

IT'S TIME TO MAKE RECOVERY AUDITS PREVENTIVE



PAUL REDSULL
CLIENT SERVICES DIRECTOR, UK RETAIL
PRGX GLOBAL INC

BY BLENDING NEW TECHNOLOGIES AND DECADES OF BEST PRACTICES, AUDITS ARE NOW CAPABLE OF STOPPING LEAKAGE AT SOURCE

Traditional recovery audit cycles are getting shorter every year. There's greater emphasis on collaboration and sharing insights with suppliers to drive process improvement, and reduce post-audit claims.

Despite the progress made, transactional errors persist, suppliers push back on claims, and as a result the back-end cost of claims management keep rising.

The UK retail industry is evolving at speed, adding new channels and expanding the scope of supplier relationships. Retailers are getting creative: experimenting with digital and mobile coupons, trying new loyalty promotions, adding volume discounts, and looking for novel ways to mix and match these.

While these changes are critical to meeting the dual challenges of changing consumer behaviour and intensifying demand, they come at a cost, adding layers of complexity to an already strained process.

Challenges around data, systems and tracking make it hard for finance teams to keep up with the pace of change, increasing the risk that retailers might miss key funding opportunities or potential deductions, risking millions of pounds of profit.

To avoid those pitfalls and minimise profit leakage, retailers can re-position core recovery audit capabilities further upstream in the source-to-pay process. By conducting a preventive audit, they can focus on getting it right the first time and driving best practices. Not only does this address the growing desire for real-time insight, but it maximises agreed funding due, improves margin accuracy and visibility, and quality of reporting. Taking a preventive approach drives a more informed, data-led decision process.

In this article, I'll consider the why's and how's of unlocking the value in a preventive approach, including:

1. How increasingly complex promotion models are pushing organisations to take a fresh look at their recovery audits.
2. Data's role in reducing supplier friction and identifying root causes of leakage.
3. Establishing a modern recovery audit with the right technology, processes and partner to ensure profitability and create meaningful competitive advantage.

TRADITIONAL RECOVERY AUDITS ARE BEING OUTPACED BY CHANGE

Using traditional recovery audits, retailers can miss key funding opportunities simply because a deal or complex promotional contract wasn't correctly entered into the system.

This means funds will need to be recovered later, possibly months or years after the fact – or potentially not at all.

The magnitude of activity in large organisations makes it easy to fully or partially miss unapplied discounts and funding due, adding up to millions in lost revenue.

On another front, the promotional funding models used by retailers are becoming more sophisticated, meaning store operations, merchandising, and billing processes have to be robust enough to ensure that all agreed supplier funding due is being received.

Compliance is a key concern. The Groceries Supply Code of Practice (GSCOP), which regulates the relationship between supermarkets and their suppliers also addresses retrospective forensic investigations of supplier accounts.

With traditional recovery audits covering up to six years in retrospective analysis, the door was open to significant challenge and frustration by suppliers. Under GSCoP there is now a consensus that current plus two years should be the cut-off, accelerating audit cycles significantly.

Creative programs for multi-supplier and product promotions can also put a strain on retailers' systems and capabilities.

That's why the goal of a recovery audit should shift from backward analysis, to preventing invoicing errors from happening at all.

THE BARRIERS TO A PREVENTIVE AUDIT FOOTING

Nearly 60 percent of the issues that lead to invoice errors can be identified before they reach recovery audit stage – if you have accurate data and the tools and processes needed to leverage it.

It's a big 'if'. Too many retailers lack the staff, systems, and strategies to catch systemic errors at all, much less address them before they have an impact. For a major high street retail brand, root causes could include:

- Funding gaps
- Errors in rebate or co-op setups
- Omitted items
- Missing deals
- Misaligned dates
- Missing off-set allowances

The data required to track promotions and catch these issues is often spread across multiple systems, an issue that becomes even more of a problem as multi-supplier and product promotions increase.

Despite this, some organisations still do not see the value of capturing data that will enable them to stop leakage and fuel future growth and innovation.

'PRE-EVENT VALIDATION CAN FLAG PERFORMANCE ERRORS, CHANGES TO THE COST OF GOODS, LOGISTICS, OR BILLING ERRORS THAT IMPACT PROMOTION EFFECTIVENESS'.

EXPLORING NEW WAYS TO MODERNISE RECOVERY AUDITS

It's hard for transaction-heavy businesses to track everything negotiated with suppliers, but a combination of technology and process improvement can reduce the number of errors.

By applying tested audit logic on accurate and timely data flows, retailers are getting better at identifying, tracking, and reporting the correct net margins of supplier funding.

Examining the effectiveness of promotions and identifying systemic errors post-promotion is just the beginning of the shift from retrospective to preventive. Pre-event validation, for example, is helping many retailers move the process upstream: flagging performance errors, changes to the cost of goods and finding receiving and billing errors that can impact a promotion's effectiveness.

MAKING THE FINAL LEAP

Recovery audits have historically been reliable stopgaps for retailers to ensure any leakage is eventually captured. However, in today's changeable retail environment, ensuring processes and systems are right the first time is even more critical.

The recovery audit industry is evolving to meet these changing requirements. It's now up to retail organisations to grasp the opportunity and adapt.

PAUL REDSULL

// marketing@prgx.com

// +44 (0) 7718 403 573

// www.linkedin.com/company/prgx/

// www.prgx.com

PRGX[®]

'WITH THE RIGHT TOOLS AND PROCESSES IN PLACE, 60% OF ISSUES LEADING TO OVERPAYMENTS CAN BE IDENTIFIED BEFORE THE RECOVERY AUDIT STAGE'.