



REINVENTING RECOVERY AUDIT FOR TODAY'S RETAIL ENVIRONMENT

HELPING RETAILERS PREVENT ERRORS IN AN
INCREASINGLY COMPLEX INDUSTRY



THE RETAIL INDUSTRY IS EVOLVING TO MEET CONSUMER DEMANDS by adding new channels and expanding their partnerships with suppliers to serve consumers wherever, whenever, and however they choose to shop. These industry changes are resulting in more creative promotional funding programs to drive sales.

While this evolution will result in more business opportunities, it also proves challenging for grocers and other high-volume retailers to keep up with the pace of change in the promotional landscape. Retailers are struggling with data, systems, and tracking the more complex promotional models to ensure visibility into promotional funding.

As organizations experience these struggles, they are also wrestling with ways to prevent errors going forward.

Recovery audits have historically been reliable stopgaps for retailers to ensure any leakage is eventually captured. But in today's complicated retail environment, it is even more critical to ensure processes and systems are correct upfront. Therefore, the recovery audit industry can also evolve to meet the demands of runaway complexity and better serve the retail industry.

This white paper examines how the recovery audit process can transform from a post-payment audit practice to a prepayment and error prevention solution.





TIME-HONORED RETAIL RECOVERY AUDIT MODEL DELIVERS VALUE, BUT NEEDS TO INNOVATE

For 50 years, recovery audit has been a retail best practice. Retailers of all sizes, sectors, and geographies continue to engage recovery audit firms today because the process brings value in several important ways:

- Ensures retailers are receiving the supplier funding they have negotiated with their suppliers;
- Drives cash back to the retail bottom line by recovering overpayments and under-deductions that have occurred; and
- Identifies points of leakage to highlight opportunities for upstream process improvement.

While recovery audit is a long-standing practice, retailers and suppliers would prefer errors do not occur in the first place. The ultimate objective of a recovery audit has always been to incorporate learnings from the audit, to correct the issues that cause recoveries, and prevent them from occurring going forward. Despite this objective, errors persist.

TRADITIONAL ERROR PREVENTION STRATEGIES HAVE NOT BEEN SUSTAINABLE

Implementing and maintaining a comprehensive process improvement solution for error prevention has historically been difficult.

- **Retail efforts.** Retailers implement process initiatives which are often not sustainable, because retailers are focused on their core business. Resources and investments are typically prioritized for merchandising-related solutions to drive sales. Additionally, the volume, pace and complexity of deals are increasing, making the fixes required, a moving target.
- **Recovery audit efforts.** Recovery audit firms often support process improvement objectives by providing root cause information on recoveries and corresponding process improvement recommendations.

However, these recommendations are dated, given the process of auditing in arrears. Additionally, it is PRGX's experience that even when still relevant, the recommendations are not implemented due to resource constraints or given a low priority within a business's IT organizations. Ultimately, the incentives between retailers and recovery audit firms are not aligned. While recovery audit firms are in a unique position to offer recommendations to fix upstream processes, their business model is predicated on identifying errors post payment, and their compensation is based on contingency.



WHAT IS THE VALUE OF ERROR PREVENTION?

A sustainable approach toward error prevention will improve financial and operational performance for retailers and their suppliers. There are five primary sources of value that make this a compelling solution for the retail industry.

1. **Cost of Goods Sold (COGS):** Error prevention will result in negotiated funding being reflected in COGS vs. post audit income.
2. **Administrative Costs:** Reduction in post audit claims will result in less review and correspondence relating to claims approval.
3. **Time Value of Money:** Getting it right the first time will ensure retailers are receiving supplier funding sooner vs. later.

4. **Supplier Abrasion:** Reducing the claims deducted as a result of the recovery audit process will improve supplier relationships and reduce their costs associated with deduction resolution.

5. **Margin Accuracy:** Reflecting post audit income into COGS will make downstream margin reporting more accurate.

The key to unlocking these sources of value lies in the ability to understand the root cause of the overpayments, the types of errors that can be prevented, and a comprehensive approach toward preventing these errors on an ongoing basis.



WHAT TYPES OF ERRORS ARE PREVENTABLE?

Although it is impossible to eliminate all errors, with the right tools and processes up to 60% of traditional recovery audit findings can be identified and corrected before the promotional event occurs. However, many organizations lack the systems and strategies to flag and address systemic errors before they have an impact. Without timely recovery audits, it is difficult to identify common root causes of promotional funding issues. PRGX believes the top root causes of preventable errors in the retail industry include:

- **Omitted items** (missed family items, new products, old/new models and/or product lines);
- **Missing deals** (promotion in the sales planner, but there is no billing contract/deal);
- **Date misalignment** (divisional date extensions/adjustments, incorrect funding);
- **Funding gaps** (identified gap in required funding to support promotion);
- **Rebate/Co-op setup errors;** and
- **Missing off-set allowances** (freight and/or defective allowances).



HOW DOES ERROR PREVENTION COMPARE TO OTHER PROCESS IMPROVEMENT STRATEGIES UNDERWAY?

Implementing a preventive approach can complement other process improvement initiatives, for a comprehensive approach to error prevention.

- **Deal systems** of today are superior, but they do not prevent all errors from occurring. Increased deal complexity makes complicated funding models difficult to track. Combined with manual workarounds, errors persist. For example, with 300+ clients, PRGX reviews every deal system in the market — and still recovers \$1.2B annually for its clients. Errors continue to occur for a variety of reasons, and a preventive solution can be the additional assurance to your deal system that can mitigate risk.
- **Internal initiatives** focused on process improvement have measurable impact, but we often see continued errors year over year. Sustainable improvement requires significant investment in a platform, workflow, and data capabilities to acquire, process, and transform data. Because auditing is PRGX's core business, its staff knows how complicated it is to address all aspects of error prevention. In addition to technology requirements, the solution will need to track correspondence, validate findings against return on investment (ROI) and monitor improvements to ensure all issues are resolved.
- **Technology solution providers** can fix system issues, but lack audit experience to identify all issues. System changes will fix issues but can also be costly and time-consuming. And because tech providers often lack relevant organizational context and data knowledge of the retailer, errors persist. Experience with retail processes, data, and audit provide the knowledge to identify and prevent the specific errors that cause recoveries. And because the Preventive approach is designed to work within your current environment without changing your system, it provides a more timely and efficient solution.
- **Recovery audit firms** with error prevention strategies are still focused on post-payment transactions. Addressing process improvement through audit acceleration and real-time auditing can be effective, but the mistakes have already been made. As a company that serves the majority of large retailers and works with all major recovery audit industry firms, PRGX believes that a preventive approach is unique, in that it prevents potential errors before the promotion occurs, versus identifying errors post payment.

PRGX PREVENTIVE AUDIT SOLUTION

As the leader in recovery audit, PRGX continually invests in its core audit capabilities to ensure it is delivering increasing levels of value to their clients. The foundation of its capabilities is in its experience, and knowledge of, the retail industry. Its 50 years of experience serving retail clients is the institutional acumen that informs its preventive audit solution design. Additional and ongoing investments in data and technical capabilities put PRGX in a unique position to unlock the value of an error prevention solution. From a data perspective, PRGX securely ingests and processes large volumes of complex data with great frequency. Building upon that capability, its investments in technical capabilities enable the analysis, visibility, workflow and reporting required to offer a compelling error prevention solution to the retail industry.

The transformation of the recovery audit industry begins with deploying these core capabilities upstream in the form of a preventive audit. A preventive audit works as a complement to a retailer's existing processes to monitor the alignment of contracts and planned performance, identify areas of misalignment, correct the process prior to the event running through a highly configurable and integrated workflow, and report on process status, performance and value realized.

- 1. Monitor:** Confirm the alignment of contracts, sales plans, and billing systems on an ongoing basis until the start of a promotional event. PRGX's Preventive Audit Solution can capture funding offered at the item level through the duration of the deal and compare it to the funding expected at the item level through the duration of the deal. This logic is applied daily to validate funding offered vs. expected on an ongoing basis.

- 2. Identify:** Upon the occurrence of misalignment, the solution will determine the underlying root cause and recommend corrective action. PRGX's solution will identify if changes to the deal or the sales plan is required, and in some cases both. The specific details are summarized in a corrective action packet.

- 3. Correct:** The next step is to submit the recommended corrective action packet through the agreed-upon approval workflow. This workflow can be conducted within PRGX's software platform, or through email workflow. The system will confirm the correction has been made and develop an initial estimated value resulting from the correction.

- 4. Report:** The preventive audit solution also has a dashboard and reporting on process status, errors corrected, and value created. The reporting is highly configurable with the ability to report by commodity, buyer, division and banner. The reporting module also updates the value estimates with actual savings, given the performance of the deal and resulting billings.

Through its experience, PRGX has realized that the vast majority of transactions occur without error. However, in the retail industry it also understands that fixing the errors that do occur represent significant value for both retailers and their suppliers. The PRGX preventive audit solution is a complement to retailer's existing processes to help them in realizing that value.

CONCLUSION

Recovery audits are a best practice in the retail industry and efforts by retailers, suppliers and recovery audit firms to correct upstream processes to reduce overpayments have not been effective. There is an opportunity transform the recovery audit industry from contingency fee-oriented post-audit recovery to a prepayment and error prevention business. This transformation will improve the financial and operational performance for both retailers and suppliers.

ABOUT THE SPONSOR

PRGX helps companies spot value in their source-to-pay processes that other sophisticated solutions didn't get to before. Having identified more than 300 common points of leakage, we help companies reach wider, dig deeper, and act faster to get more value out of their source-to-pay data. We pioneered this industry 50 years ago, and today we help clients in more than 20 countries take back \$1.2 billion in annual cash flow. It's why 75% of top global retailers and a third of the largest companies in the Fortune 500 rely on us.

For more information, visit www.prgx.com

