

## Face It, **DEDUCTIONS** Are a Form of Payment

Deductions come across as *evil* to many in the industry. They go by a lot of different names: *chargebacks, MCBs, short pays* and a host of others, but the common name for decades is simply **Deductions**. *And believe it or not, these were originally driven by CPG manufacturers!*

You see, when trade spending was in its infancy 30+ years ago, manufacturers moved from 'off invoice' payments to 'bill back' payments. Hence, the retailers had to 'bill back' the manufacturer to get reimbursed for the dollars they used to discount the manufacturers' products. Yes, that's what the dollars were used for back then.

The manufacturers (who had a lot more clout in those days...) would debate whether the dollars were worth it or drove enough cases, which delayed reimbursing the retailer. In this day and age, the retailer was out the money!

As manufacturers became increasingly dependent on this extra volume and revenue, retailers became rather impatient and realized they had more leverage, and soon the balance shifted. It was a lot quicker to take the dollars spent last week or the week before off of the next invoice.

That addressed 2 issues:

1. The retailer got their money faster.
2. The retailer also shifted the proof and incremental volume responsibility to the manufacturer.

And as soon as one retailer did this, everyone followed!



*This is how, somewhere in the 1980's, deductions became a form of payment for trade spending.*

Therefore, if you are a food manufacturer entering this arena, **be prepared** to address this in a logical, effective manner. Because, in addition to all of the legitimate deductions, retailers and distributors will assume they are always accurate, and place the burden of proof on the manufacturer. Though some are more effective than others in assuring accuracy.

The reality is this is a clear form of payment in this industry. Profitability and effectiveness are therefore dependent on your ability to address this quickly, accurately, and thoroughly.

**Did you know** that many manufacturers – large, small and emerging – now **address deductions in 30 days or less?**

And they account for everything at the same level of granularity as any other item in their P&L!

If you would like to know more about how others address deductions effectively, **send us a note** or give us a call.