



Supercharge your rebate management

# Why CFOs and Auditors Need Rebate Management For Visibility

Rebate Management



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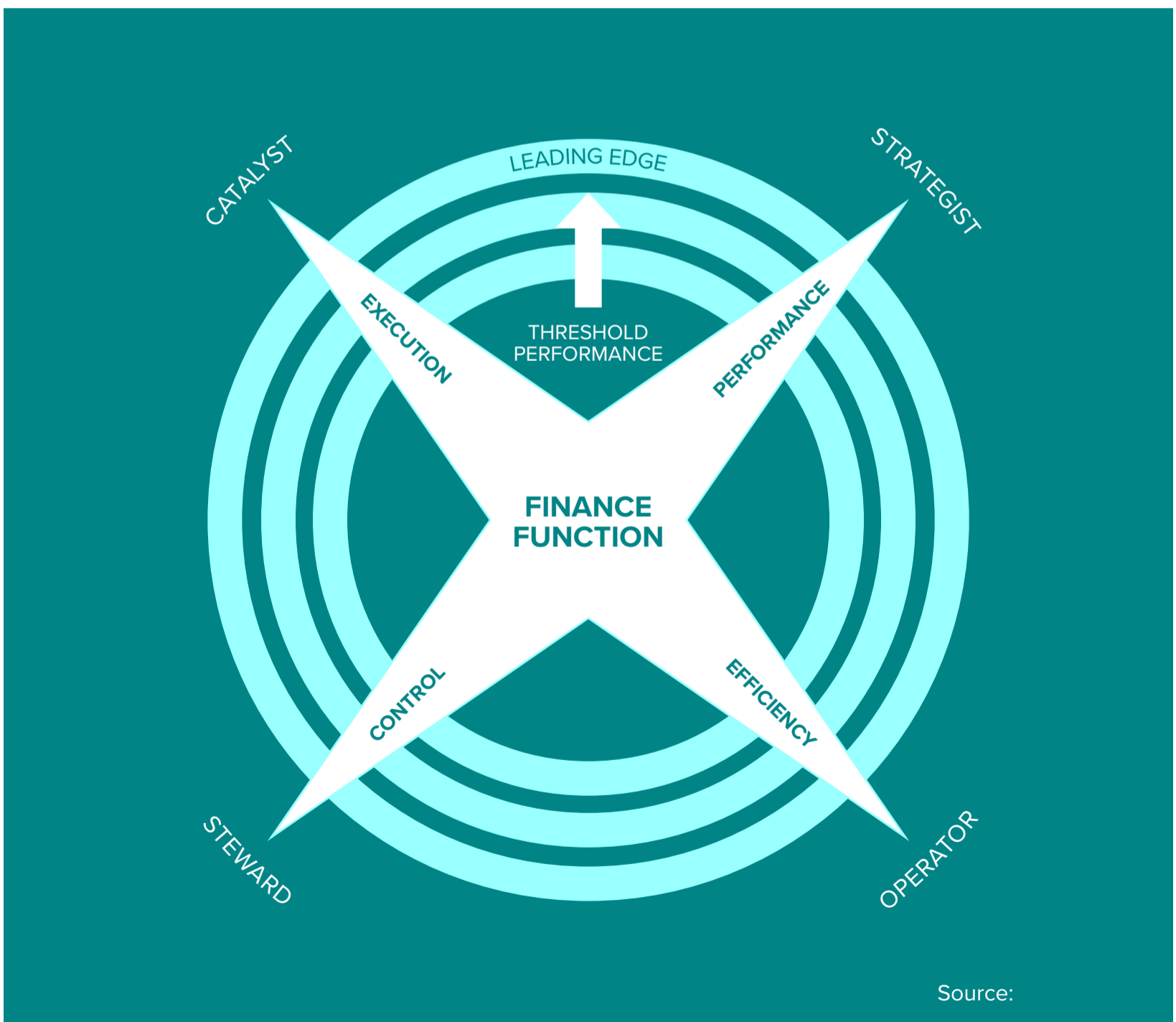
# 01. INTRODUCTION

## INTRODUCTION

If you're a CFO, you care about your company's bottom line. It's the reason why you get up in the morning – and no doubt what keeps you awake at night. Today's CFOs are under great pressure to cut costs, grow revenue and run a tight finance operation that is both efficient and effective.

As highlighted by Deloitte, today's CFOs are expected to play [four key roles](#):

- **Steward:** Protect and preserve the vital assets of the organisation by minimising risk, ensuring compliance with financial regulations and ensuring the books are 100% accurate.
- **Operator:** Operate a well-organised results-driven financial organisation that delivers key services to the business, including financial planning, analysis, tax, etc.
- **Strategist:** Provide financial leadership, align business and financial strategy and help shape the organisation's overall strategy and direction.
- **Catalyst:** Help other parts of the business perform better using the power of the purse strings.



## 01. Introduction

**To embody all roles at once, CFOs must have a strong command of the key accounting, finance and business issues facing the organisation and be able to deliver insightful forecasting and earnings guidance.**

Crucially, they must develop a strong working relationship with auditors, who – like CFOs themselves – want clear, up-to-the minute visibility into all workings of the finance organisation. This is crucial – not only to ensure the validity and legality of financial records, but to provide valuable and accurate reports to support strategy development.

“Communication is the cornerstone for a strong CFO-audit committee chair relationship,” says Vice Chair and Partner at Deloitte, Deborah DeHaas.

“Although the CFO might be doing other things very well, if there is not effective communication and a trusting relationship with the audit committee, the CFO will likely not be as effective.”

To do so, a clear, detailed and transparent audit trail that traces every single transaction right back to the original source at a granular level, is absolutely paramount.

Request a demo or get in touch today to find out more about how e-bate can help you reap the full financial rewards of supplier rebate programmes.



## 02. HOW REBATES BECOME RISK FACTORS

## HOW REBATES BECOME RISK FACTORS

Unfortunately, rebates are one of those areas that are notoriously difficult to audit – especially when it comes to accruals. Put simply, a rebate accrual is the expectation of rebate income at a later date.

Companies that mis-handle rebates can quickly find themselves in big trouble. Tesco, for instance, was thrown into crisis when it mis-booked rebate payments from suppliers, leading to a [£250 million overstatement of profits](#). Essentially, the retailer prematurely recognised rebate income and had to pay a £129 million fine to avoid prosecution from the Financial Conduct Authority (FCA). In the process, it saw £2 billion wiped off its share value.

As reported in the *Financial Times*, Tesco’s auditors, PwC, had highlighted the recognition of commercial income as an area of focus in previous reports, “because of the judgment required in accounting for the commercial income deals and the risk of manipulation of these balances”.

The accounting firm’s audit report said, “Commercial income (promotional monies, discounts and rebates receivable from suppliers) recognised during the year is material to the income statement and amounts accrued at the end of the year are judgmental.”

More recently, as reported in [The New York Times](#), the US-based agribusiness giant Monsanto was fined \$80 million by the Securities and Exchange Commission when it was found that the company “had insufficient internal controls to properly track millions of dollars in rebates [...] which led it to misstate corporate profits over a three-year period.”

Since January 2018, a new financial reporting standard – [IFRS 15](#) – by the International Accounting Standards Board has been in effect, placing more scrutiny on companies that have to account for rebates, discounts and incentives. IFRS 15 places strict rules on companies in terms of revenue recognition, including the correct reporting of rebate income.

### LOCKED IN A CELL – THE DANGERS OF SPREADSHEETS

In light of the legislation – and as the Tesco and Monsanto stories highlight – every business needs to keep its rebate agreements transparent to enable transaction based audits with consistent and straightforward rules on revenue recognition.

Outdated processes result in Commercial teams negotiating deals and then passing on the information via emails to the finance department to manage and calculate the commercial income in a spreadsheet.

However, in such exchanges, the crucial details that make up each agreement are often lost in translation.

## 02. How rebates become risk factors

Rebate deals typically have a number of specific rules and conditions attached to them, such as tiered volume or value incentives, growth incentives, product-specific incentives and so on. With manual processes, progress against these complex deals is extremely difficult to monitor – making accurate rebate accounting an exceedingly time-consuming process, requiring lots of back and forth between departments to keep the spreadsheet updated.

Such processes are a recipe for a confused audit trail. The manual auditing of contracts and rebate income inevitably leads to delays, omissions and errors, causing discrepancies between supply and purchase records, mistakes on the balance sheet and problems when it comes to rebate claims and payouts. This, in turn, impacts reporting, forecasting, cash flow and external audit compliance.

### SMALL ERRORS = BIG COSTS

We only have to look at the recent disastrous [COVID-19 test-and-trace spreadsheet blunder](#) to realise that Excel is not the best tool for managing high volumes of data. As [Richard Bingley](#), Founder of London-based Global Cyber Academy, puts it: “Excel is useful for small tasks but not for handling large quantities of metadata.”

While the cost of such a mistake to your business may not be people’s lives, when managing promotional monies, discounts and rebates receivable from suppliers in Excel, mistakes will certainly cost you money.

Yet, [research](#) compiled by Trintech finds that spreadsheets are still the most commonly used tool in the financial reporting process. It also confirms that, with 90% of all spreadsheets containing errors, they are by no means reliable.

Citing a survey of global financial leaders, the report finds that 40% of CFOs don’t trust the accuracy of their financial data. In addition, 69% of CFOs rely on spreadsheets to “plaster over” gaps in their reporting process – gaps that were most likely created from the usage of spreadsheets in the first place.



69% of CFOs rely on spreadsheets to plaster over gaps in their reporting



40% of finance leaders don't trust that their financials are accurate

Source:



## 02. How rebates become risk factors

The dangers of relying on spreadsheets to track and calculate rebates and accruals cannot be overstated. [Research](#) from the Shidler College of Business finds that errors are not just common, but extremely difficult to detect and correct.

Based on human error research involving 967 participants working alone on a variety of spreadsheet tasks, the research finds an average cell error rate of 3.9%. That may not sound like much, but on £70 million worth of rebates, that could equate to a £2.73 million blunder if undetected – which, unfortunately, is a highly likely scenario. The same research found average error detection rates of just 60% – meaning four out of every ten spreadsheet errors go undiscovered.

“Of 14 errors with different ranges of complexity, three had detection rates below 10% and half had detection rates below 40%. Even the simplest errors were caught by fewer than 60% of the participants and no participant found all errors.”

At e-bate, we have worked with many companies who have experienced first-hand, the costs of mishandled rebates. For example, a tier one bank reviewed its rebate process for two major categories. Internal teams spent twelve weeks auditing spreadsheets and processes and found £12 million left on the table.

We’ve also seen how miscommunication between teams combined with a lack of visibility into live deals have led to missed rebate claims. One global pharmaceutical company, for example, lost track of a deal and didn’t submit its rebate claim by the agreed deadline in the contract and as a consequence lost £000s in commercial income.

A lack of visibility also leads to uninformed decision-making. In some cases, this has resulted in companies missing opportunities to get a better price for goods they ended up purchasing anyway. Supplier rebate programmes are often tiered – the more volume you purchase, the greater the rebate received (i.e. the less you pay for the goods). They also have expiration dates and deadlines.

One construction company we worked with had a quarterly rebate. However, due to delays in reporting as a result of tracking purchases in spreadsheets, it put in a big order for goods on the first day of a new quarter. Had this purchase been made a day earlier, the company would have reached the next tier and received an additional £30,000 in rebate income.



## **03. HOW CAN YOU AVOID THESE RISKS?**

## 03. How can you avoid these risks?

## HOW CAN YOU AVOID THESE RISKS?

For efficient rebate accounting and auditing, financial spreadsheets and manual processes clearly need to become a thing of the past. CFOs need real-time visibility into every deal if they are to accurately track rebate earnings and expenditure and run a tight finance operation that is both efficient and effective.

To achieve that visibility, a rebate management system is required. Such a system needs to record every aspect of every trading deal and make all information readily available to appropriate parties automatically and systematically.

It must track all purchases and sales made against agreements so that the correct rebate claims and pay-outs can be made at any time. The system should, if possible, provide real-time access to rebate data so performance against each deal can be easily assessed to ensure opportunities aren't being missed and the business is fully capitalising on all rebate agreements that are in place.

In short, an effective rebate management process cannot be carried out on spreadsheets. It must be digitised. It's worth noting at this point that mainstream ERP systems lack rebate management capability, but conversely there are rebate management solutions that can be integrated through APIs. Be prepared to create a list of must-haves and nice-to-haves and rank them in order of importance as you may not get one system that can solve everything.

### AUTOMATE YOUR MANUAL REBATE PROCESSES

CFOs are increasingly turning to technology solutions to drive efficiencies in the finance function. In fact, according to [Grant Thornton's 2019 CFO Survey Report](#), 87% of finance executives agree or strongly agree that technology is impacting the way their finance function operates.

The report finds that financial executives are increasing their use of technology for key strategic functions, including accounts payable/receivable, financial reporting and control, financial planning and analysis, budgeting and forecasting and strategic planning.



## 03. How can you avoid these risks?

## FINANCE FUNCTION USE OF / ADVANCED / AUTOMATION TECHNOLOGIES

		Today (currently implemented)	Within 12 months	Within 2 years	Within 5 years	Never	Don't know
Accounts Payable / receivable	2018	35%	20%	19%	9%	2%	14%
	<b>2019</b>	<b>47%</b>	<b>28%</b>	<b>16%</b>	<b>6%</b>	<b>2%</b>	<b>3%</b>
Budgeting and forecasting	2018	25%	17%	23%	14%	4%	18%
	<b>2019</b>	<b>42%</b>	<b>27%</b>	<b>21%</b>	<b>5%</b>	<b>1%</b>	<b>4%</b>
Corporate development / strategic planning	2018	18%	15%	21%	12%	7%	26%
	<b>2019</b>	<b>42%</b>	<b>24%</b>	<b>17%</b>	<b>7%</b>	<b>3%</b>	<b>8%</b>
Financial planning and analysis	2018	27%	22%	18%	14%	4%	15%
	<b>2019</b>	<b>43%</b>	<b>31%</b>	<b>18%</b>	<b>5%</b>	<b>1%</b>	<b>2%</b>
Financial reporting and control	2018	33%	21%	15%	13%	3%	16%
	<b>2019</b>	<b>45%</b>	<b>29%</b>	<b>16%</b>	<b>6%</b>	<b>2%</b>	<b>3%</b>
Risk Management	2018	20%	16%	17%	12%	6%	29%
	<b>2019</b>	<b>40%</b>	<b>22%</b>	<b>19%</b>	<b>7%</b>	<b>3%</b>	<b>8%</b>
Tax and compliance	2018	25%	13%	16%	12%	6%	28%
	<b>2019</b>	<b>43%</b>	<b>21%</b>	<b>19%</b>	<b>6%</b>	<b>4%</b>	<b>7%</b>
Treasury / working capital management	2018	27%	17%	13%	12%	5%	27%
	<b>2019</b>	<b>35%</b>	<b>29%</b>	<b>19%</b>	<b>7%</b>	<b>3%</b>	<b>6%</b>

Source: [clickdimensions.com](https://www.clickdimensions.com)

The report finds that 40% of finance activities can be fully automated using advanced technologies. “These figures demonstrate the degree to which CFOs can simplify core internal transactions through automation, establish standardised reporting mechanisms and work more efficiently,” the report says.

“Thanks to a range of technological advances, digitisation is now a priority for the finance function. Those that show the most promise for finance use include automation tools to streamline and improve finance processes, data visualisations to provide end users with real-time financial information and advanced analytics to accelerate and inform strategic decision-making.”

# 04. WHY DIGITISE REBATE MANAGEMENT

## 04. Why digitise rebate management

To attain the whole financial picture of your rebate deals, a complete and reliable audit trail is required. By adopting an automated rebate management system, all transactional data and any changes to deals are automatically captured, recorded and calculated.

The resulting information is far more reliable than anything you'll find in a spreadsheet and is readily accessible at any time – meaning you can stay on top of your rebate records with full confidence that your rebate deals have been recorded accurately.

There are numerous strategic and financial benefits to be gained from adopting a sophisticated rebate management system. We discuss them below.

### **REDUCTION IN ERRORS**

As the research shows, if you're using manual spreadsheets to manage rebates, errors and omissions are inevitable. Automating your processes in a rebate management system – where every transaction and change made against every deal is automatically tracked in real-time – eliminates that potential for human error in manual data entry.

In addition, the system automatically generates a complete audit trail – connecting every record to every person interacting with every transaction in any way. This makes it much easier to detect and correct any rebate errors that do occur, while simultaneously reducing the likelihood of errors occurring in the first place.

### **REDUCTION IN/REDEPLOYMENT OF STAFF TO WORK ON VALUE-ADD ACTIVITIES**

[Research](#) from Concur reveals that finance leaders say their teams spend nearly one whole day a week on general admin tasks.

When it comes to rebates, the admin tasks that take up the most time include, manually inputting data into spreadsheets, filing agreements, chasing suppliers/buyers to sign-off on agreements, analysing rebate data, producing financial forecasting reports and emailing those reports to finance.

All of these tasks are ripe for automation – and they can be automated using rebate management software. Implementing a purpose-built rebate management system will not only reduce the number of errors, but free your staff from administrative work so they can focus on more strategic tasks and value-add activities.

This can lead to huge cost savings.

At e-bate, our product team has created an algorithm that can accurately calculate the cost of ignoring the problem. We hear you when you tell us that implementing a new system is a headache. However, from experience we know that the missed opportunity cost of automating your rebate management system is worth the short term disruption. Simply get in touch for a confidential and free discovery call with one of our consultants and we will calculate the ROI based on removing human error and increasing opportunities.

## 04. Why digitise rebate management

### ACCURACY YOU CAN RELY ON

When it comes accruals and the recognition of revenue and costs, manual solutions generally have complex formulas and no audit function, which, together, increase the risk of error and fraud. Even if all members of your team are doing their very best to maintain accuracy, errors are still bound to occur – and if you don't catch these errors in time, you can over or understate your profits and fall out of compliance.

Having a system that can deal with a tiered rebate where transactions are highly seasonal is considered as being pretty close to the holy grail. For example a retailer may have a tiered wallpaper rebate with a supplier that runs from July to December only. Seasonal customer demand dictates that by the end of September the percentage used would be too low based on actual transactions. Most sales happen in October and November before plummeting in the second week of December.

**With e-bate's rebate management system, rebates are calculated as soon as the data is fed into the platform. You can see precisely how you're performing against budgets and forecasts in real-time.**

e-bate calculates accruals, payments and claims to the most granular level based on the rules in the rebate agreement and presents them to you for approval, adjustment and validation against customer or supplier data.

All calculations are stored in e-bate and integrated into your financial system to streamline financial management and accounting.

Accrual types can be set as:

- **“standard”** = e-bate calculates based on rates/transactions
- **“specific”** = e-bate will accrue at a % per month that you define
- **“fixed amount”** = e-bate will accrue at a £ amount per month that you define
- **“Do not accrue”** = e-bate will not accrue for this

Automating the calculation of rebates based on real-time data – purchase data, goods received, sales transactions, plus data reported by suppliers or customers based on the agreed parameters of each deal – ensures accurate, visible and timely accruals. This data can then be used by finance to accurately report profitability and demonstrate compliance.



## 04. Why digitise rebate management

### INCREASE YOUR REBATE OPPORTUNITIES

Rebates need to be managed proactively. Rebate agreements are inherently complex and if not managed correctly – with all data updated accurately throughout the entire lifecycle of the agreement – can represent huge risks to the business.

These risks include failure to meet deal criteria or the goals set in the trading agreement, failure to claim rebates that are owed, missed contract renewals, missed deadlines and missed opportunities to achieve a higher level of rebate (particularly where tiered rebates are in place).

Without data accuracy and clarity, it's highly likely that many profitable rebate opportunities are being neglected and deals are failing to meet their objectives, meaning the business is effectively underperforming.

Audit trail problems are nearly always the cause – which can be completely eliminated with rebate management software.

e-bate is a fully audited system which provides tracking and traceability of all transactions, providing you with the relevant information at the right point in time. The software can model all deal dimensions and can manage and track multiple complex rebate agreements with varying conditions.

These conditions can include qualification criteria, guaranteed, retrospective, non-retrospective, tiered and can be based on values, volumes, percentages, and growth – or any combination.

Crucially, e-bate sends automated alerts to flag up opportunities, such as when volume, value or growth targets are approaching – opportunities that are too easily missed when relying on manual processes.





## IMPROVE YOUR REBATE MANAGEMENT VISIBILITY WITH E-BATE – THE ULTIMATE REBATE MANAGEMENT SOLUTION

With e-bate's rebate management software CFOs and auditors can work as a team, with the right information always readily available, at the right time. The system provides accurate audit trails for every transaction, ensuring you have full transparency over your retrospective income so you can be confident in your accruals and rapidly demonstrate regulatory compliance.

Fully automated deal tracking and calculations minimise the risk of manual errors, meaning the time and cost of managing rebates is significantly reduced. Automated reporting and alerts avoid inefficiencies and lost opportunities – all of which enables CFOs to become the stewards, operators and strategists of the finance function that the role increasingly demands.

[Talk to our experts at e-bate today](#) for more information and insights or to [request a demo](#) of our leading-edge rebate management solution.

[Request a demo or get in touch today](#) to find out more about how e-bate can help you reap the full financial rewards of supplier rebate programmes.

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