

BUSINESS CREDIT MANAGEMENT ASSOCIATION

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Ten Ways to Address Customer Deductions

Sellers provide goods and services to customers and then generate an invoice. Customers often remit less than the amount on the invoice, explaining they are withholding part of the payment for items such as pricing variance, shipping errors, concealed deductions, co-op credits, etc. Credits refer to these as customer deductions.

1. An accounts payable representative typically does not have authority to repay deductions, so send supporting documentation proving the deduction was made in error. Follow up after the supporting documentation is delivered to discuss payment status.
2. In your preliminary discussion(s) with accounts payable, ask who must approve repayment. Consider contacting that person immediately.
3. Track the number and type of deductions you receive each week and each month and watch for developing trends.
4. In particular, track trends involving mistakes made by your company. Generally speaking, any deduction that is credited off represents an error by someone in your organization.
5. Publish your findings monthly. The best way to get other departments to tighten up their processes and procedures to reduce deductions is to publish the number, dollar value and types of errors being made internally.
6. Once you have documented that a deduction was taken by a customer in error, you should expect repayment on the customer's next check. If payment is not made promptly, the collector should follow up for payment as stridently as they would with a past due invoice.
7. Do not allow customers to withhold payment of the entire amount of an invoice because you owe them a credit for a small amount of that invoice. Instead, insist the customer short pay the invoice and pay the amount that is not in dispute.
8. Develop or purchase software that allows you to track the status and the actions taken to address and resolve customer deductions.
9. If your company owes a customer a credit, make certain that the credit is issued promptly by tracking how long, on average it takes for the credits to be issued. If the wait is unusually long, this problem needs to be addressed.

Remember that the credit department is the only party with an interest in resolving deductions. From the customer's perspective, once the deduction is taken they would prefer never to deal with the issue again. From the perspective of your sales department, deductions are problems from the past and their focus is forward.

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