



DEDUCTIONS UPDATE

March 2002

INVEST TIME AND DISCIPLINE IN DEDUCTIONS, SAYS STUDY

The results are in from a benchmarking study to assess the adoption of the ECR Deductions Guidelines by the Canadian grocery industry. According to David Wilkes, CCGD, “The results prove that best practices work very effectively for those companies that invest the time and discipline against the process.” The study, conducted in November 2001 by PricewaterhouseCoopers, included input from 26 manufacturers and nine distributors.

The study shows that there has been significant progress made against the issue of unexplained deductions. “Those companies that are following the best practices put forward by the industry are having success,” says Elaine Smith, FCPMC. “Deductions are mainly an issue between those manufacturers and retailers who do not have the processes or relationships in place to manage deductions effectively.” The study also showed that there are areas for improvement in the application of contract numbers, authorizations and training of staff.

Other study highlights include:

- 90% of respondents are aware of best practices that can reduce unexplained deductions.
- 82% of unexplained deductions claimed are considered valid, but are not accompanied by appropriate documentation.
- Inclusion of timing of activity, type of activity and amount of deduction are practices that have been adopted by the bulk of the distributors.
- 67% of distributors are reporting that they are spending less time with deductions with none reporting more.
- Unexplained deductions associated with post audits are considered valid in only 61% of the cases.
- 35% of manufacturers are reporting that unexplained deductions have increased compared to two years ago, while 41% feel they have decreased.
- Both distributors and manufactures agree that the reason for the decline in unexplained deductions can be traced to proper communication, efficient internal work processes and proper documentation.

STUDY SUGGESTS 5-STEP PROCESS TO SUCCESS

The study findings revealed a number of opportunities for improving the deductions process among supply chain partners. Specifically, the study suggests that the following 5-step process will help companies improve deductions with trading partners:

1. Implement training programs. As personnel changes, it is imperative that companies review the best practices.
2. Always use contract numbers and manufacturer/distributor authorization. Results show that these are currently used infrequently.

The *Deductions Update* is published periodically to provide progress reports on deductions activities for manufacturers, distributors and sales and marketing agents.

