Solving the Deduction Claims Puzzle

How intelligent automation puts all the pieces together so you can see the big picture

ESKER®

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Introduction

What is deduction claims management?

Whenever you send out an invoice for a product or service you're selling, there is a chance that the buyer won't pay the full amount as stated on the invoice. There are many reasons why this happens, but these can usually be split into two categories: expected deductions and unexpected ones.

Who handles deduction claims?

Usually, it's the Finance team that notices a short payment first, and in the easiest cases runs a simple verification to determine if it's valid or not.

Unexpected deductions often pass through Customer Service before being escalated further, setting in motion a chain of actions that end in resolution, such as a credit note or a corrected payment.

Why efficient deduction claims management matters

The chaos of manual mismatch resolution

Expected and valid short pays or not, the mismatch between invoiced amounts and actual payment will need to be addressed. Depending on the type of mismatch, different processes are triggered.

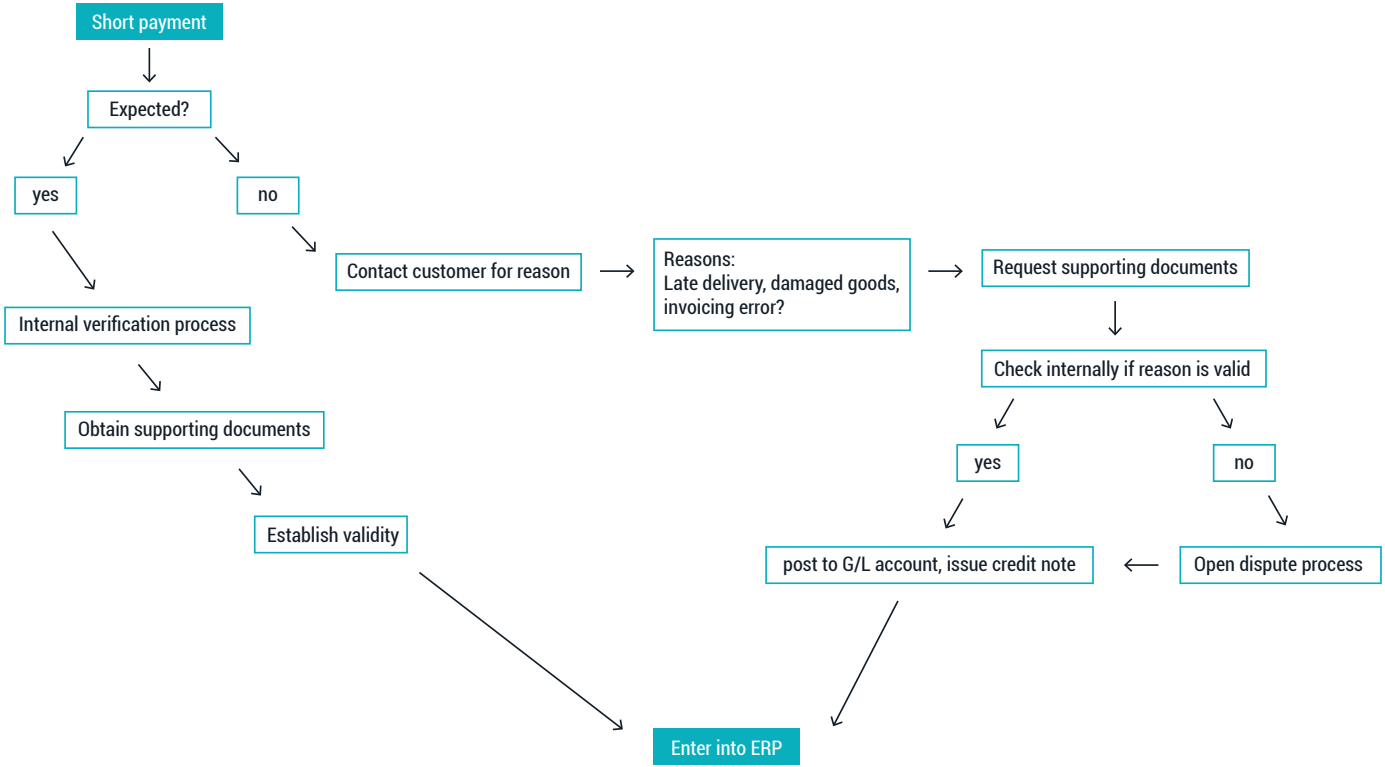
Trade promotions

- Early payment discounts or promotional marketing rebates: These need verification only, either with a simple cross-check or can also involve obtaining additional documents from various sources.

Unexpected shortpays

- Clearing up why a short payment occurred means contacting the customer and possibly obtaining additional information from other departments such as Sales, Supply Chain, Finance or Customer Service.

A manual mismatch resolution process looks a little like this:



A steady drain on resources

Calling this process “management” is a reach, though. Since we are talking about unexpected cases, this rather opaque mechanism makes resource planning nearly impossible.

The repercussions are considerable:

- Financial performance benchmarks such as revenue and cashflow projections are often negatively affected
- Researching and resolving a claim can take weeks and is amplified for high-value, high-volume customers
- Accumulated write-offs eat into profit margins

The problem with write-offs

Resolving an unauthorised claim can cost between $200 and $300 in time and resources.[1] This is not a well-kept secret, leading some businesses to repeatedly short pay by just under $200, and relying on the assumption that this will simply be written off rather than investigated.

Trade deductions make up 2% of sales[2]

Up to 20% of retailer deductions are disputable[3]

Average margin loss: 3.7%[1]

Manually managed claims cause a cascade of issues, negatively impacting human resources as well as productivity. The time it takes to resolve a short payment could actually be spent building revenue, rather than simply chasing after receivables that are already on the books.

1 IOFM. How Automating the Management of Customer Deductions Reduces Time, Complexity and Cost in Accounts Receivable. 2018

2 IOFM. How Automating the Management of Customer Deductions Reduces Time, Complexity and Cost in Accounts Receivable. 2022

3 INMAR Intelligence. How to Build an Expert Deductions Management Strategy. 2022

Reworking the deduction claims process

Prevention is the best medicine

We all know the basic health advice: hydrate, move, eat healthy and get good-quality rest. That alone goes a long way in preventing many medical issues.

In the deduction claims world this means:

a) preventing deductions from happening in the first place
b) processing, verifying, and clearing deductions as fast as possible when they do occur.

Managing and controlling short payments and mismatches as early and quickly as possible allows your business to collect all legitimate revenue and at the same time keeps the customer happy by not having to wait for an answer.

Timely resolution is key to reducing days deductions outstanding (DDO) and days sales outstanding (DSO).

Preventing deductions involves:

- Improving order accuracy
- Involving other departments in the order & invoicing process from the get-go (by having all relevant documents easily accessible by everyone involved)
- Improving communications with customers
- Utilising analytics to optimise processes for deductions prevention

Resolving deductions involves:

- A focus on timely review & follow-up
- The ability to quickly gather & retrieve associated documents
- Communication & collaboration with other departments
- Improving reporting & analytics
- Continuous communication with customer
- Clearing the deduction (i.e., validating or rejecting the claim) validating or rejecting the claim
- Applying a credit memo, writing off the amount & transmitting this information to the ERP

Tighten corners – don't cut them

Let AI-powered automation help with centralising, communicating and analysing data

We've seen that manually processing each deduction claim can end up costing more than it will yield in revenue. Automating them removes repetitive and error-prone tasks while accelerating claims resolution.

An automation solution packed with AI capabilities like machine and deep learning and data recognition, in addition to some Robotic Process Automation (RPA), can make quick work of short payment matters.

AI is not only incredibly useful for the invoice-to-cash (I2C) cycle, but also for order-to-cash (O2C) by improving the reliability of the order process.

Centralise information

Since not every customer works in the same way, orders, questions and claims arrive from many different channels.

Additionally, internal system sources like the ERP and TPM make it nearly impossible to effectively assemble and monitor all information needed for processing.

To handle each case effectively, it helps to take a step back and evaluate the situation by:

- Collecting & centralising all the necessary information
- Having procedures in place for each different situation
- Communicating with others to resolve any questions

Text and optical character recognition (OCR) and extraction can take on the heavy lifting of this task by aggregating the data with:

- Data capture capabilities that identify deduction claims, no matter by which channel they arrive (email, attachment, fax, pdfs, or fetched from portals)
- Triage functionalities that automatically recognise claims & route them to the appropriate team member
- Auto-learning & teaching trains the AI to achieve higher accuracy each time a new case arrives

Communicate effectively

Verifying whether a short payment was applied for a good reason or not often requires additional information. This means accessing various touchpoints to clarify what happened and then making a decision on how to proceed.

A dedicated and customisable communications system built into an automation solution shortens the inquiry pathways from multiple email exchanges to a single, streamlined and trackable process, thereby enabling smoother collaboration.

Internally

- Having an easy and convenient way to check back with the Sales, Finance, Logistics, Accounts Payable and Customer Service teams makes source discovery a breeze
- Quickly get approvals for write-offs, or escalate disputes to higher levels

Externally

- Send invoices quickly using the customer's preferred method
- Request supporting dispute documentation directly from the customer
- Inform customers about validity — or not — of claim, including reason

Control the workflow

A harmonised bundle of various AI and RPA technologies captures and verifies data on documents, determines workflows, and connects the dots between multiple documents and information. It can also push data into the ERP.

Approval workflows ensure that the right people sign off on cases so that it can move on to the next step, while company-internal chat features can engage the right people at the right time to help resolve issues.

Capturing, clarifying and organising the incoming data with intelligent automation enables you to easily:

- Reconcile supporting documents with open AR for short payments
- Handle trade deductions that correspond to promotional agreements by automatically verifying amounts & dates & approving valid deductions
- Manage return merchandise authorisations (RMAs) for damaged or missing products automatically
- Automate repetitive tasks such as connecting & accessing information on portals
- Harmonise information with the ERP with reason codes for all types of deduction claims (promotions, shortages, damaged products)

Analyse & learn

One of the main advantages of AI technology is that it provides analytics and business intelligence to identify trends, improvement areas and anomalies.

These statistics can help you effectively plan business activities by:

- Monitoring task progress
- Resolving cases faster
- Encouraging visibility & collective claims resolution
- Avoiding quality control issues
- Forecasting revenue more accurately
- Providing data for strategic planning

Success story

Multinational cosmetics company

The Spanish subsidiary of this international cosmetics company embraced an AI-driven deduction claims automation solution to obtain visibility and control over its deductions processes. Previously, every invoice, email and EDI message was printed out on paper, a process that took 60 days on average and was highly error-prone, to boot.

The solution now automatically extracts data from incoming documents, routes it to the appropriate department and matches it to the ERP. Categorisation, allocation and machine learning capabilities accelerate workflows, while real-time reporting and analytics identifies bottlenecks and facilitates future deduction claim handling.

Results

- **Faster deduction claim reconciliation** from 60 days down to 1 day
- **Automated categorisation** ensures an always up-to date ERP
- **Better control** over erroneous deductions with reporting & analytics
- **Optimised workflows** provide efficiency & better customer service

Success story

GBfoods

Managing deduction claims is an integral part of GBfood's interaction with retailers and distributors. Short payments, refund requests and trade promotion discounts are a common occurrence in this industry.

Automating the reception, sorting and processing of deduction claims with an end-to-end solution simplified the work of the Customer Service and AR departments and reduced overall processing times. Collaborative investigation and approval workflows offer the option to send an invoice to Sales or another department to clarify uncertainties.

Results

- **500 hours of CSR time saved** with automated deduction claims processing
- **50% of promotional invoices** processed in less than 1 minute
- **Increased visibility** on claims resulting in more accurate accounting
- **Enhanced** inter-departmental communications & workflows
- **Improved categorisation** of order delivery priorities

What to look for in a deduction claims automation solution

Whether you're looking to make a large purchase or a small one, you're going to want to make sure it actually fulfils the intended purpose. Tech investments are no different, and a lot of consideration should go into finding a good fit for your business.

Elements you should look for include:

Components

- A solution should holistically address the deduction claims management by automating the entire complex process, whether it concerns a short payment that kicks off a series of actions or the issuance of a credit note at the end of claim resolution.
- RPA and AI capabilities identify claims in an incoming email flow — capturing actual data instead of identifying information on templates. Machine learning improves data extraction accuracy, and the provides ability to track the status throughout the process, edit reason codes or pull documents from portals.

Ease-of-use

- An automation solution should have an intuitive interface, simple navigation and scalability, so that fast growing teams have a steep learning curve.
- Dashboards and counters provide at-a-glance visibility of progress and workflows, taking the stress out of a process that can be hard to supervise.
- Approval workflows and a unified interface ensure usability for everyone, including Sales, Supply Chain or Customer Service teams so they can collaborate easily and efficiently.
- Dedicated support teams — from solution implementation to troubleshooting when something doesn't work as expected — create a customer experience that in turn will positively impact your customers.

Security & privacy

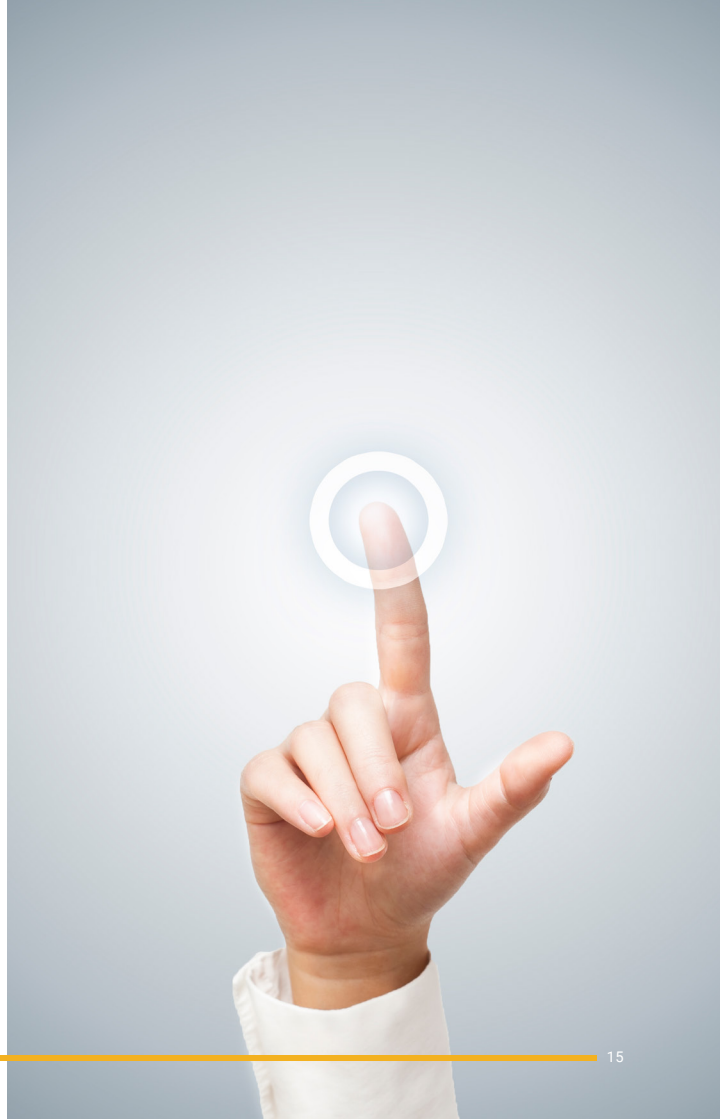
- Making it easy to collaborate and pull others into case resolution is essential. Sometimes, however, a matter needs to be handled with additional sensitivity. Approval workflows ensure that only those people are involved that absolutely need to be.
- Visibility and trackability means being able to view recent edits and progress, and ensures quality control and optimised planning.

Cloud capability

- Operating in the cloud results in more efficient operations, serves customers better and increases profit margins by having everyone on the same page, no matter where they are.
- Software updates and upgrades are performed behind-the-scenes, no longer requiring down-time coordination.

Integration & compatibility

- The ability to tie in with other software solutions is essential as businesses pick and choose their tools according to their diversified needs. Whether it's integration with an ERP, order management, payment, TPM or delivery tracking systems, all gears in a company's tech stack need to work together to ensure that the automation actually provides the expected benefits.



Becoming a claim solver

To recap, processing deduction claims manually is quite often uncontrolled and leads to losses in both productivity and revenue. AI-based automation addresses the pain points of the manual deduction claims processes. Keep in mind, however, that it is not supposed to replace humans with bots, but to actually improve the way humans work and interact with one another.

As they say, bad communication ends a lot of good things, and good communication ends a lot of bad things. So whether it's AI communicating with itself, with RPA or humans, or humans communicating with other humans based on recommendations an automation solution provides, the point is that there is a clean, straightforward exchange of useful information.

Not only does an automation solution for deduction claims management improve communications, it also establishes visibility and traceability, directly leading to better cashflow predictions.

And, you will ultimately gain a sense of satisfaction that comes with knowing that what used to be an obscure and probably semichaotic process now runs smoothly and efficiently.

Hi, we're Esker

Founded in 1985, Esker is a global cloud platform built to unlock strategic value for financial and customer service leaders and strengthen collaboration between companies by automating procure-to-pay (P2P) and order-to-cash (O2C) processes.

38

years of experience with 20+ years focused on cloud solutions

1,000+

employees serving 600,000+ users & 1,500+ customers worldwide

15

global subsidiaries with headquarters in Lyon, France

€159.3

million in revenue in 2022, with 90+% of sales via SaaS activities

Business success is best when shared

At Esker, we believe the only way to create real, meaningful change is through positive-sum growth. This means achieving business success that doesn't come at the expense of any individual, department or company — everyone wins! That's why our AI-driven technology is designed to empower every stakeholder while promoting long-term value creation.

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