E-book:

How to **Optimize** Your Retail Recovery Audit Program

PRGX®

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How to Optimize Your Retail Recovery Audit Program

Merchandise recovery audits are an effective way to make a positive impact on the retail bottom line. Through a retrospective review of their accounts payable ledger, retailers can recoup funds lost due to overpayments, under-deductions, and simple human error.

But like any meaningful business initiative, recovery audits require time, resource, and budget. How do you know if you are maximizing the money and time invested in the program?

A large retailer can recover millions of dollars in lost profit and uncover the root causes of leakage – stopping losses before they happen. With all that potential upside, it makes sense to get the process right.

In this e-book, we'll share current retail industry best practices and explain the four categories of audit program optimization:

- Setting guidelines: agreeing on standards and procedures to ensure efficiency and maximize returns.
- Expanding the scope of audits: new audit approaches and ways to add more value.
- Accelerating timelines: methods to accelerate and streamline audit timing and turnover schedules.
- Improving supplier relationships: mitigating any friction in vendor relationships when an audit is underway.

Establishing Shared Guidelines

Achieving agreement between retailers, auditors, and suppliers about how an audit should be run is essential to a high-performing audit. From policy platforms to rules of engagement with suppliers, audit guidelines can help set expectations and promote collaboration across merchandising and finance. It can also facilitate faster claims processing both from a collection point of view and payback resolution.

Having shared ground rules in place can help deliver greater value and more working capital by reducing ambiguity and creating a framework for analyzing source-to-pay processes. Retailers can use what they learn in audits to continuously identify root causes and fix them, ensuring leakage isn't repeated.

From a reporting perspective, having guidelines provides clarity to suppliers and transparency to internal stakeholders, who can see the various claim categories and the date – backed up with documentation – used to support claims.

That reduces the likelihood of disputes and minimizes escalations when they do occur. Audit guidelines provide clarity about audit claim concepts, the period of applicability, claim schedules, and approval and deduction policies.

This is especially important when retailers have engaged multiple audit firms. It creates a level playing field and ensures everyone operates in line with retailer expectations.

Establishing Shared Guidelines

Defining Audit Guidelines

Audit guidelines are typically established across three audit dimensions:

- Timelines
- Audit processes
- Claim types

Timelines include issues like handover schedules from the client's internal team to the primary and secondary audit firms, the scope of what is auditable and what's not, and each firm's designated start and stop date for each order type and category.

Audit processes cover the steps to be followed during the claims review, the chain of approvals, and how all firms should escalate claims. Understanding auto-deduct thresholds is an essential area for shared agreement. Any sensitive or strategically important suppliers should also be listed at the outset and special protocols put in place to deal with their claims.

Claim types are generally driven by the type of retailer and their respective funding strategies; however, considerations for how to approach each claim type should be given. For example, it's crucial to agree on terminology definitions such as 'deal shoulders', or the acceptable pre and post-payment time frames, that will be part of a claim. Key claim concepts like price protection, pricing, and rebates should all have precise definitions.

Establishing Shared Guidelines

Making Guidelines Available to All Stakeholders

A recent survey of PRGX retail clients across the industry showed more than 55 percent publish their audit guidelines so that all suppliers understand the approach used in determining claim types and how they should be supported.

Along with providing transparency, publishing and sharing audit guidelines allows suppliers to provide feedback. Over 85 percent of those retailers surveyed said they develop and update audit guidelines in collaboration with suppliers.

Clarity on dispute resolution is key to improving the post-audit experience, and timely claim resolution can minimize supplier abrasion. When audit guidelines are published, our survey found a large portion of disputed claims conclude with repayment.

Audit Expansion: New Areas of Opportunity

As retail business models continue to evolve, retailers are looking at other areas of their operation to identify sources of leakage, improve cash flow, and maximize working capital.

Click and collect services, where customers make an online purchase and collect that purchase at a designated location, have opened up opportunities for recouping lost promotional discount rebates.

Digital flyers can be valuable. Cost of advertising, listing of UPCs, and promoting items using this vehicle could be a source of opportunity.

Mobile purchases where consumers use shopping apps to pay, or scan to complete payment for purchases made, are on the rise. Discounts and promotional offers are often applicable, and opportunities for claims can arise when the data is located and processed.

Market-basket promotions with multi-vendor promotional strategies or other complex funding models make it harder for retailers to ensure accurate tracking, validating, and billing. The recovery audit process can ensure the correct data is sourced and funding is captured.

Accelerating Timelines to Realize Value Faster

Audit acceleration is a huge area of focus across the retail industry, and the demand for more timely audits is on the rise. It's easy to understand why.

Retailers want to audit closer to the original deal or transaction, to capture as much current-year funding as possible.

Retailers, meanwhile, see opening prior year books as a major pain point.

So accelerating audit timelines helps reduce supplier abrasion. Collection rates improve because the buyer-supplier negotiations and documentation are much more readily available.

Acceleration Models

In quarterly scenarios, retailers often consider specific audit topics or claim types, focus on the most sensitive vendors, or audit their top 10 suppliers in terms of transaction volume.

In weekly scenarios, they will typically focus on audit topics like reclamations, or scan downs, or promotions. These types of transactions can be quickly reviewed on a rolling weekly basis, usually in accordance with the retailer's promotional calendar.

Preventive audits are another way to move the timescale forward — by stopping leakage before it starts. A preventative audit can uncover underlying issues in billing compliance that let repeated overpayments slip through. When those are identified, sustainable long-term controls can be implemented that stop losses before they happen.

More than 90 percent of PRGX retail clients have moved to some type of accelerated audit structure, and many have plans to evolve their audit program continuously

Supplier Management: Removing Friction and Improving Collaboration

Buyer-supplier relationships are built on active and ongoing negotiations.

Recovery audits have become part of the framework that ensures the results of those negotiations are executed and billed correctly. But the process of claiming back lost funds can still lead to supplier abrasion.

After five decades working with some of the world's largest retailers, PRGX has learned that the more transparency there is of the objectives and processes of an audit, the less friction and push-back occurs.

As we've discussed in the previous chapter, publishing audit guidelines both internally and externally as well as with your audit partners is one way to ensure clarity of expectations from all stakeholders.

Giving suppliers access to claims so they can review the details themselves is another way to minimize abrasion and reduce challenges. Letting suppliers check the details of a deduction or claim can save time, reduce the number of queries, and promote faster payback.

Supplier Management: Removing Friction and Improving Collaboration

Other benefits of improved transparency:

For the retailer:

- Reduction in avoidable repayments
- Minimizing disputes by enabling suppliers to self-service claims
- Reduce the time and operational cost of disputes
- Reduce the time required by managers
- Strengthen supplier relationships

For the supplier:

- Reduction in the cost of dispute resolution
- Reduction in time required by managers to address disputes
- Real-time visibility into the retailer's audit and dispute process
- Minimize stress on retailer relationships

About PRGX

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 30 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, please visit: **www.prgx.com.**

888-799-7976 ♦ marketing@prgx.com ♦ prgx.com
600 Galleria Parkway, #100 Atlanta, GA 30339