The debate goes on in the retail industry on whether to issue chargebacks for noncompliance or avoid chargebacks altogether. Many retailers that I’ve spoken to recently are aware of the benefits of EDI and a compliance program, but their hands are tied when it comes to implementing an effective compliance program. The main obstacle in implementing a compliance program is that their corporate culture believes in being gentle with suppliers and chargebacks are not part of this culture. Below is a brief breakdown of the benefits of implementing a chargeback system and the costs associated with not using chargebacks.

Reasons that 2nd and 3rd-tier retailers do not implement a chargeback program:

- Their C-level executives have not embraced issuing chargebacks as a way of doing business
- The fear that the vendor will stop shipping to them due to chargebacks
- The fear that vendors will raise prices to compensate for the chargebacks
- The organization feels that they are not like big box retailers (2nd and 3rd-tier retailers believe that they do not have the power to implement a compliance program)

Can you afford the noncompliance of EDI in your organization? Consider these consequences:

- Loss of sales due to low fill rate
- Loss of productivity at warehouse
- Movement of merchandise through supply chain will be delayed

Cost of paper-based POs:

Experts estimate that it costs companies between $100 and $150 to process every paper-based purchase order, regardless of whether it’s for a $500,000 piece of operating machinery or $30 worth of paper clips.

- $96–according to Ernst & Young
- $150–according to Gunn Partners
- $190–according to Deloitte & Touché study of 18 large companies

Below is information to help you put together an ROI for your leadership.

Let’s assume that your vendor base is 2600, and the volume of POs is 30,000 per month. All cartons for non-EDI compliant vendors will have to be processed manually. The estimate is based on 1 carton per PO (which is a low amount):

- 2600 vendors – 10 % non-compliant = 260 vendors
- 260 vendors = 10,000 cartons sent without ASN
- 10,000 cartons processed without ASN cost $35.00 per carton to handle manually = $350,000 per month

These same vendors are not sending EDI invoices; below is the cost for manual invoicing (this does not include time handling exceptions on invoices).

- 2600 vendors – 10 % non-compliant = 260 vendors
- 260 vendors = 10,000 Invoices handled manually
- 10,000 Invoices cost $10.00 per invoice to handle manually = $100,000 per month

As illustrated above, noncompliance costs retailers far too much to be ignored. Issuing chargebacks may not be a popular solution, but when done correctly it’s effective. If you are interested in learning more about chargebacks and building an effective compliance program, contact me at askmary@dicentral.com.

-Ask Mary