



Leading National Beverage Distributor

Beverage Company Conquers Out of Control Deductions

SUMMARY

Inundated with 12,000 unexplainable short-paid invoices from their retail customers each month, eating into 8% of monthly revenue, this leading national beverage distributor had limited visibility into their true cost of doing business. After implementing a claims management system and forming a team to match and clear deductions, unresolved gaps in policies, processes, people and systems allowed the backlog of claims to continue to grow. Within 21 months of the implementation, they faced 94,000 unresolved deductions worth more than \$10MM. With the issue now escalated to senior management, this company partnered with Clarkston to help gain control of their deductions.

Challenge 1: *Reduce the financial impact of deductions by controlling the unfettered influx of claims.*

Solution 1: Not all deductions are the “cost of doing business,” and so it was critical to take steps to prevent controllable deductions. Any deduction that is avoided or recovered is savings that flows directly to the company’s bottom line. Clarkston’s recommendations to curb the overall volume of claims focused on addressing disputable deductions and implementing new tactics to reduce the processing cost for unavoidable deductions. Orchestrating a focused effort to identify and charge back invalid claims in the deduction backlog sent a signal to retail customers that the distributor would aggressively collect against unauthorized claims. Developing and publishing customer policies on order placement, delivery, pricing, unsaleables, deductions and post audits provided leverage for future claim disputes. For customers that were submitting a high volume of valid deductions, off-invoice allowances were set up to stop those claims from coming in entirely. Implementing automated matching reduced the resource cost of processing planned deductions.

Challenge 2: *Streamline deduction processes and procedures first, then enable with technology.*

Solution 2: Poor internal processes and a lack of resources prevented this company from realizing the benefits of their claim management system implementation. Clarkston helped the client take a holistic approach, where technology supports improved deduction strategies and processes. Since deductions are a company-wide issue, not caused, prevented or resolved by any single function, a cross-functional claims team was established to process and control deductions ensuring coordination and collaboration across departments. Responsibilities for deduction classification were shifted to occur during cash application. Claims analysts took ownership of a customer base, so that over time they would learn a customer’s behavior. Automating the deductions process reduced bottlenecks as well as the resource effort needed to identify, research, validate and resolve each deduction; this included simplifying and automating claim classification, shifting to progressive approval rules and focusing manual efforts on higher value claims with automatic clearing of claims within the cash tolerance (i.e., deduction threshold). Lastly, the implementation of new KPIs and reports provided visibility to the “true discount” their customers were taking, laying the foundation for future business decisions.

RESULTS

As a result of the deductions project, our client realized the following business benefits:

- Identified \$840K of invalid claims and collected more than \$510K as a result of a focused effort to recover unauthorized deductions from the backlog.
- Decreased deductions as a percent of sales to 2%, excluding trade spend, translating to \$1.5MM in deductions avoided in the first year.
- Experienced nearly \$10K in claims withdrawn by customers within the first month of publishing the customer policy.
- Reduced monthly claims volume by 58% / 7,000 claims by negotiating a swell allowance with a top customer.
- Decreased claims 90+ days outstanding from 63% to 3%, and improved the percentage of claims classified from 45% to 96% through process improvements and automation.
- Increased efficiency by automatically clearing the lowest 10% dollar value claims (~92% of the volume), and manually processing the remaining 90% of claim dollars.
- Decreased preventable deductions from 95% to 38% since forming a cross-functional claims team to process and control deductions.
- Achieved intangible benefits including improved trade planning based on customer contribution, customer communication, cross-functional cooperation and integration, identification and elimination of process errors, and reduction of unknown liabilities.

PARTNERING FOR SUCCESS:

This beverage company partnered with Clarkston to help transform their strategy and execution of deduction management through new policies and procedures, improved processes, upgraded technology and resource alignment. Clarkston guided this company through each stage of the project – assessment, business case justification, process redesign, implementation and benefits realization. Leveraging beverage industry expertise and a proven methodology, Clarkston helped this company address the specific people, process and technology issues that plagued their deductions management. More importantly, Clarkston immediately blended with the culture to help drive these incredible impacts to the bottom.



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