Reducing Chargebacks

Chargebacks (often referred to as "expense-offsets") are financial penalties for non-compliance with your customer's requirements. Retailers issue chargebacks because vendor noncompliance disrupts operations and creates an additional expense for the retailer. Therefore, retailers create "expense offset policies" that are intended to recover the additional cost incurred by the retailer due to vendor noncompliance.

Unfortunately, EDI-related chargebacks have become profit-centers for a lot of retailers. Chargeback fees vary greatly from customer to customer. A $100 penalty for an EDI document containing errors would not be uncommon. Most of the retailers provide a charge-back fee schedule. Chargebacks are usually deducted off the check payment.

Some common challenges that organizations face with chargeback problems are:

- Frequency of change: Vendor manuals and routing guides change regularly and companies have issues keeping up with the changes.
- Complexity of the problem: Sometimes hundreds of chargebacks are issued and some of them are too small to investigate and are unclear. Also, every retailer's chargeback deduction schedule is different.
- Internal Organizational Effort: Since so many departments are involved (Logistics, A/R, A/P, sales and etc) internal efforts to manage chargebacks are very challenging.

Strategies To Reduce Chargebacks

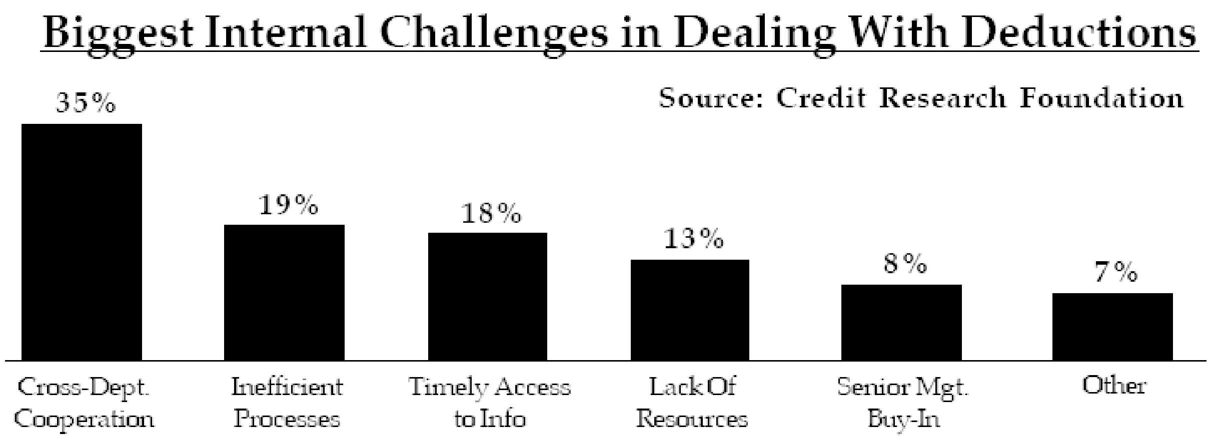
Cross-Functional Teams

Deductions are a company-wide issue. Do not conduct chargeback research to play the "blame game" instead make sure that internal operations and computer systems are corrected and employees are trained.

The Credit Research Foundation (CSM Communications Co., Inc., 2003) conducted a customer-deduction survey of 280 companies across 22 industries. The finding was that 75% of those companies that used cross-functional teams to manage deductions and compliance violations have reduced the number of deductions received:

- In addition to challenges of dealing with customers; many companies experience their toughest challenges within.
- "Lack of cross-departmental" cooperation was their biggest internal challenge Actions taken to prevent deductions were: Simplifying pricing strategies; providing education and training within the organization; conducting cross-functional meetings to address the root cause of the deduction; attending retail compliance training.

The following graph shows the biggest internal challenges for resolving chargeback issues:



Compliance Steering Committee

One of the easiest ways to gain cross-departmental cooperation is to give them a stake in decreasing deductions. Cooperation of almost all departments will be required in order to achieve success in reducing chargebacks.

The actual personnel to be included on the committee may vary from company to company. This group should include managers of departments, but it should be flexible enough to include members who might not be classed as managerial. No one understands a give business procedure better than those who are doing it.

The list of duties for the members may be very general, but it should be seen that the Compliance Steering Committee has the responsibility of building and maintaining the customer compliance strategy. The following is an example of a responsibility assignment matrix of cross-functional deductions team players:

Role/Department	ASN/856/BOL/UCC-128 Label	UPC Ticketing	PRODUCT PACKING	INVOICE/EFT	UPC CATALOG	RETURNS	ROUTING
Compliance Coordinator	X	X	X	X	X	X	X
A/R Credit/Collections				X		X	
EDI	X			X	X		X
Sales/Marketing		X	X		X	X	
Logistics/Shipping/Traffic	X		X			X	X
Inventory Management		X	X		X	X	

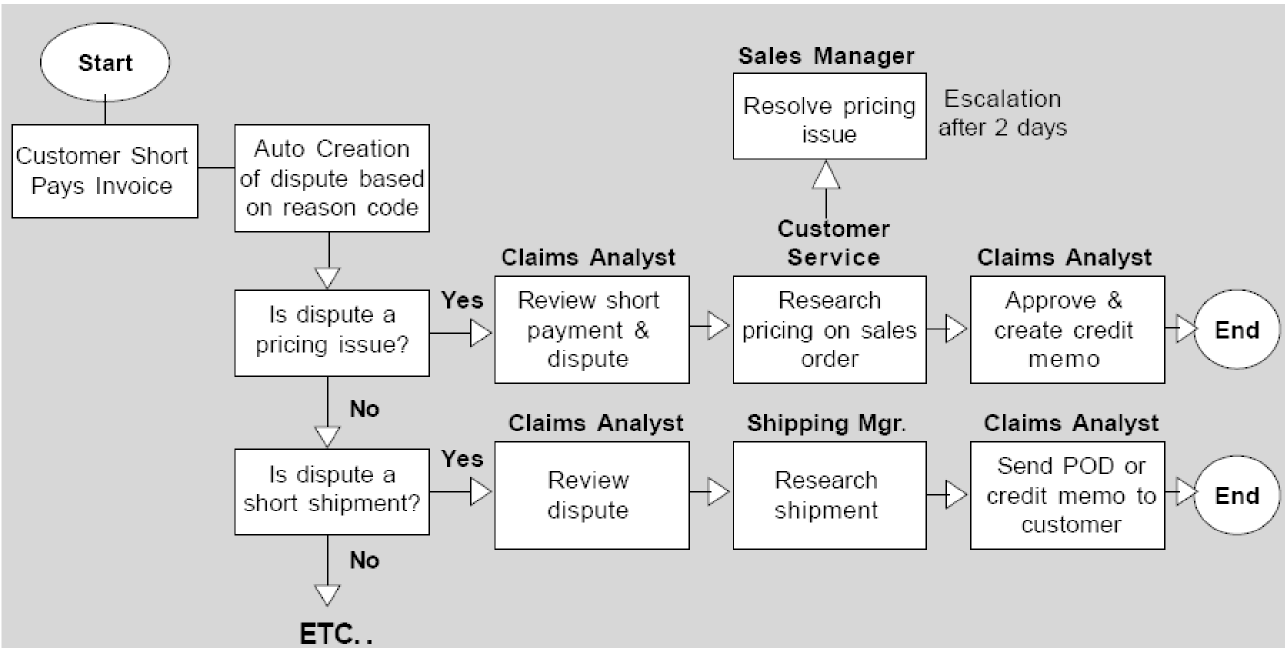
The compliance coordinator must review all of the existing customers' routing guides and vendor manuals. All the other roles and departments should review their section of the routing guide and vendor manual. When the sales department wins a contract with a new customer the compliance steering committee must immediately react by mastering the routing guides and vendor manuals.

Chargeback Tracking and Management

Reconciliation of chargebacks can be a difficult task as chargebacks may reflect shipments that were made several weeks ago. Therefore, it is important to have a good chargeback tracking and management process in place.

Develop a process to find out about deductions as soon as they are issued. For example, JC Penney sends daily email notifications about EDI ASN deductions to the email address in the PER-04 segment.

Once the deduction information is received a process must be in place to resolve the chargeback and get the right functional team members involved. Create a dispute resolution process to suit your company's requirements. The following is an example of a dispute resolution workflow:



A chargeback tracking database should be created to track the status of each deduction. This can be a simple spreadsheet with the following fields:

Chargeback ID	Issue	Customer	Amount	TransType	Action
1S07401	Late ASN	Macy's Inc	$50	ASN	Check Ack
1S07402	Poor Quality UCC-128 barcode	Macy's Inc	$77.50	ASN	Research
1S07403	Inaccurate BOL On Invoice	JC Penney	$115	Invoice	Research
1S07404	Invalid Carton Number	JC Penney	$100	ASN	Research

Preventive Action List

- **Master your retailer requirements:** Most retailers will provide the following documents: 1) Vendor Manual 2) Routing Guide 3) EDI Requirements. Each department should have a subject matter expert on the retailer's requirements. Since the retailer requirements change frequently, there should be a process in place to monitor changes to the requirements. The Retail Value Chain Federation (RVCF) http://www.rvcf.com/ offers a clearing house with the most up-to-date trading partner news updates. Beacon EDI https://beaconedi.com/, a cloud EDI-provider, offers trading partner updates as a built-in feature out of the box at no extra cost. Also, most EDI retailers will send letters or emails describing new initiatives and changes. Make sure these letters are communicated to the right party.

  Make sure you are in agreement with your retail customers on total lead-times. This includes order processing, packing and transit times from each ship-point to each ship-to location. Accepting inadequate orders with inadequate lead-times is a major cause of chargebacks.

- **Conduct Training & Test Runs:** Make the warehouse personnel pack an actual carton and/or pallet per the retailer requirements as a training session (without actually shipping the carton). Another example would be to validate your barcode symbology quality by sending your labels to a third-party barcode validator.

  Also, most retailers conduct vendor compliance training. Make sure the people doing the actual work get enough training on various topics, including: EDI, Shipping, Invoicing, Routing, Packaging and Product Data.

- **Setup Alert Systems:** Create alert systems that will advise of you of potential chargeback risk. For example, query your sales-order database and shipping database by comparing the required ship-dates against ASNs. If a shipment should have already gone out and there is no ASN for it, setup an email notification system to alert the appropriate party. Another example would be an alert system for transmitted ASNs or Invoices that do not have 997 Functional Acknowledgements.

- **Improve customer relationships:** Hold face-to-face meetings with your top customers at least twice a year. Bring to these meetings your deductions "packages" and relevant documents such as sales agreements, compliance manuals and then negotiate any disputes. The VCF (Vendor Compliance Federation) conferences offer neutral environments for such meetings.

  Sometimes you can convince your buyers to wave the chargebacks or give you a grace period if they see strong progress in improving vendor compliance.