

Overview and Development of Claim Processes

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<p>This thesis describes the process flow of how claims are handled in Company X. These processes were created by the author during a six-month period in 2017. This thesis also describes the development of those processes.</p> <p>To narrow it down, this thesis focuses on the five most used claim codes and how these processes are working. Which parties are involved and who has to do what in certain situations?</p> <p>The goal of this thesis is to bring more transparency and clarity to the claim processes of the company. This is done by describing the different claim codes with the help of text and using process flow charts to display the claims flow.</p> <p>After the thesis, the reader has a better understanding of how the process goes when different types of claims are created by dealers. Which parties are involved in the different stages of claim process and what steps happen during claim process.</p>	
Keywords SAP, Reserve Logistics, CRM, Data Management.	

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1 Introduction

This thesis will present the situation in which the company X was between June and December in 2017. This is done by doing research on the data that was gathered from the work of author during that period of time. The research focuses on the claim processes that are being used in the company X.

All the numbers and figures are based on a situation that occurred in one company during the second half of year 2017. This company will be referred as a company X during this thesis. Also, the values and names of the processes will be changed to keep the name of the company as anonymous.

The aim for this thesis is to introduce the beginning situation of claim handling, from which the author started to work in June 2017. And to show with different flowcharts and descriptions that how the process is now operating and what has been changed from the start.

The description of claim process flows is done as a research. In this research, the focus is on five different claim codes, which are: Missing goods, oversupply of products, damaged goods, manufacturing errors and miscellaneous reasons.

Flowcharts will be used as a main tool to describe the flow of the process, since seeing something in a picture can be a lot easier for a reader than reading the process from a long text. In this thesis, the flowcharts will be used to describe the involvement of different parties.

When using flowcharts, it helps persons who are not familiar with the topic to understand the processes. This is because in text jargon must be used and it can be confusing. (Ray 3 November 2015)

When doing research, the main question is that how will be data be collected for the research and what type of research it is? According to Verhoeven (2011, 27) research can be either fundamental or applied research. For this research, the applied approach has been chosen as the goal of the thesis is to bring more transparency to the claim processes.

As for data collection methods, both quantitative and qualitative methods are used. From the qualitative side of data collection, observation is used to collect the data when the processes are ongoing. After the claim process is over, the data from the flow of process is

gathered and analysed. The results of this data collection can be then seen in the chapter three, where the five different claim processes are being presented.

From quantitative side, monitoring is used as a way to design the research. This is done by monitoring the process flow of the different claim types and seeing whether there is a change in the flow of processes. The data collection is done by having these five different claim types as a focus group. (Verhoeven 2011, 111-157)

2 Theoretical framework

In this part of the thesis, main theories that have been influencing the process and its development will be covered. This chapter will include theory regarding reverse logistics and customer service management

2.1 Reverse Logistics

The first theory that is going to be analysed is about reverse logistics, which is playing major role in handling of the claims. Because some products need to be returned from the dealers back to the warehouse.

Harrison, Van Hoek & Skipworth (2015, 162) define reverse logistics as follows:

- "Reverse logistics deals with the flow of goods that go back up the supply chain for a number of reasons, including: product returns, repairs, maintenance and end-of-life returns for recycling or dismantling."

Whereas Rogers & Tibben-Lemble (1998, 2) defines it as follows:

- "The process of planning, implementing, and controlling the efficient, cost effective flow of raw materials, in-process inventory, finished goods and related information from the point of consumption to the point of origin for the purpose of recapturing value or proper disposal."

These two different definitions sum up together the core idea of reverse logistics, which is to be the opposite of the forward logistics, which is the normal way of supply chain.

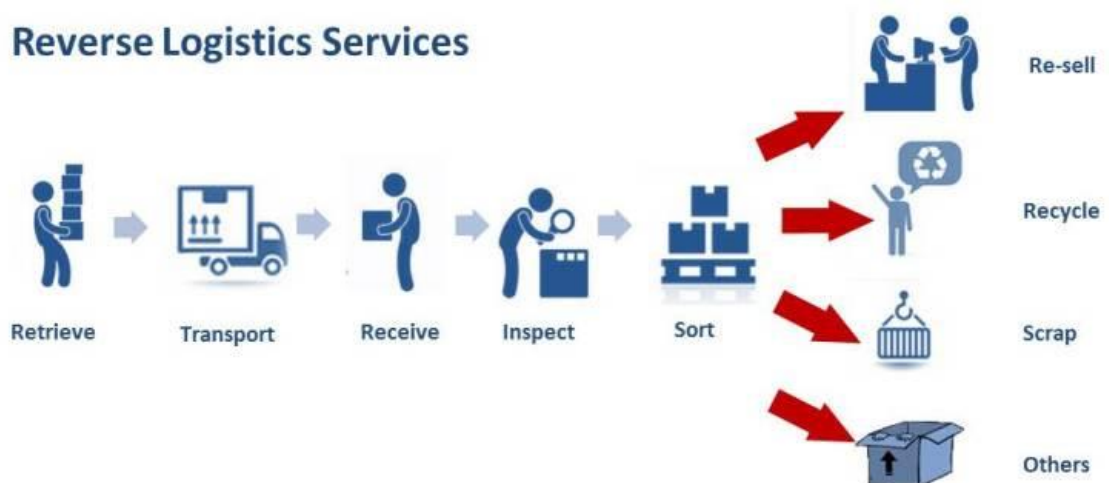


Figure 1. Reverse Logistics (GoPigeon 22 February 2016)

Reverse logistics can be seen as a burden rather than an asset for a lot of companies. This is because of multiple reasons. Some of these reasons are related to the fact, that

since reverse logistics is something that is usually occurring after a mistake is made by some party, the forecasting of it can be difficult for the company. Therefore, there is no proper infrastructure designed for it. This can be a “corner-of-the-desk concern” which makes it a burden. (Harrison & al. 2015, 163)

According to Reverse Logistics Executive Council (RLEC 2018) Reverse logistics has many issues that makes it less appealing for companies to invest on. Some of these issues are: More difficult forecasting than in forward logistics, reverse costs are less visible for the company, the management of inventory is not consistent, and the quality of products is not uniform.

In this research the role of reverse logistics is when the dealers are making claims regarding products, whether they have ordered wrongs parts, they have received different parts that they ordered. Or the part has been damaged at some point during the forward logistics from the manufacturing to the dealer, these parts needs to be returned to the warehouse for correct handling.

As an example, a dealer from Northern Finland has ordered themselves a new bumper that is being transported from the warehouse in Southern Finland across the country to the dealer. When the part arrives to the dealer, they realize that is the bumper is not the one they ordered and therefore it cannot be used for the customers vehicle. This starts up the process of reverse logistics, where first the dealer makes a claim to return this part, once it has been accepted, the dealer orders from the transportation company the transport for this part to be returned to the warehouse. At the same time, the person handling the claims makes a return order to the warehouses management system that these and these parts are returned from this dealer back to the warehouse and gives the person managing returns instructions on what to do with the part. Once the transportation company has picked the part from the dealer and returned to the warehouse, the people at warehouse will do what is necessary for the part, which is in this case the possible relabeling of the product and putting it back to stock. After that the process of reverse logistics is completed.

More about the role of the reverse logistics in the research will be explained later when looking more into the details of different claim codes and processes.

2.2 Customer Relationship Management (CRM)

The next theory is about Customer Relationship Management, which will be referred as CRM in the text. Parts of CRM are important for the research, as it is part of handling claims.

Customer Relationship Management is a reference to all the practices, principles and guidelines that organizations follow when interacting with their customers. The goal of CRM is to improve the overall experience of the customer. (Investopedia 2019)

In the research, the main part that involves Customer Relationship Management is when the claims are being handled, there will be some level of interaction between the person handling them and the dealer. This level of interaction is dependent on the claim code that is currently being processed.

For example, if a dealer receives a damaged part, there has to be interaction between the parties regarding what they should do with the part, how will they get a new part, and will there be a compensation on the broken part.

2.3 Business processes

In this thesis, the different processes are being displayed and analysed to bring clarity to the company. According to Wang (2005, 119) business processes can be described as following, "A business process is a collection of interrelated work tasks, initiated in response to an event that achieves a specific result".

Which means in this research, that the collection of interrelated work tasks is the different steps that are happening during the event, claim process.

For the company it is important to analyse these claims, so that they have full understanding of how the process goes and which parties are required to do certain tasks in the different parts of the process. Also, when the company analysed the processes, they can possibly pinpoint some tasks that might be irrelevant when achieving the result. Or the tasks can be changed and improved.

When handling the data that is collected from the research, one way of displaying the gathered data is to use cross functional flowcharts. It is a type of flowchart that is being

used, when the process involved more than one party. These flowcharts display the different parties that are involved in the different steps of the processes and the tasks that are involved in the process.

In these type of flowcharts different parties are divided into columns, and when the process is being handed from one party to another, it changes column. Every process has a start and an end. Between the start and the end, various tasks and decision points are involved. (Edraw 2019)

This research uses five different symbols in the cross functional flowcharts, which are shown in figure 2: symbols. These symbols are following:

Start event: Represents the start of the process.

Task: Activity within the process

Gateway point: Location in the process where the flow can take two or more alternative paths.

Intermediate event: Something happens between the start and the end of process but does not start or end the current event.

End event: Indicates the end of the process.

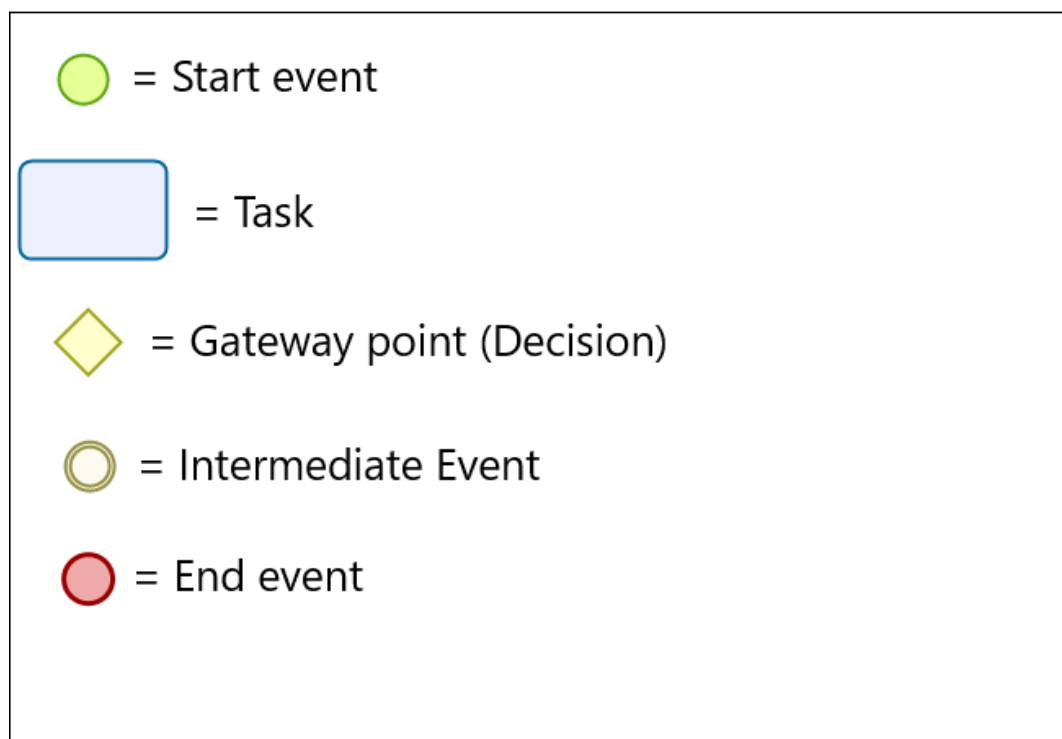


Figure 2: Symbols (Bizagi 2019.)

3 Claim Processes

In the following chapters, the starting situation will be presented. After that the following chapters will present the different claim codes that were used during the time author was working in the company X. Starting from code 1: Missing parts and moving on to code 2: Oversupply of products. Followed by claim code 3: Damaged goods. Then presenting claim code 4: Manufacturing errors and finally the last claim code 5: Miscellaneous reasons. This is part of the research that was done to have a better overview of the claim processes.

3.1 The Starting situation

When the author started to work on the claim handling processes at the company X, the situation was not in under control. A lot of claims where not handled and the dealers were waiting either for their money, or for permission to return the parts. This was due to a multiple reason, but the main reason was that there was no current position for the handling of claims. It was just something that employees were doing whenever they had the time to do it. If they did not have the time, the claims were prioritized as lowest and were therefore left undone. This is the reason why there were over 200 claims open and none of them were handled. Some of these claims were created in the end of year 2016, which means that for over six months, the dealer had not received any compensation, or the parts were still located at the dealership, even though they should have been returned to the warehouse for destruction or storing.

At the beginning, the main goal was to get the current situation on to a level, where the dealers would have received their money and the extra- or damaged parts would be collected away from them within a reasonable time period. This way the situation would be more stable. When the situation started to get stable, it was possible to start to work on the different processes and to develop them so that the flow of products and money would be more efficient.

The data that was used to create these flowcharts was collected from the work that the author did in the company during the summer and autumn of year 2017. Most of the data comes from the experiences of the author.

3.2 Claim code 1: The missing parts

The first process that will be analysed and explained is the process of what happened, when the dealer ordered a part, which then never arrived to them.

Sometimes when dealer created an order, parts that were supposed to be picked, were lost in the process. Sometimes this happened already at the warehouse, sometimes it happened during transportation. Especially if the parts were going to Baltic countries. They went through multiple terminals, before they reached their destination. In these cases, dealer created a claim for these lost products by using the so-called frontend SAP. On this website, they used the order number to get the list of parts ordered within that order. From that list they marked the parts that are either completely missing, or they have received less than what they ordered. For example, a dealer ordered six headlights, but received only three.

When they have created a claim, the person responsible on the handling of the claims investigated the claim. If the dealer has received a bill, on which they have paid for six headlights, they were compensated on that. So, the handling person created a credit note for the dealer by using the backend of the SAP. Then the person told the dealer to order the parts again. After that a claim was closed, as the dealer has received the compensation. The process flow of this claim type can be seen in figure 3: The missing parts

This type of claims was collected once a month to few different reports, so that the other parties involved were aware of what has happened. These parties included the warehouse, because it is important for the business of the warehouse to maintain the stock levels and delivery percentage. Also, the insurance company was informed, because insurance company then compensated company X.

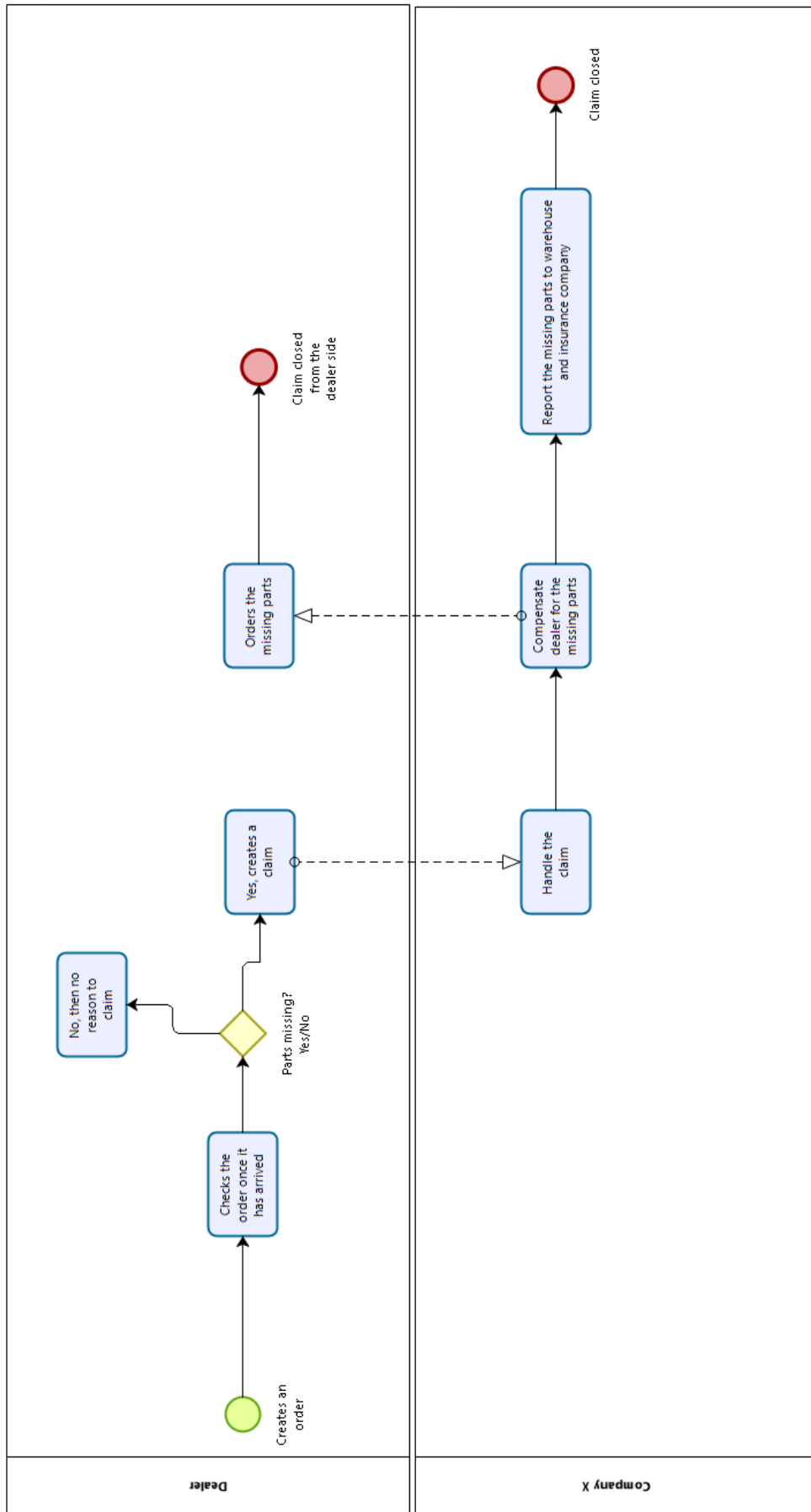


Figure 3: The missing parts

3.3 Claim code 2: Oversupply of products

When dealer decided to order something to their stock, often more than one quantity of the product was ordered, as the shipping costs became too high to ship only one part. If dealers had at some point higher demand for certain parts, they were able to reduce the time it takes to repair something by having the extra parts in stock.

When ordered, these parts were picked by real person in the warehouse, which caused the possibility for human error to happen. The most common way that the mistake was made, was when the quantity that was supposed to be picked was a unit inside a box but the person picking the order picked up the whole box instead of the unit from the box. Sometimes also smaller mistakes happened, and quantities had been miscalculated which lead to bigger number of units picked than that was placed on the order.

For example, the dealer might had placed an order for six head bulbs, but they received eight of them. Here there were two ways to claim these mistakes. Either dealers returned the extra quantities without any costs to them, or they claimed to keep them, in which case they were charged for that.

If the dealer decided to claim the extra quantities as parts which they wanted to return, there was freight ordered to pick them up and deliver them back to the warehouse. Usually the freight was tied to other shipments that were going to be delivered to the dealer and back, because ordering freight for few small parts was expensive compared to the value of the products. If there was traffic to the customer, these parts were sold to the dealer with reduced price. In these cases, new debit note was created related to the claim, where the price of the parts was manually changed. Especially in Baltics, the company X tried to sell the parts to the dealers at reduced cost, because the freights were that costly, that it became expensive for the company to start to return the parts back to the warehouse in Finland. If the Baltic dealer still refused to buy the parts to their stock, they were picked from the dealer usually once a month and then the claim was closed.

In some cases, even if the dealer had received too many quantities of certain product, they might have wanted to buy the extra units to their stock if they knew that there were demand for the parts. This also saved freight costs. In Baltic countries, the dealers tended to buy the extra parts for them more easily compared to the dealers in Finland. This was because since the parts were shipped from the warehouse in Finland, the delivery times of these products could be quite long, depending on where the dealer was located. In some cases, the parts went through multiple terminals before reaching the destination.

When the claim for keeping the extra quantities was created, it automatically created a debit note for the dealer. When the claim was closed in the SAP-system, SAP released the debit note for dealer to be paid. This process is also presented in the figure 4: Oversupply of products.

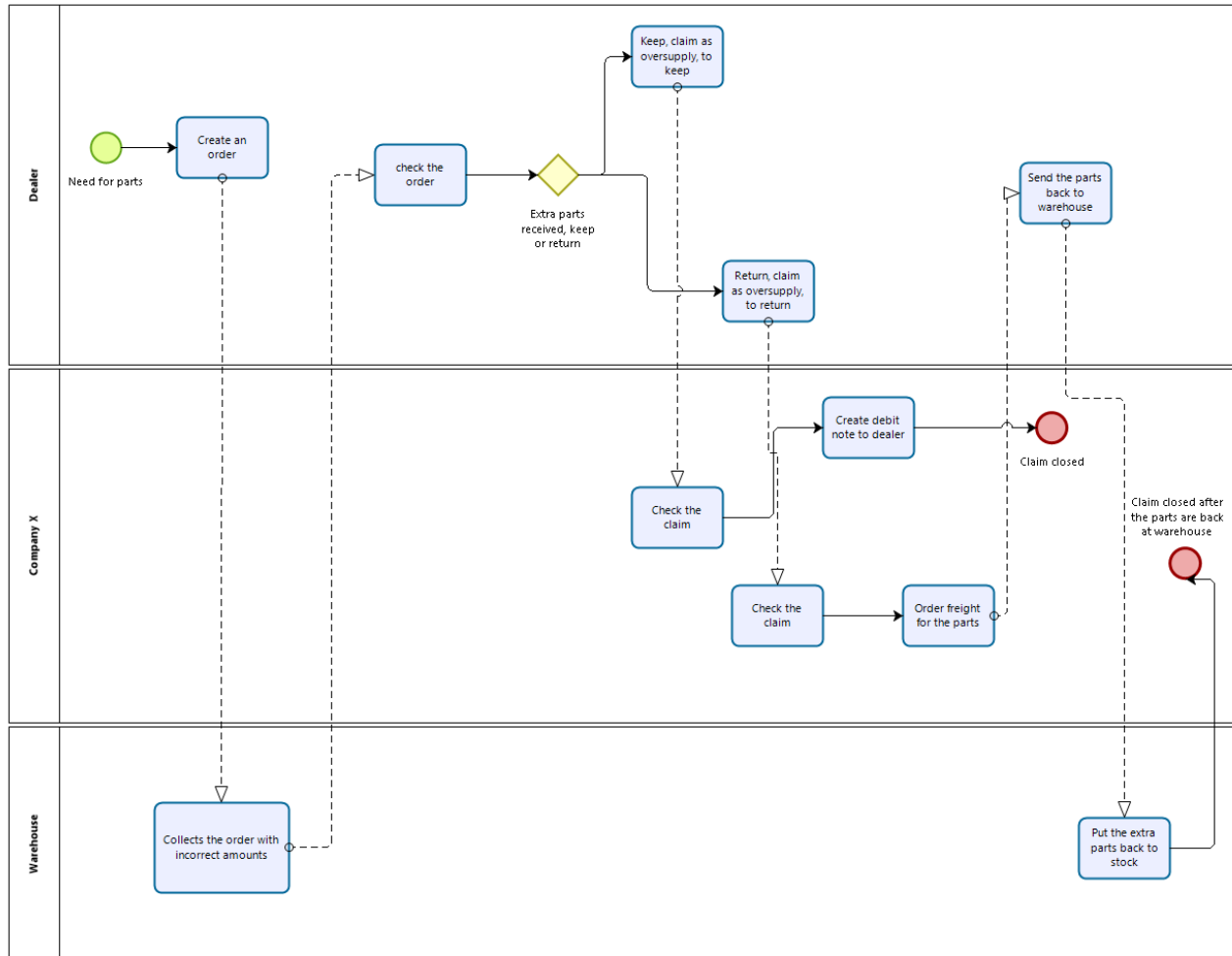


Figure 4: Oversupply of products

3.4 Claim Code 3: The damaged goods

When looked into the different type of claims that were created, the most common one was a claim type, where the part was damaged during the transportation from the warehouse to dealer. For these types of claims, the process of handling was also difficult, because these kinds of claims involved multiple parties and a lot of information and data management between the parties.

The claim process started every time when the dealer had received the parts from the transportation company and notified that there is a damage on these parts. Sometimes

the damage was so visible, that they were able to mark it already on the freight document. Sometimes the damage was only visible after the removal of packaging, so the dealer was not able to notify the freight carrier about the damage.

When the damage was notified, dealers created a claim in SAP, where they marked which order it was where the damaged part was included and what was the item number of that part. Also, if there was more than one unit damaged, they marked that how many parts were damaged. They also attached pictures to the claim showing the damage on the part. As an example, in picture below, the mirror was cracked during transportation, but since it was inside the package, the damage was not visible until the package was opened.



Picture 1: Damaged mirror

After the claim pictures were inspected by the claim handling person in company X, the dealers were credited for the damaged goods and they were able to order new parts. Once they had ordered the new parts, the dealers in Baltics were asked to keep their damaged parts in stock and these parts were then collected once a month from the dealers to the warehouse in Finland. These parts were kept at the warehouse for few months in case the insurance company wanted to examine the damages. After that those parts were scrapped. In Finland, the dealers were required to keep damaged parts in stock for three months. During those three months the insurance company had the opportunity to visit the dealer and have closer inspection on those parts.

In some cases, where the dealer was located far away from the warehouse, usually in Baltics or in Northern Finland, the dealers had the possibility to claim the damaged parts as repairable and repair them for certain amount. The cost of the repair was not allowed to exceed the 50% of the cost of a new product. Also, the part had to be that kind of a part that it was possible to fix it in the first place. Usually those fixed parts were doors or

hoods, because in most cases it was possible to bend them back to normal as the damage happened to those parts was rather small. Here is an example of hood that was damaged.



Picture 2: Damaged hood

Doing this way, dealers were able to get the cars fixed and back to the customers faster. Especially in cases, where the parts were not in stock of the Finnish warehouse and had to be ordered from the main warehouse in Netherlands. Delivery times for those parts were in some cases over five business days. With repairing of the part by themselves or with the usage of local business services, dealers managed to repair these broken parts and get cars fixed in one or two business days. After the dealer had announced that how much money they need to fix the parts, the claim pictures were analysed and decided, if that amount was enough or too much to fix the part. After that decision was made and dealer either got their money to fix the part or the claim was denied. The whole process is presented below in the figure 5: The damaged goods.

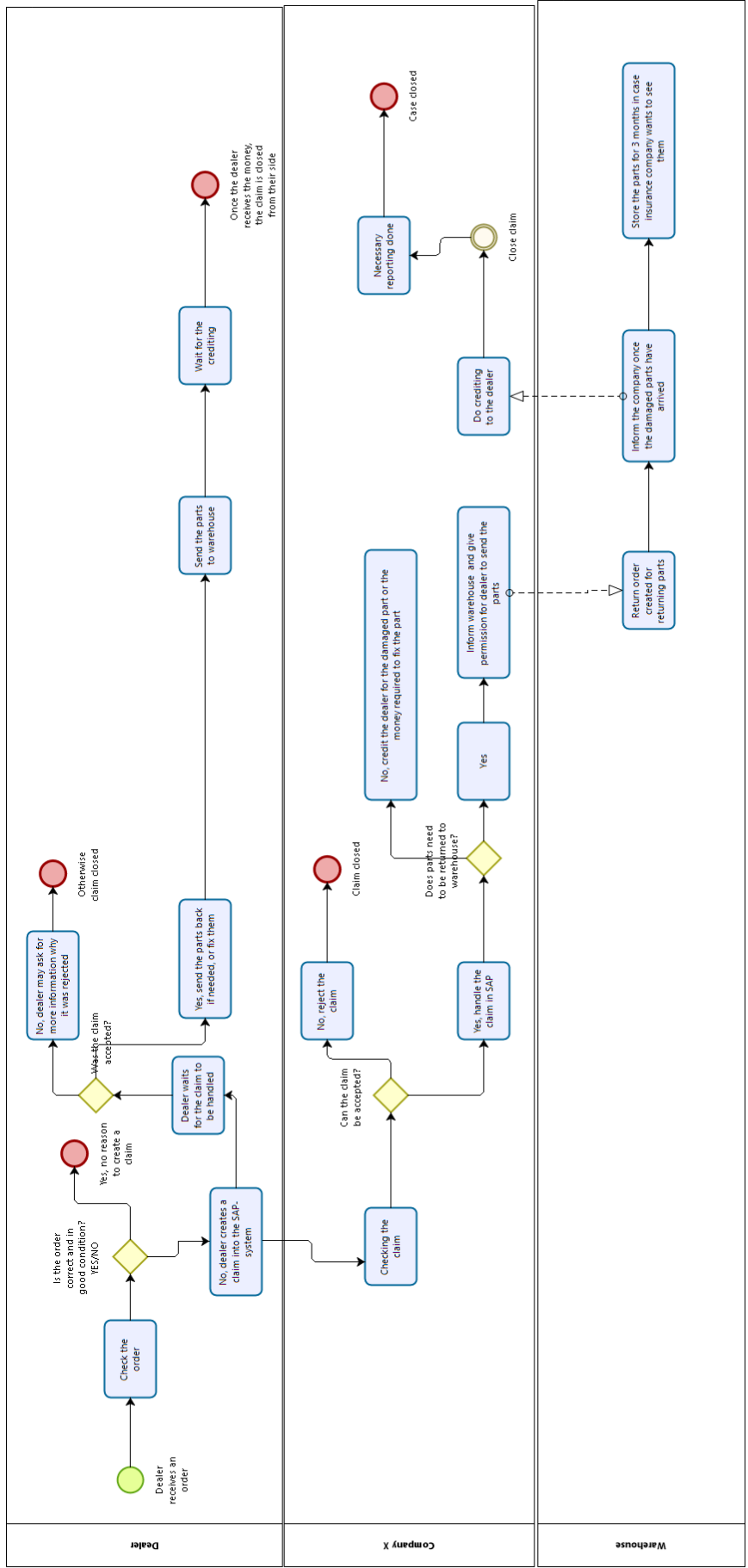


Figure 5: The damaged goods.

3.5 Claim code 4: Manufacturing errors

In some cases, the spare parts that were manufactured at the factory in Japan, were already broken when they were delivered to the warehouse in Europe. In some cases, the manufacturing error meant that for example, the part had pieces inside and one of those pieces was already broken or completely missing.

Every time dealers claimed that there was a manufacturing error on the part, the person responsible for claim handling had to open another claim to the factory to make sure that it was a manufacturing error on that part. These parts were returned from the dealer to the Finnish warehouse, from where they were then sent to the warehouse in Europe for closer inspection.

These claims took a lot of time and a lot of effort to get solved, so usually dealers just claimed damages as transportation damage, because that way they got their money back quicker. Therefore, some of the cases that might have been manufacturing errors, never got sent to Europe for closer inspection as the dealers did not claim them as manufacturing errors due to the length of the whole inspection process.

3.6 Claim code 5: Miscellaneous reasons

The last claim code that dealers used was a claim code that was used to create a claim when they wanted to return parts to the warehouse without any proper reason and receive their money back. Each of this type of claim was inspected carefully to find out that why did the dealer want to claim this specific part in the first place. There were also restrictions on which parts were possible to be returned.

In most of the cases, these claims were created because the dealer had accidentally ordered wrong parts for a car they were working on. When this happened, the person responsible analysed the demand of those parts dealer wanted to return. If there was enough demand for these parts, they could be returned to the warehouse if dealer agreed to pay for the freight costs. In cases where the dealer had ordered accessories, such as ski box, these parts were not allowed to be returned to the warehouse stock, so the claimed were denied. Only so-called maintenance parts were allowed to be returned.

Sometimes the customer came into a dealership and asked them to repair his or her car. When required parts were ordered, customer called in and told to dealer to cancel the re-

pairment of the car, as the cost of the repair was too high, and the customer could not afford to repair the car. In these cases, claims were always accepted, so dealer was able to return parts, as it was not their fault that the customer backed out after placing an order for parts.

Once the decision was made whether it was acceptable to return those parts or not, dealer was notified with either permission to return them or with explanation why they were not allowed to return. If they were allowed to return those parts, dealer was credited after the warehouse had received them. Then the claim was closed. If they were not allowed to return them, the claim was closed right after the explanation was sent to dealer. This is described in the Figure 6. Miscellaneous Reasons below.

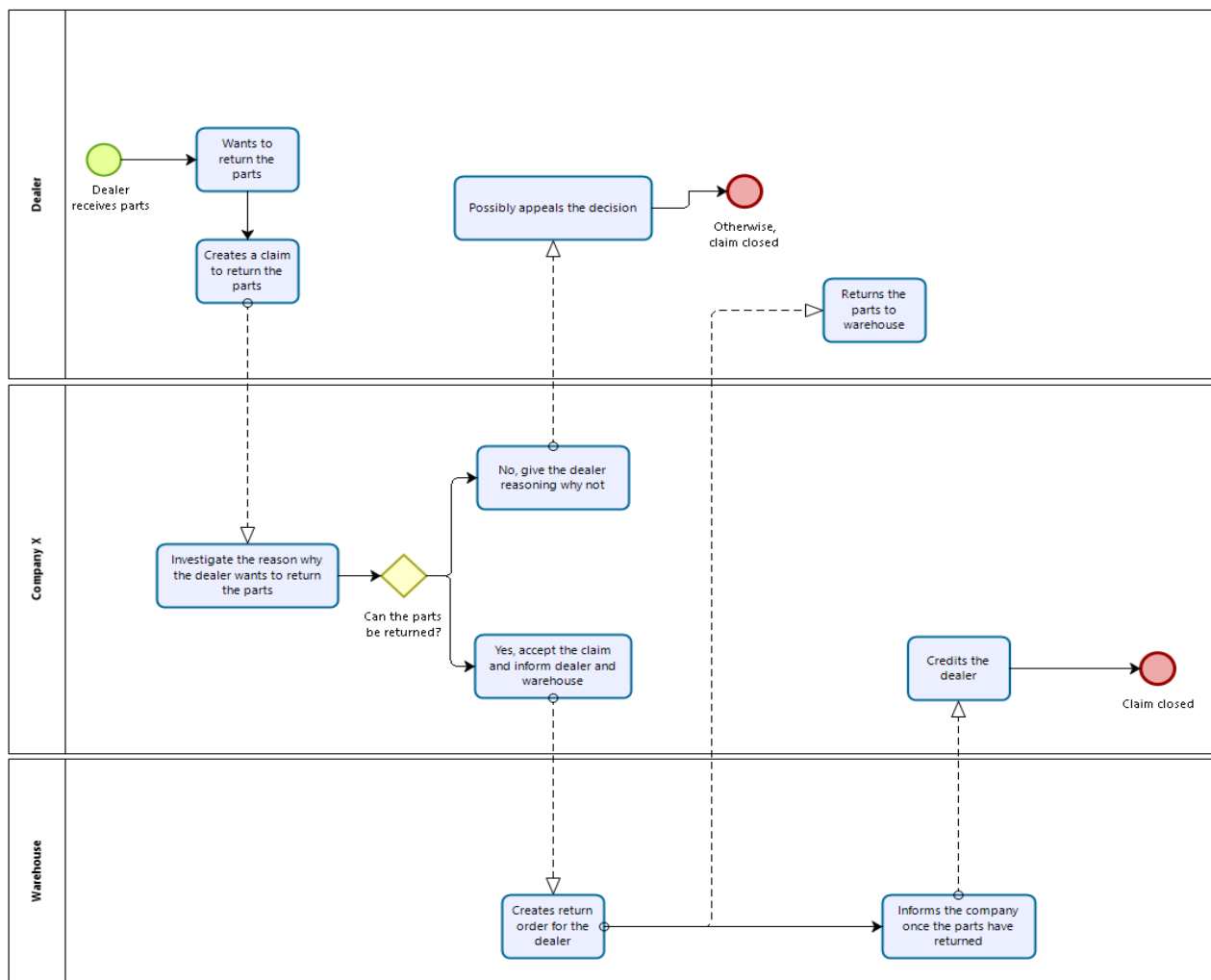


Figure 6: Miscellaneous Reasons.

4 Discussion

When thinking about the current status where the claim handling process is compared to the point where the author started, a lot of process has happened throughout this time. The claims are being processed on daily basis, which means that in most cases the dealers get results very quickly and they can start to take actions, whether it is ordering new parts or sending the old ones in. Also, they get their money back a quicker than they used to do.

4.1 Suggestions

In Finland, the dealers are also able to send the parts back to the warehouse very quickly, which means that they have more space to store their inventory. In Baltic countries, the parts that are meant to be returned to the warehouse are collected from them once a month, this includes all the damaged goods, oversupplies or mispicks. This means that if the dealer is very unlucky and they receive a lot of damaged parts, these can take a lot of space from their total inventory space.

One suggestion is that these parts would be picked from the dealers a lot more often. For example, if they would be picked from the dealers once a week or even once in two weeks, they could get rid of the parts a lot faster and then save the space.

Another option could be to setup a place somewhere in either Estonia or Latvia where these parts that needs to be returned could be sent, and then they would be picked from that place back to the warehouse once a month. This would mean more costs as there would be more freight movement between the dealerships and the parts storage place and also movement between the storage place and the warehouse in Finland. Also, the storage place has to be rented from someone, which would cost even more money and most likely there would be one or more persons working, so that would mean more costs in terms of salaries. This means that the best options to make the situation better for dealers in Baltic countries, the parts need to be picked from them more often than once a month.

Since all the changes to these claim processes happened already during the time that the author was working in the company, there is not that much that can be adjusted inside the processes due to the structure of the company.

The data that was used to explain these claims was gathered by the author from his own work and how the author experienced the processes while working on the claims.

Regarding the flow charts, there can be done some improvements of how the processes are being displayed. These charts are only describing the process flow in optimal situation, where everything goes well. As these processes include interaction between different parties, there is always a change that something goes wrong and the process will come to a stop. This is something that is really hard to describe in the process flow charts, as there are many different variables that can happen.

4.2 Reflection on own experiences

When looking back to this whole process, it would have been a lot smarter if this would have been done as a diary while working in the company X. This way the actual development of these claim processes could have been seen better. Now this was more just description of how the processes are now.

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