



Managing Charge Backs

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Over the years I have talked to a lot of retailers in vendor management, merchandising and other roles about the great “charge back” or “offset expense”. From their perspective, many times in order to effect compliance with badly needed system change a financial penalty needs to be assessed to the offender... It’s too often said by retail suppliers that the charge back is a revenue source. We have seen over the years where one or two organizations “may” have gone overboard in their enthusiasm for compliance... let’s not go there. The reality is it takes a lot of effort from a lot of organizations to get goods from A to B then onto a store shelf and finally into a consumer’s hands. If you look at the individual reasons for a given charge back then go open the boxes typically you will find the error. Other times you can find the error by looking at the cancel date on an order and compare it to when the ASN (Advanced Ship Notice) was received. Maybe there was no error on the part of the retailer or supplier, but rather the error comes from a 3rd party. What’s really important is how do to prevent the errors from happening. Very often you will receive a charge back if any of these (Or other) events occur:

- If the product in the carton you shipped doesn’t match what the carton says – or what my purchase order says.
- You change specifications of products in mid-contract and don’t tell me in advance.
- The specifications in your catalog, price list aren’t the same as what arrives in my stores.
- I order merchandise in quantities and color assortments that make complete sets and you backorder an item making the set incomplete. Why? Because I can’t sell it till you make the set complete. What’s more I have to store it till the missing item(s) are present.

If you find your company faced with a continual issue what is your strategy to locate root cause and permanently remove the error? Do you have a program to manage this process? Take a look at these methods for charge back reduction/removal.

Idea 1: Understand your clients requirements

Sometimes your trading partner guidelines and shipping requirements and etc. can be daunting. You have to find the key points which will upon your misstep cause a charge back. At the same time, understand their process for disputing the charge backs. Who do you talk to about it, what are their policies, etc. Very often if you explain the situation and show the corrective action taken the charge back may be reversed. Also, too often I hear about suppliers who just “take it” without determining if the charge back was appropriately applied. Retailers are not infallible.

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Idea 2: Be thorough

One of the biggest chargeback topics retail suppliers contend with is the ASN (Advanced Ship Notice). Years ago the ASN was considered a difficult document to manage in a timely manner. Missing, late, unreadable ASNs should not be a reason for charge backs if you are thorough in three areas. Number one: make sure you have an alert of some type within your process to notify appropriate people of an impending cancel date. Number two: make sure your EDI solution is current with your customer requirements and is tested. Number three: make sure you document ASNs receipt acknowledgements. Those three steps will help you remove 99% of your ASN related charge backs.

Idea 3: Be proactive

Get ahead by figuring out where your performance is weak for a customer or where you are at particular risk for future charge backs. The easiest way to accomplish this is to score card yourself. Measure your key customer KPI's (Key Performance Indicators) which will influence your chargeback rates and vendor scorecard performance: on time delivery, order fill rate, good ASNs, accurate/timely invoice, etc. This will tell you where you need to invest your time to get better, and give you a heads up on how your next vendor meeting will go. Chances are good your clients are already tracking this information. Measure your chargeback exposure. What would happen if your client starting tomorrow started auditing all of your shipments? Understanding your risk is important when trying to avoid a huge revenue hit.

Idea 4: Correct the problem

The most important thing you can do to minimize charge backs is to document, learn and fix the problem(s). If you manage your chargeback lifecycle, measure your charge backs, and scorecard yourself, you will quickly get a valuable picture of your chargeback health. You begin to understand the issues which are costing your organization the most money. Start at the top and invest your limited resources in solving the problems that can save you the most. You'll find that because you are able to measure the business [Or financial] impact, support and associated resources required to improve systems are easier to get.

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