

Claim Management

Claim Management is a critical aspect of business for companies involved in providing bespoke or purpose built goods and services. It also applies to companies selling standard goods and services, but to a lesser extent.

Effective management of customer or supplier claims can have a significant positive impact on the financial situation of the business. Therefore, it is considered a Cost Improvement Best Practice.

Claim Management is where one contracting party makes a “claim” against the other party due to non-fulfilment of the obligations of an agreement (existing or implied) or where the basis of the agreement changes beyond what was thought to have been agreed. A brief example of each:

- Non-fulfilment of Obligations

An airline contracts to purchase fuel for the next 12 months. However, the economy goes into recession and the airline only takes 80 percent of the agreed amount. In this case the fuel supplier may make a claim against its customer, the airline for a reduction in a volume rebate, which both companies had agreed.

- Basis of Agreement Changes

An automotive supplier contracts with its customer, a passenger car manufacturer, to produce a new type of LRD headlight. The design comes from the customer, but the supplier has to tool up its plant and hire additional employees to produce the lights. However, due to a change in the vehicle safety regulations, these new lights are no longer permitted. The customer decides to switch to Xenon lights instead. The supplier must in this case impair the equipment already bought, and lay-off staff until the retooling of the plant is completed. In this case the supplier would have a solid claim against the customer, who probably should have known that regulatory changes were in the pipeline.

In general, claims involve items such as volume shortfalls, design changes, project cancellations, quality problems, non-conformance costs and additional unexpected

costs or overruns. They can be bi-directional – i.e. customer vs. supplier or supplier vs. customer.

The goal of claim management is to either maximize the claim against another or minimize another's claim against you without recourse to the courts of law.

Many companies have the problem that due to the pressure of daily activities, including production deadlines, change requests from customers are often put on the back-burner, missed entirely or not agreed. These need to be “caught” and managed under the claim process.

Managing a claim can be an arduous and distracting process. Benchmark claim management is organized within a company as a function, it is process oriented and handled by professional claim managers who continually work to identify areas of risk and opportunity, while at the same time coordinating with internal staff members regarding information gathering on the incident, but ultimately taking over the heavy lifting.

Claim Management is an important part of Cost Improvement. To save you the effort and expense of developing your own claim management procedure, for a reasonable fee*, we will provide you with our standard detailed Claim Management Procedure, which can be easily adapted to your organization. Should you need additional support, we can also provide you with a Claim Management expert to get you up and running. Just let us know how we can help.