

Dispute management matters

How to handle disputes more effectively in AR, improve visibility for all stakeholders, build better customer relationships, and accelerate cash flow.



Contents

- 3 Introduction**
- 4 What do AR teams say about managing disputes?**
- 5 Most common types of disputes**
- 6 Why is an effective dispute management process important in AR?**
 - Challenges **7**
- 8 The six Ws when collecting**
- 9 The 3-step process of resolving disputes**
 - 1. Identifying disputes **9**
 - 2. Investigating disputes **11**
 - 3. Resolving disputes **11**
 - Resolution roadblocks **13**
- 14 Collaborative Disputes**
 - Case management **15**
- 16 Tracking the results and making improvements**
- 17 Conclusions and recommendations**

Introduction

A typical day in the life of a collector: A customer purchases goods and services on terms. They're billed and make payment. Occasionally, they may pay late, but – overall – it is a clean, straightforward procedure.

But we all know that there are other issues that further complicate the process of collecting invoices, and those issues have a name: disputes. While disputes are interwoven into collections, and by extension AR, they do **require a distinct workflow** and come with their own set of unique challenges.

Invoice disputes are inevitable for any business. They can be very time-consuming, take up a lot of resources inside your company and cause delays in payments. The longer an invoice sits in dispute, the lower the chance you will have of collecting the entire invoice.

Time is of the essence when dealing with disputes. Unfortunately, **many businesses rely on outdated dispute management processes** and inefficient ways of handling disputes.

The role of technology in improving dispute resolution cannot be underestimated. But while digital transformation is gathering pace, many finance departments are still in the early stages of technology adoption. Many teams are hesitant to move away from legacy systems, and new ERP implementations take up a lot of time.

The key is to have a solution where an early reporting of disputes can take place and where dispute management is easy, flexible, and customer-centric. Automation can offset delays or late payments, make sure all data is easy to get to, and reduce costs.

In this white paper, we will talk about the types of disputes you can expect and what the dispute management process typically looks like. We'll discuss the best practices for dealing with disputes at every stage of the process.



“Over half (55%) of respondents say managing disputes is one of the most challenging tasks for their AR team and 99% of teams say disputes contribute to late payments.”

Source: [Digital Commerce 360](#)

What do AR teams say about managing disputes?

Let's first uncover what AR teams think about disputes.

Disputes are a multi-faceted problem that ripple through an organization. The majority of the issues that lead to disputes are not issues that originate in the collections department. Plus, there may be issues that the collections department can't resolve or doesn't have the authority it would require.

Regardless of where the error of the dispute occurred, or who needs to take action on the dispute, it's ultimately on the collections department to coordinate the resolution so payment can be remitted.

In the world of disputes, the collector many times finds themselves playing the role of traffic cop. They try to coordinate resolutions between the customer and their company. This may require getting information or documents from the customer or from an internal team. We have to consider that a collector has to play the role of traffic cop to all customers within their portfolio. That is a lot of time and effort that takes away from being able to collect.

The traditional dispute management process is problematic, but for now let's review why dispute management is so important in AR.

Most common types of disputes

Disputes can occur for a variety of reasons. An invoice dispute is a situation where a customer fails to pay the amount on an invoice citing various issues, like the product arrived damaged, or there were promotional pricing changes.

Invoice disputes usually fall into one of the five following categories:

Delivery Disputes

These disputes occur during the delivery of goods and services.

- A product is delivered too early or too late
- One or more products were not received and are missing
- Wrong products were delivered
- A product was incorrectly delivered because of a wrong address

Administrative Disputes

These issues pop up because of some incorrect or missing documents.

- The invoice contains inaccuracies like incorrect invoice amounts or is not clearly formatted
- There are problems with the Purchase Order (PO)
- The invoice does not reflect a change in order
- Some documents are missing
- A double billing took place

Quality Disputes

Customers will also raise a dispute when the quality of the product or service is not satisfactory and does not meet their expectations. Damaged goods or packaging are also part of this type of dispute.

Pricing Disputes

If the price on the invoice does not match what was agreed to at the time of the order, customers will lodge a complaint.

- Errors or discussions regarding the price or a discount
- Errors related to trade promotions or bonus

Payment Disputes

There are problems with payments.

- Customers cannot pay. For example, because of a credit issue
- There is an ongoing discussion about a partial payment plan or a due date
- Customers short pay

Why is an effective dispute management process important in AR?

Few AR professionals enjoy dealing with unhappy customers. When there are disputes on an invoice, unraveling what caused the discrepancy is time-consuming, tedious work. If the mistake is on your end, it can make customers question the accuracy of your billing.

How you handle disputes goes a long way toward positioning you as a successful business. But to turn disputes into receivables, **an effective dispute management process must be put in place.**

With smart dispute management, you can view and manage disputes and get visibility for more than just the customers, but also for every stakeholder in your organization.

However, setting up a dispute management process doesn't come without its challenges:



Challenges

— Gathering info

Disputes touch upon other departments and processes in the business (invoicing, delivery of goods, sales, etc.). It is not easy gathering the proper documentation from these different departments of your business.

— Centralized overview

Decentralized dispute management can lead to delays in resolution. This problem arises when multiple departments and branches lack clear visibility of dispute statuses.

— No proper strategy

There should be a dispute policy and specific procedures in place so your workforce knows what to do. Ask yourself these questions: How do you prioritize cases? What dispute and approval workflows can be set up? How do you identify all stakeholders?

— Lack of automation

Businesses that haven't adopted modern-day AR automation experience more disputes over invoices, slower payments that affect their customers' credit lines and lower net promoter scores. Also, manual processes are prone to human error.

— Silos

If you are relying too much on email and silos, info is just sitting in the mailbox of stakeholders. Or stakeholders don't have access to AR tools and can't perform crucial tasks needed to resolve disputes.

— ERP system limitations

Legacy ERPs have limited capabilities when it comes to disputes. Storing notes and documents about disputes and retrieving them is not as easy. Setting up dispute workflows is challenging, as is matching partial payments to invoices.

Managing disputes should be as straightforward as possible. But the truth is, most AR teams are not equipped with the right tools to handle and resolve disputes.

And **the consequences of poor dispute management are real.** Cash gets tied up in disputed invoices. If receivables are not collected in a timely manner, or not collected at all, bad debt increases. This could in turn affect the business' cash flow, and its obligations.

It also affects customers. If disputes are not well managed then this could put a dent in the relationship with your customer and harm your business. Buyers may no longer want to partner with sellers who have a reputation for poor dispute resolution.

The six Ws when collecting

This methodology will help you uncover any issues with invoices that may be leading to disputes.

Using the Six W's, you can get all your answers in one contact and reduce the need for frequent customer conversations. The last thing you want is to contact your customer about an issue because you neglected to get all the relevant information the first time you discussed it.

The Six W's are open-ended questions and cannot be answered with a simple yes or no.

who

Identify the right people to solve a situation

what

Identify the problem, both on behalf of your customer and of yourself

where

Determine locations or areas that will help you resolve issues delaying payment

when

Establish timelines and expectations for when a payment will be processed and sent

why

Know why the problem exists in the first place (perhaps most important)

how

Increase understanding of the situation and how customers' processes work

The 3-step process of resolving disputes

The dispute resolution process consists of different steps and stages and, depending on the type of dispute, they may not all be needed. For some disputes the resolution process can be rather straightforward, for others they can be very time-consuming. And they can occur not necessarily in the order we are presenting them below.

We've identified three easy steps to effectively deal with disputes for your business: Identify, Investigate, and Resolve. They are integral parts of the dispute resolution process.

1. Identifying disputes

It is important to **uncover potential disputes as early as possible**. Customers can express that there is a problem both explicitly and implicitly.

EXPLICITLY

They say so in a clear manner with no room for confusion or doubt, for example when you were told by email or phone that there is a problem with an invoice charge.

IMPLICITLY

They convey it in a way that is not directly expressed to you. The most prominent example is an unpaid or partially paid invoice.

Any contact with the customer, during a call or in person, should direct them to communicate to the collector or a customer service department, if there are any issues that are withholding payment on an invoice.

If the dispute is uncovered by other departments they should send dispute tickets to the AR team or start a dispute case.

Whatever the source, you should be able to **document explicit dispute identification**, and also have the tools available to recognize implicit signs of disputes. When you receive an email from a customer or talk directly to the customer during a call, taking notes and registering the dispute should be as straightforward as possible and a required part of your process.

Self-service dispute management accelerates dispute resolution, saves precious time and ultimately leads to faster payment. Depending on the solutions your business uses or will use, there are a number of ways customers can identify disputes.

- The customers themselves can log a dispute — not only collectors or other departments. Your company can provide a button on any payment reminder or payment demand that goes out by email, allowing the customer to dispute one or more invoices.
- A customer may be able to tag it through a portal. If your business is using a billing and payments portal to collect customer payments, customers can generate disputes using the portal's dispute invoice functionality, or by short-paying an invoice.
- Another way you learn of a dispute is when the customer notifies you of a chargeback, or worse, takes an unauthorized deduction from a payment. It's a bonus if these disputes from buyer to supplier are automated via payment or remittance.

No matter how the dispute was discovered, a **thorough registration of the dispute** is part of the process. The dispute is registered into a system by the AR team, and needs to be prioritized and tagged depending on the dispute's reason and urgency.

Using **dispute reason codes** is important when registering the dispute for the first time. If you use a certain dispute reason code in AR software, ideally a new case should be automatically created and a specific workflow kicks in.

Some examples of dispute reason codes that are typically used:

- Purchase Order missing
- Purchase Order expired
- Tax
- Discount
- Damaged goods
- Incorrect delivery
- Wrong product
- Shortage
- Pricing
- Credit memo

By identifying and/or creating disputes in the system, and attaching a dispute reason code to it, you can swiftly expedite the process for resolving disputes, which can greatly reduce written-off charges, prevent lost revenue, and improve your customers' experience.

2. Investigating disputes

Once a dispute is recognized or brought to your attention, as a collector you should look to **procure any documentation** that will help in getting the dispute settled.

Investigation requires that you try to confirm whether the customer's dispute is valid or invalid. This usually involves finding the relevant people at your company who have the knowledge and job responsibility to research and **confirm whether the issue is valid or invalid.**

When all the facts about the dispute are known, the analysis will be faster. But in some cases you are told they can't satisfy the dispute without the proper documentation. You in turn will have to go back to the customer and **request additional info.**

Gathering all relevant documentation takes time: we are talking not only of the invoices themselves, but Purchase Orders (PO), Proof Of Delivery (POD) and so on. If for example the customer made a return against an invoice, you should ask for return information along with the POD.

Plus, this investigation phase takes attention away from other issues, ages the invoice or debit memo and negatively affects your delinquency. And, it can cause undisputed invoices to be neglected and not paid. Acquiring any relevant documentation up front can save precious time.

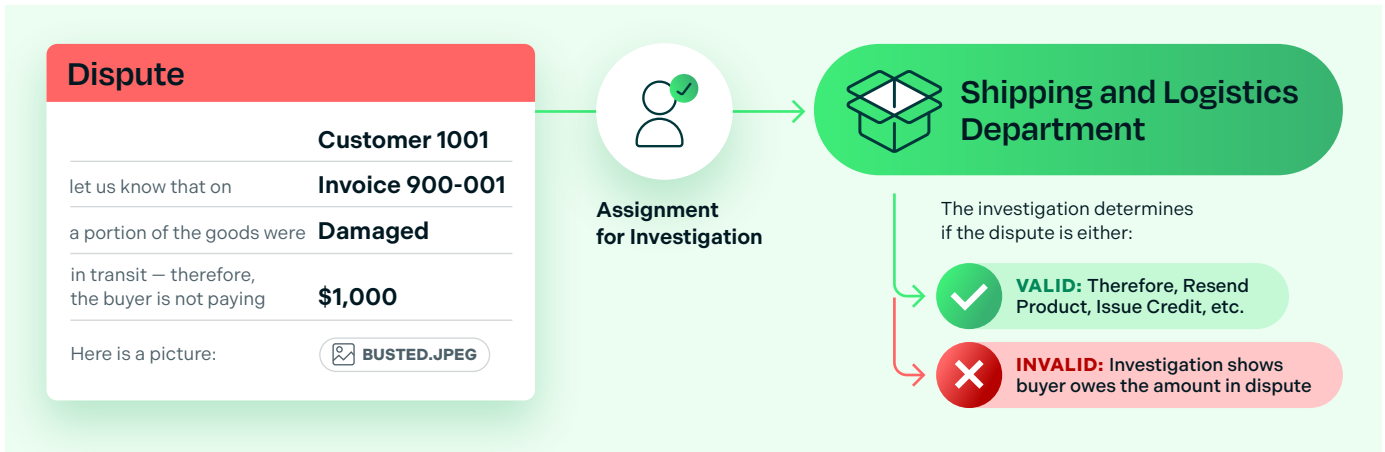
Having a dedicated tool at your disposal can go a long way. It can help tag and get the disputes to the relevant department and individuals to resolve. It gives dispute assignees and leadership a birds-eye view of all relevant disputes.

More importantly, **collaboration is made easy.** You can escalate disputes and send messages to the right people, in or outside your department or business, ideally from a single interface. Every stakeholder knows the status of any assigned dispute and faster dispute resolution is almost guaranteed.

3. Resolving disputes

You've just described very precisely the reason and the cause of the dispute, and all proper documentation is in place. The dispute is also registered in your AR solution.

The next phase now kicks in: **you can start evaluating the dispute and decide to accept or reject it.** Once your company knows whether the buyer's dispute is valid or invalid, then you may try to resolve the dispute. Depending on the case this can drag on longer than you would like.



VALID DISPUTE

In cases when the dispute is valid - like when a product was actually shipped damaged and your customer provided evidence by sending a picture - your company can fix the problem by resending another product, and/or issuing credit to the customer.

The goal here is to resolve the dispute as expediently as possible.

INVALID DISPUTE

If the dispute is not legitimate and rejected - for example the product was in fact damaged by the customer - then the customer needs to be notified. They can provide extra details or accept the declined dispute. Sometimes approval by management or other internal stakeholders is needed before invalid disputes can be honored.

Your company will then try to collect the disputed amount. You may be responsible for collecting and chasing that amount. Additionally, depending on the findings, your company may also write off the disputed invoice charge. You could also be responsible for submitting disputes to be written off.

In the end, changes need to be logged or communicated back to your ERP system or accounting software. This step is more streamlined when your AR solution and your ERP system can talk to each other and exchange data, through an API for example.

Resolution roadblocks

Sometimes, disputes can sit unverified and unresolved for too long. While these disputes are waiting, you can look into how the disputes are being handled by your company, and whether they are actually being resolved.

One way is to use reports to identify which departments, and specifically who in that department, could be holding up dispute resolutions.

For example, in a report with the name Collections Open Disputes Amount you can see the total amount currently being disputed by customers, and the open disputes by assignees. This way you can reach out to an assignee to investigate why these amounts have not been reconciled.

Another report can give you the open disputes amounts by the associated dispute reason and by which department.

Collaborative Disputes

Dispute management processes are collaborative in nature and communication is key, internally with team members and routing to other teams – so everyone is on the same page and a dispute does not get stuck somewhere, but also externally to the customer.

Dispute management is never a one person or one team job. When you are unable to resolve a dispute on your own or when handling invoice disputes is not part of your job role, you need to talk to sales, customer success, manufacturing, purchasing, and other internal departments.

These conversations with stakeholders are key, but come with their own challenges. The stakeholders in your company are not always aware of the urgency and are dealing with their own business issues. Their priorities are not aligned with yours. You may have to encourage them to be expedient in their resolution.

This is where the **role of traffic cop** comes into play for the collector. The collector has to be the conduit between the customer and their internal team. Part of that role is to keep open the lines of communication with the customer and your internal team in case any additional information is required.

At the point of resolution, whether a credit was issued, a replacement product was sent, the invoice was re-billed, or the dispute was rejected, the collector needs to act on the dispute. At that time, they need to inform their customer that restitution was made and payment for the disputed amount needs to be made.



Case management

A lot of time going back and forth is spent in these interactions, and this is a big part of the dispute resolution process. One way to take collaborative disputes to the next level is **case management**.

Case management allows you to better manage collection disputes with one single birds-eye view of all dispute cases and assigned roles, and helps you automatically route disputes to the proper internal teams for resolution.

There are many invaluable benefits of case management. You can view and manage all disputes, filter on any dispute status or stakeholder role, or perform bulk actions. You have all correspondence with your customers - notes and documents linked to the case - at your disposal. Personalized templates can be set up for better communication, internally or with customers.

Automated dispute workflows play a big part here. They can speed up dispute resolution and simplify the process of disputing cases, especially for users who do not often work with the solution.

When users or customers submit a dispute case a whole cadence of activities kicks off. These could be simple workflows with only a few steps, or more complicated ones with rounds of reviews and approvals for higher-risk disputes. You should be able to fully adapt these workflows to your own needs, like the applicable procedures, processes and policies in your company.

Tracking the results and making improvements

The dispute resolution process wouldn't be complete without tracking the results. Most companies like to make decisions based on data, and for much of his career, **that type of data was hard to come by**, says John Floyd, Senior Business Consultant at Billtrust. Fortunately that is no longer the case.

We wrote earlier in this white paper about the importance of creating dispute reason codes. Since that information is captured, it allows similar disputes to appear in lists or reports within your solution. As a user you have complete freedom in determining these codes. Even more, you can create custom fields, which can come in handy when you, for example, want to report about the amount of money tied up in disputes.

Why is that important? Because through reports and tracking trends in disputes, **you now have the necessary data to enact upstream change**. You can go to upper management and other department heads and tie a dollar value to issues disputes are causing. Telling a story that includes being able to say for instance, you average \$50K uncollected in missing purchase orders a month (\$600K yearly) is compelling. That will make people take notice, and even more important, take action.

It's well worth the time and effort for your company to examine your order process and how you can better make sure purchase orders are captured. Will that mean you have \$0 in missing purchase orders? Of course not. But what if, with an improved process, you made a very modest efficiency increase of 50% fewer missing purchase orders? That's an extra \$25K collected a month (\$300K yearly) that didn't age needlessly due to disputes.

And that is just one of many potential upstream fixes. Think of how many other issues you have with purchase orders or pricing, or how about sales tax? With every possible dispute reason your company receives, there is a potential improvement and efficiency to be made. If changes can be made that lead to fewer disputes, **a collector's time is freed up**. They can make more customer contacts and theoretically collect more money.

John Floyd: "You can use all the data that you collect as a means to lessen the number of disputes customers take. You can better answer questions from management and other departments such as: How many disputes do we handle? How much money is tied up in disputes? How long does it take them to resolve? In the end your dispute process and workflow, and by extension the order-to-cash cycle, can be less reactive and more changes can be made upstream."

Conclusions and recommendations

Traditional dispute resolution processes involve tedious, manual tasks that are prone to errors and inefficiencies. You should uncover invoice disputes quickly before they become a problem.

To better handle and manage disputes companies and AR teams should:

- Choose solutions that help streamline the dispute management process, improve visibility into the process of disputes for all stakeholders, facilitate speedy dispute resolution, and build better customer relationships.
- Keep everything in one centralized location, so teams will have everything they need to resolve cases quickly. These solutions should take care of all coordination around a dispute. Any communication, internal and external, is registered.
- Focus on quickly resolving issues and be proactive in collections before accounts receivable become due.
- Draw up reports afterwards so that business processes can be critically examined.

Ultimately this should lead to more cash collected, and faster.





Learn more

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ABOUT BILLTRUST

Billtrust is a leading provider of cloud-based software and integrated payment processing solutions that simplify and automate B2B commerce. Accounts receivable is broken and relies on conventional processes that are outdated, inefficient, manual and largely paper based. Billtrust is at the forefront of the digital transformation of AR, providing mission-critical solutions that span credit decisioning and monitoring, online ordering, invoice delivery, payments and remittance capture, invoicing, cash application and collections.



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