

ESTABLISHING AN EFFECTIVE DISPUTE MANAGEMENT PROCESS

Management Issue

For Current Members of Hackett Process Advisory Programs

Adapted from a Hackett Customer-to-Cash Process Advisory Program webcast presented by Jessica Butler, Founder, Attain Consulting Group, January 2009



Attain works with clients from the retail, telecommunications and manufacturing industries to increase profitability by reducing and controlling chargebacks and deductions. Its services include deduction check-ups, customer recovery strategies, settlement preparation and negotiation assistance, deduction coaching, online education and tailored training programs.

JESSICA BUTLER

Founder, Attain Consulting Group



Ms. Butler specializes in customer deductions and dispute management, helping clients develop negotiating skills to work with their customers. A former partner with Grant Thornton, LLP, she has over 20 years of consulting experience, including 10 years focusing on deduction and chargeback management.

EXECUTIVE SUMMARY

From the moment a company sells a product at its listed price to the day it realizes the revenue from that sale, there are at least eight opportunities for it to lose revenue. Price disputes, discounts from mistakes in delivery and write-offs come from departments throughout the enterprise, including marketing, sales, logistics and finance. While many discounts and rebates are intentional, and part of the cost of doing business, more come from preventable compliance violations, mistakes in pricing, unauthorized discounts and customer deductions that need sound business practices to prevent – and sophisticated collection efforts to recover. Reducing unauthorized deductions and establishing an effective prevention management process (and a strong team to run it) starts with effective negotiation skills that include a negotiation plan and strategy.

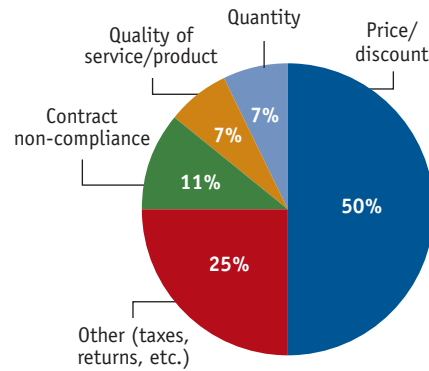
EXTENT OF THE PROBLEM: FINDINGS FROM THE HACKETT GROUP'S CUSTOMER-TO-CASH PERFORMANCE STUDY

Pricing and discounts account for half of all disputed deductions, followed by returns, taxes and contract noncompliance (**Fig. 1**).

Disputes and deductions reduces potential revenue through a series of pitfalls that can each take a bite from a product's list price (**Fig. 2**). These include (in order of severity):

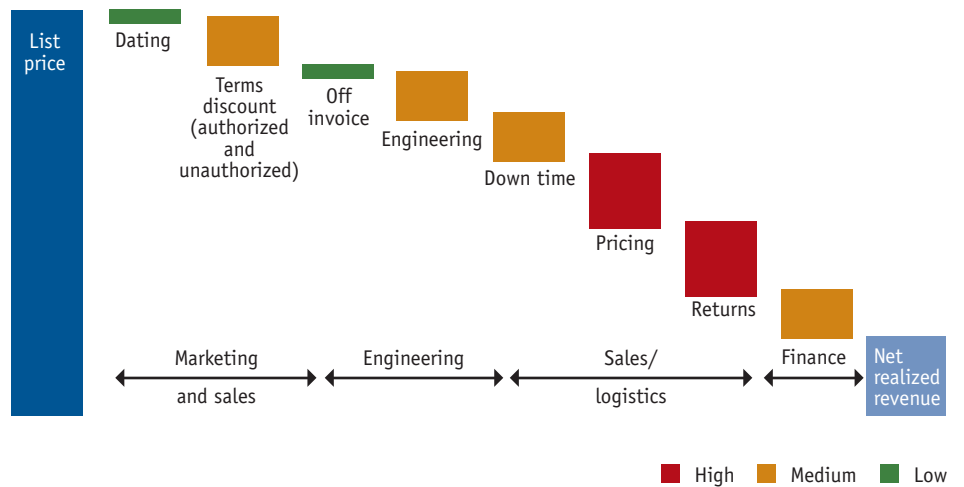
- Pricing returns due to lost equipment, damaged goods, free days for service items and items not charged
- Unauthorized and/or authorized terms and discounts
- Delays in production or factory downtime
- Write-offs
- Customer deductions

FIG. 1 Reasons for disputes and deductions, 2008



Source: The Hackett Group 2008 Credit and Collections Performance Study

FIG. 2 Opportunities for discounts, disputes and deductions throughout revenue cycle



Source: The Hackett Group

DEDUCTIONS AND DISCOUNTS DEFINED

Deductions are discounts (also known as short payments) are a fact of life when it comes to doing business with retailers. There are three basic types of deductions:

- **Intentional:** Typically budgeted, preauthorized and not recoverable, these include agreed-on discounts; co-op advertising; markdown allowances; rebates and margin guarantees.
- **Preventable:** Generally the result of compliance violations, preventable discounts can be reduced through negotiated exceptions and sound business practices. Examples include wrong/no UPC or EDI/ASN (advance shipping notice); wrong SKU; incorrect carton markings; late delivery; and problems with freight and/or handling. Most retailers have compliance manuals and routing guides that lay out exactly how they want vendors to ship goods. The process can be complicated, but noncompliance leads to deductions.

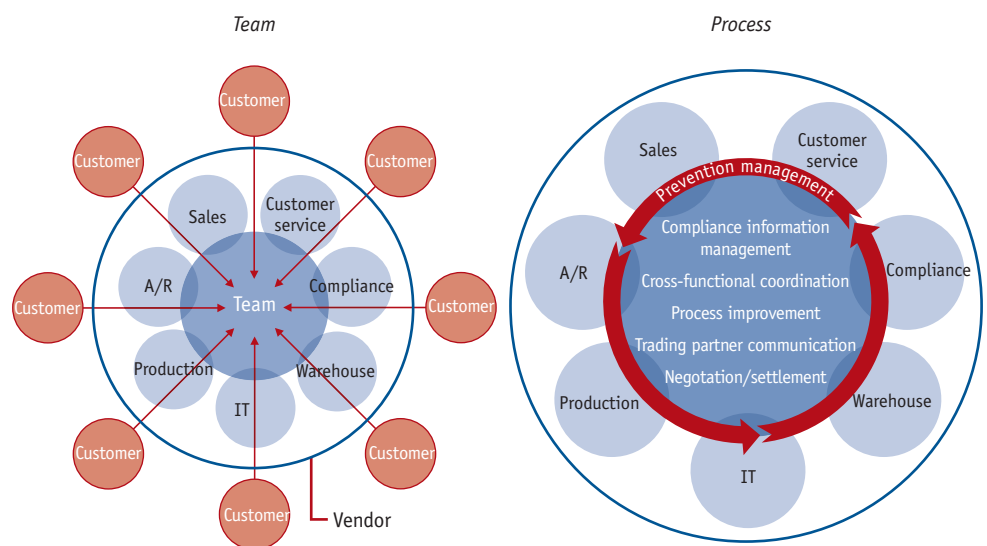
- **Unauthorized:** A mix of compliance violations and retailer “games” that include returns, full-carton shortages, concealed shortages (missing or partial quantities, discrepancies between the order and actual contents of shipment), and unclassified or miscellaneous deductions that occur when the company does not have an organized process in place and a designated team to deal with and be accountable for deductions.

PREVENTION MANAGEMENT

A disorganized approach to identifying, resolving and negotiating disputes leads to internal chaos, with various individuals in the company duplicating some efforts and neglecting others. When problems are routed from customer service to operations, sales, or credit and collections, disputes can take months to resolve, with no attempt to prevent future problems. In addition, only certain types of disputes may actually be tracked. Customers without a key point of contact are left confused and angry. Ultimately, the company can lose significant revenue.

To combat this, companies should create a designated team pulled together from sales, credit and collections, finance and operations to establish a structure that aligns the management of deductions so that everyone is working together and can be accountable for negotiations and decisions (**Fig. 3**). At companies with formal processes in place, disputes are automatically routed to the individual responsible for resolving them. Cycle times are reduced, and all (not just the most critical) disputes are recorded in a dedicated system. Disputes, rather than belonging to one functional area – which may have limited understanding of their causes – belong to a cross-functional virtual organization which utilizes root-cause monitoring to help understand and prevent future problems.

FIG. 3 Desired structure for effective prevention management team and process



Source: Attain Consulting Group

“The way we get to the state of having everybody aligned is through prevention management,” says Jessica Butler, founder of Attain Consulting Group. “The process starts with understanding what the customer wants, which means understanding his compliance requirements.” In other words, how does your company get that information and convey it cross-functionally within the organization to improve processes related to deductions?

Roles and responsibilities of the deduction management team

Team members should come from multiple organizations and departments within the company, and be able to take on the following key roles and responsibilities:

- **Identify:** For this role, choose among collectors, credit managers and employees from operations who can understand why products have been returned and whether the dispute is related to the original shipment.
- **Resolve:** Typically, this individual, who also owns the dispute, should have access to customer records, information regarding the problem and the authority to settle or escalate it.
- **Escalate:** For this role, enlist a management-level employee with a higher level of authorization and the power to make decisions that ensure customer satisfaction.
- **Champion:** The process team should include an executive who ensures the process is meeting business objectives to eliminate root causes and prevent future disputes.

NEGOTIATION CHECKLIST

Negotiation is an integral part of prevention management and occurs between individuals within the company and with customers. Within the context of resolving deductions, there are four areas Butler believes are ripe with opportunities for negotiation:

- **Before the sale – internal:** Communicate sales agreements and credit-worthiness of prospective customers; assign responsibility for evaluating compliance requirements; organize to negotiate with customers as a cross-functional team.
- **Before the sale – external:** Negotiate trading partner agreements, including discounts and allowances, post-audit policies, right-to-inspect clauses, and terms and conditions; determine the rules of engagement when negotiation is necessary; identify waivers and exemptions.
- **After the sale – internal:** Research alleged compliance violations; participate in cross-functional problem solving; prepare for negotiations with customers; evaluate credit-hold situations.
- **After the sale – external:** Conduct deduction and chargeback settlements; negotiate waivers and exemptions; agree on future practices and prompt payments.

TEAMWORK: MANAGING NEGOTIATIONS FOR SUCCESS

Despite the fact that negotiations generally occur between individual in conflict over contracts or processes, it is important to remember that they are not wars, nor should companies train their representatives for battle. Instead, think of negotiating as joint problem solving, “especially if your negotiation involves a deduction where the customer has the power,” says Butler.

Managing a negotiation requires preparation, which includes studying and understanding the customer, e.g., his style and the issues he will likely bring to the table; your own ability to accommodate when necessary; required information; a worst-case scenario; the details of the agreement; and a vision of the relationship after negotiation that will be acceptable to the company or department. In addition, know that your own communication and listening skills will affect how successfully you reach a mutually beneficial agreement.

Whom are you negotiating with?

Whether the person opposite is a customer or another member of your company, you should know his perspective on the issue, his strengths and weaknesses, and what type of outcome he would consider acceptable or desirable. Set up the negotiation to take advantage of his needs. The old Fats Waller lyric, “Find out what they like and how they like it, and give it to them just that way,” is worth a second listen. In other words, negotiate with a morning person before lunch, and if he is a visual thinker, bring along charts and graphs to illustrate your point.

What are the key issues?

“Too often when I do role-playing with people about different situations, I find when they start talking about a topic, they assume the other person knows the whole situation. They just start talking about why they’re right and what they want without making sure everybody understands the issues,” says Butler. Whether it’s a conference call or a face-to-face meeting, make sure everyone is working with the same basic information about the situation. Encourage attendees to ask questions or clear up any confusion before moving forward.

The value of preparation about key issues cannot be overstated. If you don’t have the information you need to support your position, consider postponing the meeting. It’s a lot harder to rebuild your confidence than to just admit to needing more information.

Is there a “Plan B”?

Before the meeting, think about the alternatives. In addition to the best-case scenario, what’s the worst that can happen, and what are all the things in the middle? Creating a “Plan B” will force you to articulate your customer’s objections and prepare yourself with the necessary authority to accept counter proposals.

How will the agreement be reached?

Once an agreement is negotiated, should it be documented in writing and, if so, how formal should that be? Does it need another level of approval? Also, must an

agreement be reached today? “Often, people think they need to leave the table with a decision,” says Butler. “In reality, a difficult negotiation is like a chess game and is played over time.”

Maintaining objectivity is critical. If your intention is to preserve the relationship with the customer, make sure he feels you’re being fair, offering good alternatives, and that you’re thinking about things from his perspective as well as your own.

Include the person on the other side of the table in the decision-making process. When someone is asked for his opinion or advice on handling a situation, he feels more involved and is much more inclined to help reach some resolution. Use this to your advantage. When you differ, don’t make the difference the issue; rather, focus on reaching a common ground.

STRATEGIC IMPLICATIONS: ESTABLISHING A PREVENTION MANAGEMENT VIRTUAL TEAM

Dispute management is important because debt tied up in queries delays payment, often in excess of one month, which affects cash flow and increases administrative costs associated with tracking and resolving the dispute. A poor (or nonexistent) dispute management process leads to low customer satisfaction and retention. Re-working invoices and contracts due to disputes leads to increased costs and decreased profits.

Individuals in the organization involved in the identification and resolution of disputes and deductions should be trained to negotiate with both customers and co-workers. These include employees from sales, management, credit and operations, and are those who, because they have the most contact with customers, are most likely to understand the cause of a dispute or unauthorized deduction. These individuals can make the greatest contribution toward uncovering root causes and, more importantly, develop processes to resolve and prevent future disputes.

APPENDIX

SPEAKING THE LANGUAGE OF NEGOTIATION

Body language is an often-overlooked source of clues that, when understood, can help you reach your desired goal. Nonverbal behavior includes tone of voice, silences and the voicing of distracting asides, and can be just as meaningful during telephone conversations as in face-to-face meetings.

Watch for cues that what is being said is not matching what is shown. For example, if your customer suddenly shifts from leaning forward to stretching back and folding his arms, the implication is clear: He does not agree with you.

To manage the situation, do not continue or confront him directly. Rather, solicit his opinion of what you just said. In other words, check in to find out what he's thinking, and alter your approach if he has a problem while it's still early in the process.

AVOIDING PROVOCATION

There are some words that are just too provocative for negotiations.

- **Replace “you” with “I”:** The result will be a less confrontational discussion. For example, rather than say, “You said if I sent you the proof of delivery, you would reverse this deduction,” offer: “It was my understanding that if I sent you the proof of delivery, you were going to be able to reverse that deduction, but maybe I misunderstood ... Is there something I missed?” The latter approach allows your counterpart to think about what he actually promised and respond more positively. Also, it's a lot easier for that individual if you acknowledge that maybe you were at fault, and maybe there was a misunderstanding. When we say “you,” there's no misunderstanding; there's just blame.
- **Replace “but” with “and”:** For such a small word, “but” packs a real psychological wallop. If we say, “You did a great job today, but I've got an idea on how to improve it,” the listener will not believe you think he did a good job at all. In fact, he will be listening only for the things that he should have done better. Consider this: “You're doing a great job, and I have some thoughts on how things could be even better.” The “and” carries little negative connotation; on the contrary, you're piling on the compliments.
- **To be avoided:** The words “can't,” “always,” “never” and “should have” are so off-putting they often push people to do exactly what you don't want them to do. If you catch yourself using any of these expressions, step back. According to Butler, using these words is a warning sign that you are taking the process too personally.

In every negotiation, there will someone across the table who just says no. As stalling strategies go, it's unbeatable, but it does not help resolve the dispute. Before sitting down with this person, craft a set of open-ended questions that cannot be answered with a yes or no, and use them to gather information. These questions

start with why, what or how. For example: “How do you think this would work?” “Why don’t you think this is a good solution?” or “What stands in the way of ...?”

Once an understanding is confirmed, follow up with a closed-ended question, says Butler. For example, “Would you agree that what you just said is, ‘If I provide you with the proof of delivery and am able to show you that this was delivered on time, you will be able to reverse the deduction? Is there anything else you need?’

“Figure out what’s acceptable, and then confirm that it’s acceptable so you’re both in agreement on how to proceed,” says Butler.

It’s often harder to negotiate with a difficult personality type than with someone who just says no. Difficult people are those who raise their voices, won’t listen or even become verbally abusive. Consider the following techniques for working with this type of person:

- **Ask him to repeat:** Often, people are just reacting when they say things in a way that’s really not nice. Asking this individual to repeat what he just said forces him to step back and rethink his phrasing.
- **Repeat what you heard:** Reiterate the gist of what was said, and ask for clarification. For example, “I don’t know if I heard you right, but what I think you said was...” If he didn’t mean to be aggressive or unreasonable, he can correct himself.
- **Turn it back:** Ask for suggestions on how to proceed. For example, “What do you think I should do? What suggestions do you have?” Butler also recommends this script: “I see that despite everything I’m saying you’re finding a reason it’s not going to work for you. Help me figure out what would work.”

Successful negotiating takes practice and training in role playing. “People tend to communicate in the style they learned as they were growing up,” says Butler. Role-playing situations offer employees a way to memorize or internalize new ways of responding.

RELATED HACKETT RESEARCH

[“Using Statistically Based Credit Scoring to Identify High-Risk Customers in Your Receivables Portfolio,”](#) December 2008

[“Improving Collector-Level Effectiveness at Vengroff, Williams & Associates,”](#) October 2008

[“Survey Shows That Many C2C Organizations Fail to Understand the Value of End-to-End Accountability and Process Ownership,”](#) July 2007

[“Optimizing Receivables Management: A Case Study,”](#) June 2007

ABOUT THE HACKETT GROUP

The Hackett Group, a global strategic advisory firm, is a leader in best practice advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 4,000 benchmarking engagements, executives use Hackett's empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its REL brand, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group, Hackett offers business application consulting services that helps maximize returns on IT investments. Hackett has worked with 2,700 major corporations and government agencies, including 97% of the Dow Jones Industrials, 73% of the Fortune 100, 73% of the DAX 30 and 45% of the FTSE 100.

Founded in 1991, The Hackett Group was acquired by Answerthink, which was renamed The Hackett Group in 2008. The Hackett Group has global offices in the United States, Europe and India and is publicly traded on the NASDAQ as HCKT.

THE HACKETT GROUP

Email: info@thehackettgroup.com
Toll-free: 866-442-2538
www.thehackettgroup.com

Atlanta • London • Frankfurt
Paris • Amsterdam
Hyderabad • Sydney

ABOUT THE ADVISORS

Bryan DeGraw

Customer-to-Cash Program Manager and Finance Business Advisor, The Hackett Group



Mr. DeGraw has nearly 20 years of experience, covering a variety of disciplines including business planning, budgeting, business process creation, reengineering, process improvement, program management, cost reduction/management and financial analysis. His experience includes corporate management positions as well as transformation consulting.

William Marchionni

Senior Business Advisor, Finance Operations Advisory Program, The Hackett Group



Mr. Marchionni provides finance leaders with insight and analysis gained during over 20 years of work in consulting and in the private sector. He has particular expertise in the areas of revenue and cost management; working capital management; process reengineering; and strategic planning, forecasting and analysis. Prior to joining The Hackett Group, Mr. Marchionni, a Certified Public Accountant, served as CFO of a privately held diversified consumer products company. Previously, he was Vice-President of Finance for Atlanta Gas Light Company, a wholly owned subsidiary of AGL Resources, a \$1 billion publicly traded diversified energy company. In this role, he was responsible for the financial operations of an \$800 million business unit, including capital investments, revenue management, cost reduction initiatives, strategic planning and financial analysis.