



// Ownership

9,600 Billing Errors – How to Stop Them

// Your management team uses their limited time to negotiate highly competitive pricing with suppliers every day. They know they have achieved a good deal for your organization because they are great negotiators, or maybe they did some benchmarking with other dealers, or maybe they hired specialists to achieve great pricing and terms for a particular expense category. Everyone is feeling good, resting a little easier that you have in some small way achieved some success in attacking your expenses and the bottom line will improve in some measurable way.

The practice of auditing in business is known and understood by most of us. Auditing usually extends to tax and compliance issues, even manufacturer issues in the dealership business. Auditing is also a well understood and effective practice in the spend management space as well. Auditing in the spend management realm can include the following types of audits:

▶ **INTERNAL COMPLIANCE AUDITS**

– an audit to determine whether the employees of an organization are in fact using the designated suppliers for a supply or service

▶ **SUPPLIER COMPLIANCE AUDITS**

– an audit to determine if suppliers are honoring the prices and business terms that they have contracted for or agreed to

With that background in mind, I would like to share some research we have compiled over the 12 months ending in 2016. Our supplier compliance audits resulted in 9,600 billing errors covering about 85 expense categories across approximately 315 suppliers in the dealership space.

WHAT IS A BILLING ERROR?

Quite simply, the amount invoiced by the supplier is greater than the amount contracted for or agreed to in the quote or negotiation process... suppliers are charging you more than they are supposed to and nobody in the dealership is catching the mistakes and correcting the problem. Another problem we are seeing more often is suppliers

that have been replaced with new suppliers, continue to invoice and accounts payable inexplicably continues to pay for services that have been suspended while also paying the new supplier.

WHICH EXPENSE CATEGORIES ARE THE BIGGEST PROBLEMS?

High-dollar expense categories like DMS, digital marketing, telecom, uniforms, credit card processing are frequent sources of billing errors... but really all expense categories are susceptible to billing errors. Our audits reflect problems across all categories... but certainly the high-dollar expense categories are of the greatest concern because those issues create the greatest cost to dealerships.

WHICH SUPPLIERS OR INDUSTRIES ARE THE BIGGEST CULPRITS?

You know them already. I hear it and see it every day from dealers as well. You know the industries and you know the suppliers and you have the history with certain suppliers that you already suspect. Some suppliers are much

worse than others... with an audit history so poor that pricing becomes irrelevant, because the suppliers won't honor the proposed pricing long term. They wait for you to catch them... apologize for the mistake and try to sneak in a price increase again later.

COSTS OF NON-COMPLIANCE

Real-life examples include:

▶ Payments of over \$100K to a telecom supplier who had been replaced with a new supplier

▶ Payments of over \$36K for waste and recycling services to a supplier who had been replaced

▶ Payments of approximately \$90k to a supplier for services for a location that had already been sold by the dealership group

▶ Additional fees for disputed services added to a telecom agreement after the original contract was executed

▶ Unauthorized uniform and laundry price increases... departing from the contract

▶ Multiple price increases in digital services during a 12-month period

where pricing was supposed to be fixed

- ▶ Price increases for supplies to some locations, but not applied to all locations in violation of previously negotiated pricing

- ▶ New added DMS access fees not previously included in the agreement
- ▶ More...

WHY THE SUPPLIER PROBLEMS OCCUR IN THE FIRST PLACE

Billing issues originate with the suppliers. I have to believe that most billing issues are not intentional but accidental, but we know that some billing issues are intentional. Most suppliers attempt to operate with high integrity and will quickly and permanently resolve the billing issue once brought to their attention. Sometimes price increases are built into the contracts that dealer's sign, sometimes suppliers inadvertently apply a price increase because sales did not tell the pricing department that the price was to be locked.

WHY BILLING ISSUES CONTINUE TO PLAGUE DEALERSHIPS – HOW TO STOP THEM

From our experience, the reasons these billing issues are not caught include but are not limited to the following:

1. The controlling device (contract or pricing agreement) is not readily accessible to those who

“WHEN TIMES IMPROVE, SALES ARE STRONG, A LOT OF OPERATORS GET SLOPPY AND DON'T FOCUS ON THE FUNDAMENTALS.”

should conduct the audit

2. Management does not feel the audit process is worthy of their limited time

3. Management plays a perfunctory role in signing supplier invoices for payment, but have no idea what they are approving in many cases

4. Accounts Payable teams are dealing with too many suppliers and checks...they are executing the payables process, but not challenging the process when something looks out of the ordinary

5. Poor communication – when managers sell a property, change suppliers, or make some other significant organizational change, they don't bother to tell the troops, especially those that pay the bills.

Preventing Supplier Overcharges – Billing Errors

As with any process issue in an organization, getting organized and focused is the primary solution to this problem. Based on years of experience, I recommend that you do the following:

1. **CENTRALIZE SUPPLIER CONTRACTS AND PRICING AGREEMENTS**

(RFQ'S) – All original copies of contracts should reside with the CFO and/or Controller

2. **TRACK CONTRACTS** – Track all supplier contracts by their expiration date to prevent auto renewals

3. **DETERMINE HIGH-SPEND CATEGORIES** – identify suppliers associated with high-spend categories such as those identified earlier

4. **SET AN AUDIT PLAN** – select a couple managers in your operation that will “audit” different suppliers each month, noting the problems and coordinating the resolution and credits

5. **EXECUTE THE PLAN** – Once the plan is built, execute. Report audit results to management through monthly meetings

6. **FIX OR LOCK PRICING** – you can't audit a category effectively unless you have negotiated a locked price for supplies and services.

If you agree to accept a price from a supplier with no agreement to freeze or lock that pricing going forward, you are at the mercy of the supplier and then have some other issues that need to be resolved in terms of your purchasing strategy.

SUMMARY

When times improve, sales are strong, a lot of operators get sloppy and don't focus on the fundamentals. Establishing and executing a supplier audit plan is not a time-consuming process and doing so will put your suppliers on notice that you are paying attention. Once you catch a few mistakes that are brought to the suppliers' attention, the problems tend to become resolved. Catch those issues now before too many dollars go down the drain and reduce your profitability.

DOUG AUSTIN is the founder and President of StrategicSource, Inc., the leading provider of spend management services (strategy, spend mapping, sourcing, process improvement and audit) for the automotive and truck dealerships, and various other vertical markets. Doug is a veteran of the U.S. Marine Corps, a graduate of the University of St. Thomas, and a speaker at various conferences and 20 Groups. Doug has acquired over 30 years of line, staff and executive experience in Spend Management and Supply Chain Management in various vertical markets, and is also a trainer, speaker, consultant and business owner. EMAIL: daustin@strategicsource.com.