Profectus
Your Compliance and Recovery Insider

Missed Income: Ageing is only good for wine and cheese

The longer you wait, the harder it is to recover

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The retail market has remained one of the key contributors to Australia's economy, but in recent years has been battered by external factors that have highlighted the need for retail operators to be resilient and efficient in order to weather these storms.

It's more important than ever to ensure that you are receiving all monies that you are owed. In retail, the practice of negotiating supplier deals and rebates provides a flexible, effective way for both your business and your suppliers to respond to market opportunities. Rebates, or Long Term Incentives (LTI), are retrospective discounts to the cost of the product. These are sometimes also referred to as trading terms. Deals, or Short Term Incentives (STI) are incentive payments to incentivise the retailer to sell or promote a certain product. Deals are also referred to as promotional support or vendor support funds.

However, across a complex business with hundreds of categories and thousands of SKUs, rebate agreements are very complex to manage. Add in staff turnover, business changes, and compliance changes, and life becomes very complicated for a retailer managing multiple complex supplier agreements.

Profectus is a leader in the business of ensuring that retail businesses realise all of the rebate and deal revenue due to them through sophisticated data audit, analysis, and operational support through state of the art technological tools.

What our data tells us

Consistently across retail, we find there are three main sources of potential recoveries: missed long term rebate claims, missed short term rebate claims, as well as deals and errors in how retailers transact with their suppliers.

By far, the majority of claims recovered relates to missed rebate claims; in fact, these account for around 75% of the recoveries. These are situations where a retailer has completely missed collecting the rebates throughout the review period (no rebates processed).

To a lesser extent, errors that occur within the invoice lifecycle also contributes to losses of potential revenue – around 20% .

Errors are normal. However, retailers' control over this exposure varies.

MAINS SOURCES OF POTENTIAL RECOVERIES

75%

OF RECOVERIES RELATE TO MISSED REBATE CLAIMS

Our extensive analysis of customer data has also shown that 1 to 2% of rebate income revenue is missed, across the board, in retail. The fact that there is lost income as a result of the way rebate deals are reconciled is well-known in the retail industry. But of more interest is the fact that this is a persistent issue that costs money every year. We've helped clients claim AUD$29 million in approved recoveries from 6,386 claims across our client base in 2021 alone.

Our data also shows that at least 3.5 errors occur in every 10,000 accounts payable transactions, and one in every 50 trade deals negotiated is calculated and claimed incorrectly. Just as alarming, our real-time invoice audit has consistently found that 1 in every 5 invoices has an error within the invoice line items. This data is based on a 5 year review of over $100 Billion of expenditure.

3.5 ERRORS IN EVERY 10000 ACCOUNTS PAYABLE TRANSACTIONS

1 IN 50 TRADE DEALS ARE CALCULATED & CLAIMED INCORRECTLY

1 IN 5 INVOICES HAVE AN ERROR IN THE INVOICE LINE ITEMS

Across a business that has hundreds of suppliers and thousands of products, this adds up to a significant loss of income every year; income that would go straight to the bottom line and could be reinvested back in the business.

> **Another key finding across our clients is that time is of the essence; the longer a retailer waits to recover the claim, the harder it is to recover.**

There are obvious reasons for this – there is a significant amount of work involved in analysing historical data to ascertain which rebates were not claimed.

Retailers are likely to lose 50% of their missed claims if aged more than 3 years verses a claim recovered within 12 months.

In addition, tracking of agreement terms for multiple suppliers is often done manually – using spreadsheets, for example – which significantly increases the potential for error over time, and makes it hard to reconcile agreed terms with actual activity across hundreds or thousands of products.

RETAILERS ARE LIKELY TO LOSE 50% OF MISSED CLAIMS IF THEY'RE AGED OVER 3 YEARS

Staff turnover adds to the complexity of recovery by removing the 'corporate knowledge' that can help explain data discrepancies – or even where the data is stored! And if a missed claim is discovered many years later, there's a possibility the retailer is not even dealing with the supplier any more.

Industry regulatory changes add urgency to rebate claim resolution

Recently, changes made by the Australian Grocery Code, for example, have sought to limit the timeframe in which retailers can finalise their recoveries. Under this change, retailers have been guided to action the claims under their agreements with suppliers within a 24 months time period.

This will have a significant impact on lost income – if retailers are not able to track the rebates they are owed and claim them in that time period, they are effectively transferring that lost income from their bottom line to their suppliers' bottom lines.

What we say

Suppliers are not motivated to advise retailers that rebates have been missed.

Interestingly, we find that in many cases vendors don't dispute the recovery of the rebate claims, indicating that they could be aware of the under-payment but were not proactive in resolving this with the retailer. This may be due to ingrained habits across the industry – a certain amount of leakage is assumed to be 'the norm'.

It may also, in many circumstances, be due to the way agreements are structured. The negotiation of rebates and deals is normally performed via email, with many iterations and changes in rebate deals. In 85% of the occasions that cause missed deals, the error that can be tracked back to the deal version in the retailer system is different to that of the supplier system. When claims are raised, retailers are set up to be the initiators of the rebate claims, and there is no onus on suppliers to initiate this process or alert retailers that they are missing out on revenue.

Our long term customers, those who have leveraged us to manage their deals and rebates through technology, have found that the need for later audit and recovery, substantially reduces by as much as 67%.

OUR CUSTOMERS FIND THEIR NEED FOR AUDIT & RECOVERY REDUCES BY UP TO 67%

With the use of our patented technology to manage rebates and audits of missed or under-claimed rebates, we ensure that our customers receive what is due to them, effectively breaking the cycle of 'write-off', which is fairly common in the industry. This prevention of loss of revenue has multiple benefits. It means increased profit available for the business to invest in growth initiatives or increase provision for shareholder benefit. It also means that risks, such as financial and unsound processes and practices, are surfaced and more importantly, mitigated. More importantly, it ensures long term, mutually beneficial interdependency within the supply chain with the removal of financial conflict – better for us consumers in the long term too.

> **"Internal controls are not equipped to handle the complexity of modern rebate agreements**

Manual rebate reporting, such as relying on spreadsheets, is time consuming and prone to errors. Our work with our retail clients prove time and time again that it is not an effective way to deliver accurate and timely data and claims. Businesses managing complex rebate agreements have a high potential for errors that are difficult to identify and overcome when tracking and calculating eligible claims manually.

With the digitization of rebate management out of spreadsheets and into technology, immediate visibility of all supplier rebate terms and the holistic application of a rebate to support retailer initiatives is possible. Rebate normalization is a much fairer and effective income producing strategy than rebate optimisation initiatives.

With the continued pressure on margins and supply chain, there is now more urgency to ensure you have the right processes, services, technology and partners in place to ensure your business is reaping all the income it has earned.

Case Study: Aged recoveries create headaches for a large Australian retailer

In 2021, we audited $79.9 million in income for a large national 'household name' retailer.

From 48 vendors, we were able to recover over $1.58 million for the client, representing 65% of the total in missed claims. The total in potential valid claims was $2.44 million.

WE RECOVERED OVER $1.58M FROM 48 VENDORS

$2.44 MILLION IN POTENTIAL CLAIMS

90% of these recoveries were from short-term incentives and the remainder from rebate claims. Four vendors accounted for recoveries of $100,000 or more, each.

90% OF RECOVERIES WERE FROM SHORT TERM INCENTIVES

Many of these errors were due to processing issues, but for seven vendors, the whole promotional period was missed and not included in the accounts for 66.97% of the total missed funding. Additionally, there were errors in invoicing and scan rates, which are extremely difficult to collect long after the fact.

Some suppliers refused to fund the lost rebates for various reasons, including the fact that the claims were not picked up prior to cessation of trade, 'sunset clauses' for claims, closed accounts, and administrative errors on the part of the retailer.

For this mid-sized retailer, the lost recoveries of $820,000 represented $16.4 million in product sales based on that year's EBIT.

This is a compelling illustration of the problems with 'aged recovery' and the need to engage the right partner that will deliver the critical services and technology.