

**Tell It to  
Your Boss**



# Attacking Invoice Deductions Through RFID

RFID enables extremely accurate 'point of shipment' Advance Ship Notices and 'point of receipt' Proof of Delivery documents, greatly reducing discrepancies and invoice deductions, and restoring balance to the supplier-customer relationship.

by JOE MCKINNEY

**R** RFID TAGGING GIVES CONSUMER goods manufacturers a major opportunity to save money—if they work with their customers to attack the invoice deduction problem.

Even manufacturers choosing a 'slap and ship' strategy for RFID compliance can attack the problem by RFID-enabling at least one door shipping to the RFID requestor-retailer. By providing a 'point of shipment' advance ship notice (ASN) to their customers, rather than a pick-list based ASN, and by requiring a matching 'point of receipt' proof of delivery (POD) from their customers, manufacturers drive up ASN accuracy while driving down invoice deductions.

RFID can introduce a new level of precision to cross-enterprise business events, fertile ground for cost savings and performance improvements. These processes were affected by ten years of business process reengineering, but that work was predominantly applied to internal corporate processes. The new fertile ground is the activity between entities.

The major cross-enterprise processes—order taking, order shipping, and invoice payment—exchange information, goods (or services), and cash. But aligning these processes is a major frustration for both supplier and customer.

In 2001, consumer products manufacturers lost 9.9% of their total annual sales due to invoice deductions, up from 8.1% in 1998, according to the Invoice Accuracy study released by the Grocery Manufacturers of America (GMA). The study found only 14% collected from the retailer. One deduction in six was caused by a combination of shortages or damages in products, coupons and penalties. With only half of the 17% eliminated through revised ASN processes, manufacturers regain three-quarters of a point of bottom-line profit—plus additional savings in financial operations and customer service.

Today, many companies create the ASN from computerized pick-lists. This leaves considerable room for inaccuracies and inconsistencies in loaded shipments—picking errors, damages during picking and staging, incorrect load planning, and physical shipment loading errors. More than one big-box retailer estimates ASNs are less than 80% accurate.

Since manufacturers are beginning to ship RFID-tagged products at the request of their customers, the next logical step is to improve this cross-enterprise process by implementing receipt of RFID-tagged shipments through an RFID-enabled dock door. The receiving customer produces an RFID-enabled POD at the dock and sends it to the shipper moments later. The parties match documents, with discrepancies investigated and resolved long before the invoice comes due. Prompt dispute resolution would also reduce post-audit corrections that occur 18-24 months later.

When ASN accuracy nears 100%, the retailer's receiving, payment, and inventory management processes flow more easily. The more that retailers use spot checks rather than 100% check-in for receiving, and the more their invoices exactly match their own purchase orders (even if the PO is automatically updated by an accurate ASN), the more often they will achieve a "perfect match" in accounts payable and remit 100% payment.

The reciprocal benefits for the manufacturer are shrinking invoice deductions and recovery of 0.75%



*Joe McKinney is a partner with Supply Chain Visions, a consulting firm that specializes in helping companies with supply chain performance management and education. His original thinking around cross-enterprise business processes has been developed while a Senior Buyer at Target Stores, and as a director of inventory management for a drug store chain, a partner with CSC Consulting, and the vice president of business development for the WorldWide Retail Exchange.*



of sales toward profit. Other benefits, such as reduced expense of invoice processing and improved sales force productivity, will be present if not quantifiable. Both shipper and receiver will benefit from precise and timely information, smoothing their operating flows and further reducing the need for “just-in-case” inventory, non-standard materials-handling procedures, and exception-case financial processing procedures. Process collaboration will reduce cost on both the P&L and on the balance sheet for retailer and manufacturer.

#### Restoring Partnership Balance

RFID/EPC labels provide early, big benefits when used as a common identifier across corporate boundaries, and to refine cross-enterprise business processes, says Christine Overby, author of “Linking RFID and Global Data Sync,” and a Senior Analyst for Forrester Research. RFID companies confirm her findings. The more all parties use commonly shared identifiers and information, the smoother and less costly these complex processes become.

The opportunity to improve ASN accuracy will sometimes require modified data flow in the shipping or receiving facility. On the manufacturer’s side, by using both an RFID-enabled door for loading and an

RFID middleware system that traps the data and creates the ASN before sending the data to the warehouse management system, a shipper can create a point-of-shipment ASN. This customer-directed ASN can be tied to the PO, to the internal WMS, to the transportation company as the bill of lading, to Accounts Receivable as an “authorization to invoice,” and so forth as the shipper’s information architecture demands. This is a new generation of understanding by the RFID software and RFID service provider. BT Auto-ID and Advanced Software Systems already offer these capabilities.

Several large retailers are pushing their suppliers to incur the cost of RFID-tagged cases, but manufacturing partners can recover costs by eliminating receiving quantity discrepancies.

Consumer goods manufacturers can negotiate from a position of strength and ask that their RFID-demanding customers collaborate in this key cross-enterprise business process. Collaboration recaptures cost and restores equilibrium to the relationship. Smart CPGs who are meeting the compliance mandates need to be earnest about maintaining a true partnership relationship. Light a fire in your belly and put retailers on notice there’s quid pro quo. ■

## Six Steps to Take Now

**There are six actions manufacturers should take today to begin capturing the potential cost savings of RFID-tagged cases and pallets.**

1. Get your operations in order with RFID-enabled shipping doors and modified data flow to create a true “point of shipment” ASN. Enable this document to be sent securely via the web in near-real time, without additional handling or modification.
2. Create programs to identify and analyze deviations between the pick-list and the “point of shipment” ASN, and quickly resolve the causes of the deviations.
3. Require that RFID accepting/requiring customers return a “point of receipt” POD in near real time.
4. Prepare to receive and use the RFID enabled POD from your customers.
5. Create programs to identify orders in which the ASN and the POD deviate from each other, and quickly resolve the causes of these deviations before the invoice is due.
6. Create key performance indicators to measure and then reward customers for actions which lower and eliminate this and other causes of invoice deductions.

**Retailers and others requiring their supply chain partners to RFID-enable shipments have their own list of six activities to do. This is the reciprocal process to their requirements for RFID.**

1. Enable your systems to receive and process the new ASN from your RFID-enabled suppliers.
2. RFID-enable at least one dock door for receiving the RFID tagged shipments from the suppliers on whom you have placed this requirement. More RFID doors may be necessary to prevent receiving congestion, since the RFID shipments are probably from major suppliers.
3. Create a data flow architecture which will allow you to create a “point of receipt” Proof of Delivery which can be securely transmitted in real time to the supplier and the transport company. Accelerate plans to send this document to your suppliers, perhaps even as soon as autumn 2005.
4. Analyze opportunities to use the newly accurate ASN in replenishment and other ordering processes, to increase the possibilities of a 100% “perfect match” of PO, receipt and invoice.
5. Create programs to identify receipts on which the ASN and the POD deviate from each other, and quickly resolve the causes of these deviations before the invoice comes due.
6. Create appropriate key performance indicators to measure and to reward suppliers for lowering and eliminating ASN and other shipment inaccuracies which cause invoice deductions and have less than 100% “perfect match” in Accounts Payable.