing opportunities to regain money that we should have already received through deductions, he said. “It also comes down to cost of labor. The time that was spent just focusing on deductions is reduced when you’re not having to focus on manually entering every deduction and all the separate email work that’s going on in the background. So, we’re focused, especially my sales team, on the task at hand, which is to sell product.”

Despite the benefits of adopting an **automated deductions management solution**, Himalaya has had to overcome implementation challenges, including employee buy-in.



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Further leveraging technology innovation

Looking to the future, Bodine pointed to possible integrations with their enterprise resource planning (ERP) system to further automate and streamline accounting processes.

“One of the next steps that we’re going to be personally working on is connecting to our ERP system so that the software will automatically take our deductions,” he said. “Once it’s approved by the sales team, it will post the credits in the system. The accounting team doesn’t have to focus on posting credits; they can focus on collections work and all the other various tasks that they’re working on. That will continue to further streamline [deductions management] for us.”

Despite the benefits of adopting an automated deductions management solution, Himalaya has had to overcome implementation challenges, including employee buy-in.

“There’s always implementation challenges,” Bodine said. “Mainly, they’re people-related. They wonder if this is going to be more work. They don’t realize that any implementation is more work in the beginning, but in the long run, it’s less work. Also, there might be people who think, ‘This is going to take my job because it’s automating work.’ Once people see the benefits to the overall organization, and how they now can focus their time and efforts on meaningful tasks, they buy in, and it becomes worthwhile.”

Case in point: Keeping track of costly disputes

Automating deductions management can mean the difference between disputing a deduction in a timely fashion or having to write off a loss because a retailer’s deadline is missed. This was the case for Himalaya last year before it had an automated solution in place.

Himalaya now uses a software-as-a-service (SaaS) and payments solution for small to mid-sized CPG companies called DeductionsLink. Developed by Inmar, DeductionsLink features a standard deductions web portal that not only promotes seamless collaboration and access to insights but also automates otherwise tedious processes, such as data extraction, coding and managing disputes and approvals.

“For one of our retailers, we’re supposed to go into their portal every so often and check for deductions. And if you don’t agree with a deduction, you have a certain window to dispute it. By and by, we come to find out the accounting team didn’t get around to checking it in time, and we missed the dispute window. And, unfortunately, a very large dollar amount then went unpaid and unaccounted for,” Bodine said.

“That’s the sort of thing that got solved with DeductionsLink,” he added. “The system for deductions actually goes into the [retailer] portals and pulls these deductions on a regular basis. We don’t have to go into all the different portals, and just go to our one single portal and everything gets uploaded in there. Then, we can dispute things in a timely manner.”

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Trend Lines

How deductions management automation drives profit margins

A recent Inmar Intelligence survey of more than 300 CFOs, financial decision-makers, AR leaders and controllers at CPG companies explored how these companies manage their deductions. Findings included the biggest pain points CPG firms face, current inefficiencies and opportunities for improvement.[4]

[4]Author unknown. 2022 Deductions Management Trends Report. Inmar. 2022. https://www.inmar.com/blog/thought-leadership/deductions-management-trends-report. Accessed June 2022.

The biggest pain points in deductions management

26%

of CPG firms experience delays in the reviewing and approving of deductions.

23%

of CPG firms experience issues in manually extracting claims information.

25%

of CPG firms experience issues coordinating deductions processes with multiple stakeholders.

18%

of CPG firms experience issues manually tracking disputes.

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Opportunities for improvement

Even though minimizing deductions is the best way to reduce profit leakage from deductions, 56% of CPG firms have no proactive measures in place to prevent deductions.

Automation speeds up processes, improves accuracy and frees up resources, but 24% of CPG firms have not automated a single step in their deduction management process.

We also find that 43% of CPG firms reported that they are unable to link deductions and trade promotions data for half of their deductions, meaning they are missing insights into their effectiveness.

Understanding the problem

Long known to be tedious and time-consuming, deductions management is a required task for CPG firms' AR teams. In fact, deductions account for 15% to 20% of CPG firms' revenues, and they can improve profits, cash flows and customer relations when managed effectively.[5]

Deductions occur when a retailer does not pay the full amount it owes. After the CPG firm invoices the retailer, the retailer then deducts amounts for damaged goods or billing or shipping errors before paying the remainder of its bill. This means that the CPG firm's AR teams must manually process thousands of deductions in multiple retailer formats. AR teams are also charged with recovering invalid deductions and determining which deductions were preventable. On average, 15% to 25% of deductions are invalid or preventable, which can significantly affect manufacturers' profit margins if costs are not recouped.

Identifying a solution in automation

Automating deductions management streamlines a task that is time-consuming when done manually. A single automated deduction management tool can reduce back-office manual effort by 40% to 100%.

Extracting deduction information automatically expedites front-end work and frees up AR teams for other tasks. Deductions are matched with backup documents, and all information becomes structured and readily available for AR team access. When invalid deductions occur, AR teams can utilize automated workflows to effectively coordinate with internal teams, gather reference documents and communicate disputes with retailers. AR teams can also leverage improved visibility to work with internal teams to identify opportunities for improvement to prevent deductions, potentially reducing nontrade deductions by up to 20%.

[5] Riccordella, R. How Automating Deductions Management Protects Margins. Inmar. 2022. https://www.inmar.com/blog/thought-leadership/how-automating-deductions-management-protects-margins. Accessed June 2022.

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How automated deductions management works

Automated deductions management makes it possible to manage deductions with efficiency and accuracy. These automated tasks also provide AR and other internal teams with a single source of truth for all deductions. Here are the steps that such a system takes:

1. **Deduction information and backup documents are automatically extracted and organized within a single system.**

2. **Deductions are automatically determined to be valid or invalid.**

3. **Invalid claims are prioritized to focus on higher-value claims first.**

4. **Dispute workflows are executed, allowing for collaboration among internal teams.**

5. **Resolutions are monitored and analytics become available to AR teams.**

Automating deductions management **streamlines a task** that is time-consuming when done manually.

A single automated deduction management tool can **reduce back-office manual effort by 40% to 100%.**



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Executive Insights

Navigating risks

What are the key risks and challenges that CPG organizations face in managing deductions?

There is much to be said about deductions pain points, but let's explore the top three, according to an Inmar Intelligence Survey:

1 **Effort-intensive:** Data can come from **30 to 100 retailers** on multiple portals or via multiple emails.

AR analysts are hired because of their talent and strategic abilities. However, 32% reported analysts spend more than 50% of their time processing transactions as opposed to doing any kind of analysis. Further complicating the matter are the thousands of different file types and retailer portals from which information must be extracted. Automating data extraction serves the dual purpose of expediting approvals and freeing up your AR team for more mission-critical tasks, such as validating, analyzing and preventing deductions.

2 **Risks to margin:** Retailer deductions equate to **15% to 20%** of brand revenue.

The longer it takes for CPG companies to review and approve deductions, the more their working capital and cash flows will suffer. Potential margin losses must be recovered quickly. One way of expediting the process is by incorporating automation. Time is money: The more time you can save, the more capacity your AR team will have to protect the bottom line.

3 **Lack of focus:** **25%** of survey respondents say coordinating deduction response is a challenge.

While AR leaders call the shots when it comes to managing deductions, many internal teams — finance, operations, sales and so on — own different parts of the process. Coordinating disparate teams is challenging in any context, but this is especially the case with deductions. Internal coordination can be simplified by adopting automated, role-based workflows and a centralized deduction data repository, giving multiple teams the ability to collaborate and communicate within a singular system.

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What are the key strategies CPG companies should undertake to mitigate risks associated with deductions?

For CFOs, the pressure to reduce cash conversion cycles is higher than ever — and they're counting on AR leaders to deliver. But, with the extensive time and manpower it takes just to process thousands of deductions in multiple retailer formats, can AR leaders provide actionable, insight-driven solutions? The answer is yes, by adopting these key strategies.

1 Streamline cross-departmental workflows to boost collaboration:

The finance team might be the ones who oversee deductions, but what they see is the end result of other departments' actions taken. Companies that successfully manage deductions have clear accountability across functions, including sales, trade finance, customer service and operations. A shared dashboard of key performance metrics is an excellent place to start. The metrics should show department heads how their teams contribute to deductions in an objective manner. SaaS tools that enable multiple users to access a shared dashboard in real-time and perform root cause analysis go a long way in facilitating collaboration.

2 Replace manual effort with value-added activity by incorporating automation:

AR teams have the challenging task of processing information from 30 to 100 retailers, each with its own nuances. Analysts can spend more than 50% of their time performing basic administrative tasks, such as extracting data, closing books and following up on disputes. Many companies are trying to automate the fetching of remittance and backup data from retailers and carriers. However, unlocking the data and rich insights into promotion and on-time in-full performance, which can be buried in backup documents, requires the use of artificial intelligence (AI) and intelligent document processing. The ability to extract and analyze UPC-level and end store-level performance can help AR provide information to other areas within the organization, enabling them to prevent deductions and achieve higher performance levels.



3 Prioritize prevention over dispute resolution:

There are two best practices — clear accountability for improvement and open communication channels with retailers. Companies that effectively manage deductions do not just accept them but also have key performance indicators and performance measurements to prevent and lower them. A dashboard view of which retailers are taking the most deductions and how prevention rates are trending over time per retailer can determine where and how to deploy prevention resources.

Open channels of communication with retailers can be set at all levels, from transactional to strategic. This communication and insight can be used for future prevention. Manufacturers can share a retailer scorecard to identify opportunities for improvement.

4 Know thy retailers:

Distributors are the top customers for most small to mid-sized companies, but knowing your distributors is not enough. As an emerging brand, you must understand the performance of your product at the store level. Today's retailer will be tomorrow's customer. Therefore, end retailer performance is critical information on which future business strategies should be built. To understand retailer and end retailer behavior, AR leaders can leverage SaaS tools from software and service providers with extensive retail experience. While AI can help, the best tools combine AI with deep expertise and learning.

AR leaders must prioritize individual retailer relationships. Effective AR leaders are expanding their engagement with retailers by participating in account review meetings and subscribing to retailer notifications on sales agreements, orders and delivery.





5 Take an insight-driven approach to dispute resolution and recovery performance:

Deductions management is not always about minimizing deductions. AR leaders view valid deductions as an investment into retailer relationships. To understand the return on investment (ROI), AR leaders must aggregate sales, operations and finance data to generate a balanced performance scorecard. Effective AR leaders will generate a scorecard, educate senior leadership and drive action.

6 Driving change in an organization requires credible analytics:

AR leaders understand that tools alone cannot solve the issue. Data integrity must be assured at every stage of the data supply chain. They also understand that the framework for measuring ROI must be syndicated before the actual data is populated in the dashboard. As small to mid-sized companies plan their next wave of growth, they will find a significant payoff in knowing where valid deductions are spent and associated ROI.

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Seeding Innovation

What are the key barriers hindering deductions management innovation?

Key barriers hindering deductions management innovation include:

Profit leakage due to deductions remaining unclear

Focusing on **growth** versus profitability



Time constraints for other projects

What can companies do to overcome barriers and accelerate technology innovation around deductions management?

Companies can leverage the power of AI and machine learning to:

1. **Automate the data extraction of deductions**
2. **Utilize a system that allows for quick validation and easy tracking**
3. **Prioritize deductions based on recovery probability**
4. **Track dispute activity and deadlines**
5. **Use data to determine operational improvements**



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About

Deductions Management Playbook

PYMNTS.com

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INMAR intelligence

Inmar develops technology and uses advanced data analytics to make commerce work smarter. We help leading Fortune 5000 companies and emerging brands stay relevant and propel growth while providing their consumers with personalized and precision-driven tools to save money, improve health and safety and go about their lives more conveniently. Our holistic portfolio of media products enables advertisers to access a variety of intelligent tools — including influencer media, conversational commerce (chat-based media), audience extension and on-site digital media. As a trusted intermediary for more than 40 years, we’ve helped retailers, manufacturers, healthcare providers, governments and employers redefine innovation.

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