

selected topic

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Successful Customer Settlements

Working With Your Customers for Positive Results

When was the last time you negotiated a settlement with a key customer to resolve outstanding deductions and “clean up” the account? If you are like many companies, it may have been a while ago. According to the 2006 Credit Research Foundation Customer Deductions survey, only 51% of the over 400 respondents indicated that they periodically negotiate a settlement with their customers to clean up deductions on the account. That means that 49%, or almost half of those responding to the question, are not using settlements to help with deduction (and relationship) management. If you have recently settled with a customer, was it a positive experience? Were you adequately prepared? Were you satisfied with the results and did you use the process to improve your overall trading partner relationship? The good news is that if the right steps are followed when embarking on a customer settlement, the results can be worthwhile. This article shares with you with the Seven Steps to Settlement Success I have been using with my clients when I coach them through the settlement process to help make it successful and financially rewarding.

Deductions, both valid and invalid, are an inevitable occurrence for companies doing business in the retail marketplace. Therefore, the opportunities for customer settlements are a normal part of the deduction management landscape. There are several different types of settlement scenarios, including what I call:

- **Hopeful Recovery.** This is a situation where the vendor was “at fault,” maybe due to a compliance violation or inability to comply with certain customer requirements, and they are hoping to recover some of the dollars that have been deducted. I also call this the “we were wrong” settlement scenario.



- **Expected Recovery.** This is a situation where the vendor feels that the customer took the deductions “in error” and they anticipate that these invalid deductions will be reversed or repaid. I also call this the “we were right” settlement scenario.
- **Clean Up Recovery.** This is a situation where the vendor is trying to clean up older balances and clear the account. This is often a combination of both “hopeful” and “expected” recovery items.

Regardless of the type of settlement you are undertaking, all settlement strategies should follow the same process and include the critical steps necessary to ensure that you are prepared, collaborative and thorough in your efforts. The Seven Steps to Settlement Success are:

1. Understand the issue
2. Develop a plan of action
3. Confirm with customer
4. Agree on course of action
5. Execute agreed upon action
6. Validate results
7. Negotiate settlement

Each of the steps is further described below.

1. Understand the Issue (aka What Is the Problem?)

When thinking about a customer settlement, it is critical to make sure you understand the issue(s) involved that contributed to or caused the deductions. You may want to begin with a careful review of your customer's compliance requirements. You need to determine whether you were noncompliant with a customer requirement, in which case you were at fault, or whether the deductions were taken in error and are therefore invalid. If you determine that you were in fact noncompliant or were responsible for a compliance violation, you need to understand what happened and why this occurred (*this is important for Step 2*). If you believe that you were in compliance and that the deductions are invalid, you will need more than just knowing your side of the story. A fact-based analysis, including supporting documentation and a paper trail through the entire transaction, will be necessary to begin to build the case for a successful settlement. If possible, it is also beneficial to try to understand what might have happened during the process that resulted in the customer incorrectly taking the deduction(s) (e.g., is there something in the way they receive certain products which causes a receiving error resulting in an inaccurate shortage?). Once you have a thorough understanding of the issue(s) behind the deductions, you are ready to develop a plan of action.

2. Develop a Plan of Action (aka How to Fix/Show Innocence)

If you determined during Step 1 that you were at fault, then it is time to put together a plan of corrective action. I strongly recommend that the first thing you do when developing your plan is create a cross-functional team. The team should include members from all departments within your organization that touch the issue. For example, if you determined that you had an issue with incorrect carton labels, you should include company representatives from AR, compliance, IT, warehouse and logistics on your team.

The team should meet routinely until you have come up with a plan to fix the problem or understand why it cannot be fixed. Be structured when developing your corrective action plan. Consider creating a formal task list listing each task to be completed, the responsible party and due dates. If you are unable to comply (even in the future), make sure you document your specific limitations and/or circumstances.

If you concluded during Step 1 that you were not at fault, prepare a packet of information to support your position. Select some sample transactions and collect all of the documents necessary to show you were in compliance. If possible, provide both summary and detailed information. You are now ready to present this to your customer.

3. Confirm With Customer (aka Does the Customer Agree?)

If you were at fault and have put together a corrective action plan, now is the time to review it with your customer. The earlier in the process you can involve your customer and get

them to understand your situation and buy in to your proposed solution, the better off you will be in the long run. While vendors often feel reluctant to involve their customers at this phase of the process, retailers have stated that the earlier they hear of a problem, the more inclined they are to work together with the vendor to fix it. Two major complaints that retailers have when you talk with them about their vendors' approach to deduction management are that (1) vendors take too long to talk with them about problems they are having and (2) vendors often ask for their money back before talking about how they will solve a problem. By involving your customers early on, they often take more of a vested interest in becoming part of your solution and the end results are an increased willingness to work with you once the problem is solved and an improved trading partner relationship.

Evaluate the pros and cons of meeting in person with your customer versus a phone meeting. I generally think that, if possible, a face-to-face meeting is preferable. Also, the higher the stakes, the stronger I feel about meeting in person. Make sure that the right players are involved from both organizations. Use the meeting to review your corrective action plan and get approval from your customer. Make any necessary adjustments and then following the meeting, send a written confirmation (email usually) summarizing the meeting results.

If you were not at fault, you need to review your sample supporting documentation with your customer. Consider providing them with this information prior to the meeting so that they can have a chance to look at it and familiarize themselves with the information. Confirm that the documentation proves your case and they reach the same conclusion that the deductions are invalid, or agree on any additional information required.

4. Agree on Course of Action (aka Finalize Plan)

Once you have met with your customer and agreed on your overall corrective strategy, you are ready to finalize your action plan. As in Step 2, I strongly recommend that you create a cross-functional team to accomplish this. It is in this step that you take the plan you reviewed with your customer and break it down into smaller, specific, actionable items. See below for a sample format.

#	Action Item Description	Responsibility	Initiation Date	Due Date	Status	Comments
I. CUSTOMER X						
A. RESOLVE OPERATIONS/IT SHIPMENT ISSUES						

As part of your plan, formalize the process to monitor progress (e.g., weekly phone calls with the internal team).

5. Execute Agreed-upon Action (aka Do It!)

If you were at fault, this is the part where you now have to do what you said you were going to do. This is the hard part, but

Successful Customer Settlement Case Study

The Company	Interactive Software Manufacturer
The Situation	<p>The company had a compliance problem with one of their key trading partners as evidenced by a large volume of recurring deductions, which had been going on for over a year. The company had not been effective in trying to understand the issues which were contributing to or causing these deductions. Total deduction dollars for these issues had reached over \$1 million. The company had recently met with their customer to try to discuss the deductions and settle the account. The retailer felt that the company was slow to react to this ongoing issue, did not understand the underlying cause of the problems or have an idea of how to fix them going forward, so the meeting did not go well.</p>
What They Did	<p>Following their meeting with the customer, the company decided to enlist some outside assistance to facilitate collaboration, help them get to the root cause of the problems and work with them to negotiate a successful settlement with their customer. In order to get a thorough understanding of the issues surrounding the deductions, a cross-functional compliance team was formed to analyze specific deductions and trace the problems back to the source. The group worked as a team to try to understand what was causing the problems. As it turned out, many of the underlying issues actually straddled or crossed the operations and IT departments. While they had not been successful finding the root causes when they worked independently, when working as a team, the problems became apparent. Once they felt they understood the issues, the team worked together to formulate an overall plan of corrective action.</p> <p>After their plan was documented, they held a conference call with their customer. They made sure that all relevant parties were on the call (from the customer: AP, operations, EDI, buying office; from the company: AR, operations, IT, sales). The company reviewed the results of their research and outlined their proposed approach and timetable to resolve the issues. They asked for feedback and confirmation from the customer. The customer agreed with the analysis and with a few minor changes, signed off on the approach and timeline presented.</p> <p>Over the next four months, the company implemented corrective actions. The cross-functional compliance team had weekly status updates and was tasked with executing the plan. During the course of the implementation, the plan was modified and tasks were changed as new information or results became available. The deduction manager had overall responsibility for the project and spent a good deal of time following up and keeping everyone on task. When necessary, senior management was called upon to reinforce the priority of the project.</p> <p>Once the corrective actions were put in place and internally tested, the company again worked with their customer to identify test case orders to validate that the fixes were adequate. Since the customer had signed off on the overall process in the beginning, they were very willing to work with the company on the testing. After the tests were successfully completed, the company met with the customer to review the final results, confirm that the fixes were successful and inquire about the next steps in a settlement discussion. At this meeting, the customer expressed their appreciation with the customer and the time and effort they obviously put into resolving the issues.</p> <p>After both sides agreed on the items to be included in the settlement discussions, the negotiation began. It was an extensive back-and-forth process involving multiple people at various levels within both organizations. Patience, preparation and good negotiation skills were critical.</p>
The Results	<p>The negotiation was ultimately elevated to the CFO/SVP sales within the company and the buying office at the customer. The settlement amount reached was approved by both sides and each felt that it was fair and reasonable. In addition, both felt that the relationship between the two was strengthened by the process.</p>
Lessons Learned	<ul style="list-style-type: none"> • Don't procrastinate—deal with issues as soon as possible • Collaborate with your customer—getting their buy-in up front is essential • Pay attention to detail—check your work (and everyone else's) • Make sure you have senior management support • Get all necessary departments involved • Be prepared to follow up with everyone • Consider using outside assistance

it is within your company's control. All departments within your company that touch the issue must be involved and most likely have tasks which must be completed in order to correct the problem. In order to keep everyone on track and make sure progress is being made, be prepared to follow up with *everyone* often. Meet frequently with your cross-functional team to monitor progress. Things won't always go smoothly. Setbacks are a normal part of the overall progress — don't lose hope. If tasks become overwhelming, break them into smaller, more manageable pieces. If plans need to change, that is okay; however, remember to keep your customer in the loop.

Call on senior management if you feel that focus is being lost or need additional support. If you have trouble enlisting their support, remind them what is at stake (e.g., the relationship, future business, deduction dollars). Try to be positive and celebrate small successes and accomplishments along the way.

If you were not at fault, during this step you should be compiling all of the agreed-upon documentation to support your position.

6. Validate Results (aka Confirm With Customer)

If you were at fault, once you feel that your corrective actions have been put in place, you are ready to validate the fixes with your customer. Work with your customer to design test cases which will ensure future compliance. Select representative samples which cover a variety of scenarios (e.g., shipments from different warehouses, direct-to-store shipments, DC shipments). Use past deductions to help identify problem locations or situations to include in your testing. Confirm the results with your customer and revise/retest as needed. (Tip: make sure you validate your results internally before confirming with the customer. This can save embarrassment, as well as a loss of credibility.) Document the test case results. Make sure that you get your customer's confirmation that things are working well (email is okay).

If you were not at fault, send all of your supporting documentation and confirm agreement with your customer.

7. Negotiate Settlement (aka Show Me the Money)

If you have followed all of the steps above, now you are ready to talk about the money. First make sure that you have prepared a concise summary of the steps you have taken along this settlement "journey." Depending on the nature of the issue(s), it might be either improvements that you have made or documentation you have provided.

Next, you need to identify the proper negotiation participants from both sides. Consider asking your customer for their suggestions on the best way to proceed. If you have been communicating with your customer during this process and they have seen the effort and progress you have made, my experience is that retailers are willing to work with their vendors on a settlement.

Brush Up on Negotiation Strategies and Skills

This cannot be overemphasized enough. I spend a lot of time working with people on negotiation skills and conducting negotiation training and workshops for companies and this is an area where most people do not shine. Unfortunately, I have seen a number of companies do a great job up to this point in the settlement process and then not reach a satisfying conclusion because of poor negotiation strategies and execution. Remember that negotiations are often a multi-step process. The first offer you get may not be the final offer so be patient, prepared and don't take things personally. Think about the situation from the customer's perspective. Try to understand their motivation and be able to anticipate their objections. One way to do this is to put yourself in their shoes and see things through their eyes. Remember that this type of negotiation is a give and take to come up with a solution that both sides feel is fair.

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In summary, when working toward successful settlements, remember the following tips for success:

- **Partner with your customer.** Involve them as early in the process as possible and get their buy-in and agreement on your approach
- **Successful deduction settlements must be a cross-functional effort.** Deductions are a company-wide issue. Therefore, various departments, such as operations, IT and their retail counterparts must be involved in developing a corrective action approach. The entire customer relationship is important—buyers often play a critical role in settlement decisions, so your sales group must be involved as well.
- **Be a smart negotiator.** Understand your customer's motivations. Be ready with a "Plan B" (as well as a "C," "D" ...)

Good luck! ●

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