Getting in Charge of Chargebacks

This guide explores why retailers are putting the squeeze on suppliers through chargebacks, and how suppliers are successfully meeting retail vendor compliance expectations with technology.

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The Pressure is On!

Retailers are Placing the Squeeze on Suppliers

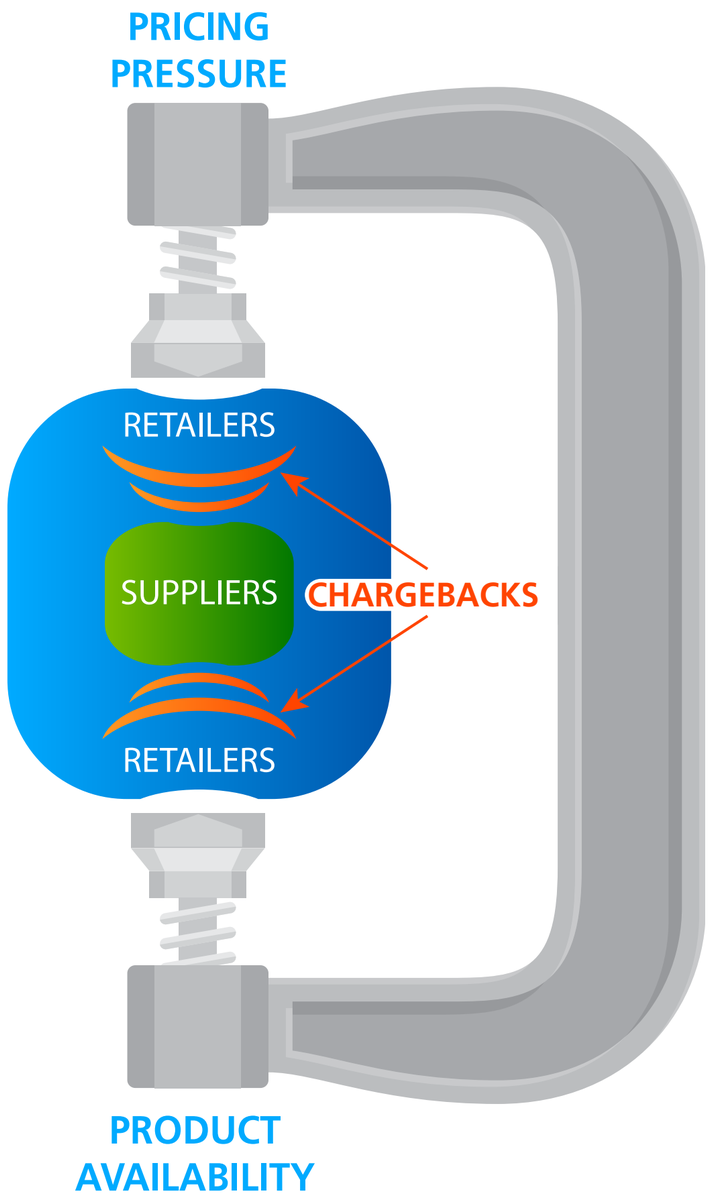
Retailers are under intense financial pressure. Consumers expect products to be on the shelves or in the warehouse ready to ship at a moment's notice. As a result, retailers are acutely aware that they must have products where and when they're needed.

With so much price pressure, retailer margins are getting squeezed and they cannot afford to carry excess inventory. Consequently, retailers are focusing on their suppliers to help them be more reactive to the market and flawlessly execute.

To get the level of performance they need from their suppliers, retailers have turned to chargebacks.

The good news for suppliers is that chargebacks can be virtually eliminated with the right strategies, tactics and technologies. Suppliers that can operate in lock step with their retail customers are more likely to gain business, reduce the order-to-cash cycle and the administrative time and costs related to disputes.

With solutions that enforce compliance with an individual retailer's processes and data quality expectations, suppliers are better positioned to minimize the impact of chargebacks.



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The Implication for Suppliers

While chargebacks can be an effective method for retailers to drive compliance and consistency across the supply chain, they have also evolved into an important revenue stream. It comes as no surprise that suppliers view retail chargebacks as a virtual treasure hunt for revenue and profit with up to:

13%	Of retail revenue stemming from vendor compliance fees[1]
10%	Of open retailer A/R linked to chargebacks[2]
27%	Of vendor compliance programs driven by profit[3]
20%	Of invoice value that can be deducted for chargebacks[4]

In pursuit of the "perfect" order, retailers expect supplier orders on-time and in-full (OTIF) and the associated information to be timely and accurate. For suppliers, this means that fuzzy or unreadable barcodes; overages, shortages and damages (OS&Ds); and late (or early) shipment arrivals are simply not acceptable.

Retailer-defined documents, EDI connectivity with enterprise systems as well as consistent and timely transmission of data is expected and will be measured.



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Why the Disconnect?

Although EDI compliance is a "must", many suppliers still fail to provide retailers with accurate, timely and complete information due to the:

Range of compliance requirements: With an average of 100 vendor compliance requirements per retailer, the total number of business rules can be staggering. For example, the timing of invoice and ASN transmissions, barcode placement specifications, unit format requests (i.e., pieces vs. cartons) and more can widely differ.

Volume of protocols and systems: From retailers with legacy technology, to online portals for manual data entry, to proprietary or home-grown systems, companies speak different technical languages and use a broad range of platforms.

Number of retail trading partners: While it's imperative for suppliers to transact with multiple sellers, each point of connectivity requires maintenance, time and resources for streamlined electronic communication.

Varying capabilities of IT: From high-tech to low-tech businesses, the IT proficiency of suppliers plays a key role in their ability to electronically connect to retailers.



Visibility & Identification:

Many suppliers simply do not know what triggered a chargeback, how it was calculated or that a problem occurred until after a penalty is received.

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Best Practices

How Market Leaders are Managing Chargebacks

Savvy suppliers know that vendor compliance means increased profit. Market leaders:

- ✓ **Know the cost** of chargebacks and ensure that supply chain chargebacks are properly detailed in the general ledger to assess the true scale of the problem.
- ✓ **Grasp the details** and have insight into individual chargeback information that includes where and when a violation occurred and under what circumstances.
- ✓ **Get the bigger picture** and leverage tools that can analyze and review larger chargeback trends at a dashboard level.
- ✓ **Understand retailers' requirements** and act upon this knowledge by implementing systems that can keep pace with a broad range of trading partner business rules.
- ✓ **Revisiting requirements** at least annually to keep chargebacks at a minimum over time and break the chargeback cycle.
- ✓ **Follow-up or refute** chargebacks should a penalty be improperly applied, and arm themselves with information to support the cause.
- ✓ **Invest in automation** to seamlessly connect to trading partners, rapidly onboard new retail customers, identify problems by exception and minimize the use of IT bandwidth.

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Self-Assessment Worksheet

The impact of chargebacks is widespread. It's not just the cost of the chargebacks, but the time and effort required to analyze and resolve them. Some of the key questions to uncover chargeback challenges include:

1. ***How often does your organization receive chargebacks and what is the cost?***
2. ***What percentage of chargebacks have root causes related to the movement of goods or information?***
3. ***Has there been a trend toward payment and/or receipt delays?***
4. ***Is there a method to review how many chargebacks were incurred over a given period?***
5. ***Can existing communications solutions measure data transmission quality?***
6. ***Does the current retail compliance strategy only focus on chargebacks, or does it also speed payment receipt and on-boarding of additional retail trading partners?***
7. ***Is there an ability to drill down to detailed chargeback information? Conversely, are there capabilities to analyze macro-level data in a dashboard-driven format?***
8. ***Can existing communications systems enforce retailer-specific processes, data compliance and interactions?***
9. ***Are there electronic communication strategies in place with some retailers but not others?***

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The Right Solution

Getting communication right each and every time can drive down chargeback costs. However, when "right" doesn't happen, knowing that an issue occurred helps to proactively address discrepancies and minimize the time it takes to resolve them. Some of the top capabilities required for effective retailer/supplier communication include the need for:

- A single point of connectivity and ability to monitor retailers
- Seamless integration with enterprise systems such as SAP, Oracle, Sage and others
- Ability to create EDI documents automatically
- A library of configurable business rules and workflows
- Validation of outgoing electronic documents prior to transmission
- A range of chargeback notification options and methods to view and analyze alert trends
- A web-based portal that allows users to drill down to individual chargeback detail
- Chart-based, metrics-driven dashboard to provide high-level views of transmissions and chargeback trends
- Rapid retailer trading partner on-boarding with repeatable and re-usable connections



A market leading model includes all of the above components. It also places your business requirements at the core of connectivity to retailers to provide better insight and visibility to ***minimize chargebacks****.*

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Best-in-class suppliers know that they must not simply accept the squeeze of chargebacks as a cost of doing business. Suppliers need to get in control of both their physical and electronic supply chains to better serve retailers and maximize their own bottom line performance.

The 80/20 rule also applies here. An investment in automation can have a quick return and further enhancements can yield subsequent savings. Market leaders are leveraging solutions that proactively locate and correct potential problems. They are using compliance requirements as a springboard to boost efficiency in their businesses, receive quicker payments, better connect to more trading partners to diversify their retailer customer base, and of course minimize chargebacks.

Descartes B2B™ EZE Collaboration

Descartes B2B™ EZE Collaboration solution is an integration and applications platform that enables companies to rapidly establish connections to retail trading partners regardless of IT capabilities, communications environment, data standards or unique business processes.

The solution can identify chargeback trends over time, validate and structure transmissions to reduce chargebacks before they occur, and consolidate retailer communication in a central location to locate macro-level trends.

From procurement to settlement, Descartes B2B Purchase-to-Pay and Order-to-Cash solutions also provide a framework for companies to expand to multiple methods of streamlined trading partner connectivity.

The Descartes solution goes beyond basic error checking and automatic validation to ensure proper document structure to minimize chargebacks.

Click here to ask us how Descartes can transform your operations with our world-class solution.

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Descartes (Nasdaq:DSGX) (TSX:DSG) is the global leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses.

Customers use our modular, software-as-a-service solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multimodal logistics community.

Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world.

Learn more at **www.descartes.com**, and connect with us on **LinkedIn** and **Twitter**.

Click here to ask us how Descartes can transform your operations with our world-class B2B Collaboration solutions.

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