



? Situation

Your data has identified an opportunity that contains Low Surcharges, so what do you do next? Surcharges are charges that are added to a customer invoice over and above regular charges. Surcharges in B2B transactions typically are related to things like extra freight services, rush orders, fuel, or additional freight handling. In most situations, these charges are related to your customer's requirements for you to go above and beyond normal circumstances. Generally speaking, customers are often willing to pay amounts that typically provide at least full cost recovery. Surcharges, when not administered and monitored properly, can be a source of margin leakage and can result from some or all of the following circumstances:

- System limitations exist around enforcing appropriate application of surcharges
- Surcharges fees are not adjusted enough to recover rising costs
- Surcharge fees or related costs are unknown at the time of negotiation

This paper provides recommendations on how to deal with Low Surcharges.

✓ Recommendations

Low surcharge fees can be remedied in the following ways:

- [Reduce the Occurrence of Missing Surcharge Fees](#)
- [Close the Gap on High Surcharge Related Costs](#)

Reduce the Occurrence of Missing Surcharge Fees

While many organizations focus primarily on prices being negotiated with their customers and the associated margin, other forms of revenue and margin impacting elements can become neglected.

Condition	Action
Some customers receive surcharges, and some do not	<input type="checkbox"/> Ask the following questions, and see if you can improve surcharge applications: <ul style="list-style-type: none">• Do you have a formal surcharge policy?• If so, is your surcharge policy enforceable?• Are surcharges negotiated away for some customers? If so, could you institute a policy whereby low revenue customers are required to pay surcharges, and high revenue customers can negotiate surcharge fees?
Some regions apply surcharges, and some do not	<input type="checkbox"/> Ask the following questions, and see if you can improve surcharge applications: <ul style="list-style-type: none">• Is the value of surcharges clear across regions?• Can you drive consistency across regions?
Surcharge fees are not clear to the sales force, and therefore rarely are applied	<input type="checkbox"/> Determine the best way to communicate the rules associated with surcharges, but also make sure the customer value of surcharges are understood.

Close the Gap on High Surcharge Related Costs

Closing the gap on high surcharge cost is generally an easier task to tackle. These recommendations are generally dictated by business process and practices.

Condition	Action
The cost of surcharges have increased over time, but the charges have not	<ol style="list-style-type: none">1. Identify areas, such as fuel cost, rush order cost, or extra handling cost, where the surcharge cost has increased but the fee has not.2. Increase the associated fees to recover cost at a minimum.
The gap between surcharge fees and cost is difficult to monitor	<ol style="list-style-type: none">1. Create and focus on the metric Surcharge Recovery % (Surcharge Fee/Surcharge Cost).2. Identify areas (customers, regions, etc.) where surcharge recovery percent is below 100%3. Classify Customers into quintiles from large (A) to small (E).4. Establish Target Surcharge Recoveries by Customer Class policy.5. Begin to move customer's that fall below the targets to the desired recovery levels beginning with the E class customers first to reduce risk.