

 e-bate

Supercharge your rebate management

Complete Guide on Best Practices for Using Rebates to Generate Revenue and Improve Margins

Rebate Management

e-bate.io



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01. INTRODUCTION

INTRODUCTION

In this eBook, we'll be taking a closer look at supplier rebates and will unearth the rebate management best practices for generating maximum rebate revenue and improving your margins.

Suppliers typically offer rebates to drive the sale of certain products, add value to their customers and cement long-term relationships that reinforce loyalty. In today's competitive marketplace, taking advantage of supplier rebates can help you reduce costs and ensure profitability.

As a buyer, accessing a supplier rebate programme can be a great way to save money, improve margins and in many sectors rebates form a significant part of overall revenue. However, managing supplier rebates is a notoriously complex affair and can prove to be a real administrative headache.



EXPERT VIEW

If your data is not up to date and available for analysis you expose yourself to missing revenue opportunities. For example, compiling data and calculating in Excel, you are probably running 6-8 week behind reality, how can you make informed decisions based on that. A construction company lost £50K in rebates by not buying goods a week before.

To successfully capitalise on a supplier rebate programme, it's essential that you are able to track – with pinpoint accuracy – how and what rebates you can claim from a variety of suppliers. This can be a huge challenge, especially when managing multiple rebate agreements with multiple vendors, each with differing levels of complexity, requirements and terms.

It is crucial, therefore – particularly during times of economic uncertainty – that you're employing a robust rebate management system so you can be certain you're not only accessing the best rebate deals, but that you're claiming every penny of rebate revenue you're owed from every single purchase and every single supplier.



02. SUPPLIER REBATES OVERVIEW

SUPPLIER REBATES OVERVIEW

What Are Supplier Rebates?

A supplier rebate is simply an amount paid to you, as the buyer. Rebates are paid once you've purchased a previously specified quantity or value of goods and or services based on a set of business rules / criteria. Rebates can also include other incentives, such as marketing and promotional spend.

Supplier rebates differ from upfront discounts in the fact that they are applied retrospectively once you have paid the original invoice. You only receive the rebate after paying the full price for the items you've purchased, in a specified time period, at which point – provided you've met all the terms in the agreement – you can claim or the supplier pays you the rebate.



EXPERT VIEW

Recently we came across a company had contracted with a supplier for rebates, and the terms where that they had to claim the rebate within x days of the agreement date. This deadline was missed, and the buyer lost out on a significant amount of revenue.

In this way, buyers effectively have to earn the discount. This protects suppliers from buyers “overpromising” during pricing negotiations. For example, a buyer may negotiate a special discounted price based on buying 5,000 units over a 12-month period, but ends up buying only 2,000. The buyer gets the discount but doesn't buy the volume – leaving the seller out of pocket.

A supplier rebate programme ensures that customers only get the discount (paid back as a rebate) after purchasing against the agreed terms.

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.

03. SUPPLIER REBATE OPTIONS

SUPPLIER REBATE OPTIONS

Common Types of Supplier Rebates

Whilst the rebates below are some of the most common, they become even more complex when you have multiple rebate types from a supplier, coupled with the criteria (business rules) that work along side them.

VOLUME REBATES

These are often considered to be the simplest type of rebate and are one of the most common.

The supplier pays a rebate when your purchases of a certain product cross a specified volume threshold. A simple example would be receiving a rebate of £2.00 per unit on order volumes of more than 100 units.

It's common practice, however, for volume rebate programmes to be tiered, with rebate amounts increasing incrementally in line with incremental volume thresholds.

For example, the table below shows the volume/price combinations for a hypothetical tiered volume rebate programme:

SALES	REBATE
0-99	£0.00
100-499	£2.00
500-999	£4.00
>1,000	£6.00

As you can see, the more volume you buy, the greater the rebate you receive per unit, as you cross each volume threshold. So, if you were to buy 450 units, you would qualify for a rebate of $450 \times £2.00 = £900$. However, if you were able to add another 100 units to your order, you would earn a much higher rebate – $550 \times £4.00 = £2,200$.



EXPERT VIEW

Some suppliers offer retrospective volume rebates which can increase the amount owing to you even further and what's more, they are more complex to calculate.

03. Supplier rebate options

VALUE REBATES

Value rebates are similar to volume rebates, the difference being that the rebate issued is based on the value of your transactions over a given time period, rather than volume. For example:

SALES	REBATE
£0.00-£999	0%
£1,000-£4,999	2.0%
£5,000-£9,999	4.0%
>£10,000	6.0%

Value rebates may or may not apply a retrospective rebate structure – a rule which, as you break through each value threshold, changes the rebate factor for all additional purchases as well as all the purchases that have been made to date.

In other words, if we were to apply the retrospective rebate rule to the values in the above table:

- Purchases between £0.00 and £999 receive a 0% rebate
- Purchases between £1,000 and £4,999 receive a 2% rebate retrospectively back to £1
- Purchases between £5,000 and £9,999 receive a 4% rebate retrospectively back to £1
- Purchases over £10,000 receive a 6% rebate retrospectively back to £1

What's important to consider here is how increases in purchases impact your margins. The higher the value of your order, the bigger the rebate and therefore the higher the margins you can make on your purchases.

Value rebates do not have to be calculated as a percentage. Sometimes, they are based on flat amounts instead.

Flat rebate amounts can either be prorated or not, which is another important consideration when negotiating agreements as the deal type will again impact your rebate revenue and margins.

For example:

SALES	REBATE
£1,000-£4,999	£100 prorated
£5,000-£9,999	£500 not prorated

This time, if the total value of your purchases was £7,500, the rebate you receive would be simply £100 + £500 = £600.



EXPERT VIEW

Beware that some suppliers offer retrospective value rebates which can then increase the amount owing to you. Furthermore, they are more complex to calculate.

03. Supplier rebate options

GROWTH INCENTIVE REBATES

Growth rebates are rebates that are issued when buyers meet certain growth targets, such as when their spend has grown by a certain volume, value or percentage above a specified baseline.

For example:

% GROWTH VALUE OVER PREVIOUS YEAR	REBATE
2% growth	£1,000
4% growth	£2,000
6% growth	£4,000

PRODUCT MIX REBATES

Suppliers sometimes create incentive programmes to encourage and reward buyers for making purchases across a wider range of products than they usually do.

For example, a tyre wholesaler usually buys car tyres from Manufacturer A, but motorcycle tyres from Manufacturer B. Manufacturer A wants to sell motorcycle tyres to the wholesaler as well and so applies a product mix incentive rebate to the wholesaler's regular order of car tyres, on the condition the wholesaler buys motorcycle tyres as well. Effectively, the wholesaler earns a rebate on product Y (regular order of car tyres) when it purchases a certain number of product X (new order of motorcycle tyres).

SALES OF PRODUCT X	REBATE ON PRODUCT Y
0-99	£0.00
100-499	£2.00
500-999	£4.00
>1,000	£6.00

04. HOW TO IMPROVE REVENUES AND MAXIMISE MARGINS

04. How to improve revenues and maximise margins

THE IMPORTANCE OF PROPER SUPPLIER REBATE MANAGEMENT

Clearly, the intricacies of supplier rebate programmes can have a significant impact on your bottom line. When margins are tight, even a small price change can mean a lot more profit. As such, when supplier rebate programmes are tiered (as they usually are to incentivise larger volume purchases), the more products you purchase, the better the margin you can make on them.

However, this all requires careful management of timely data and co-ordination between departments. Of course, you can't simply purchase more products than you're able to sell just so you can access a higher-value rebate. What's more, since you, as the buyer, must pay full amounts upfront for any goods you purchase, it is essential that you keep close track of all agreements to ensure all calculations are correct and you never miss out on claims that are rightfully yours.

CONTROL, VISIBILITY AND ACCURACY

The management and processing of supplier rebates is an ongoing challenge. Naturally, there are significant financial risks if calculations are inaccurate, something goes wrong, or business opportunities are missed.

Many organisations rely on spreadsheets to manage supplier rebates, collating and inputting data manually. Though this process works in theory, manual data input is as slow and cumbersome as it is error prone and potentially costly. The fact of the matter is that the humble spreadsheet simply isn't up to the task of managing a multitude of complex rebate claims and agreements. A B2B organisation can easily be dealing with hundreds of suppliers and dozens of separate rebate deals with each. Some will be based on purchase volume, others on percentages and still more on product mix. Many changes also occur during the lifecycle of an agreement – trying to keep track of them all by hand inevitably leads to errors, omissions, thresholds being missed and claims going to waste.

Alternatively, some organisations leave it up to their suppliers to perform all the relevant rebate calculations for them, trusting that the sums add up with no way of validating the figures for themselves. This, again, is a sub-optimal, high-risk strategy, as calculations may be inaccurate, leading to erroneous settling of payments owed, or the rebates not being paid at all.

In addition, disputes can easily arise when only one party has access to the figures, resulting in heated, time-consuming exchanges with suppliers that will damage relationships.

TRACKING, FORECASTING AND COMPLIANCE

Good supplier rebate management means having the ability to track progress against rebate agreements in real-time. Since supplier rebate programmes are often tiered, narrowly failing to qualify for a higher tier can mean missing out on significant rebate revenue. To avoid this, you need real-time access to the data that matters, so that your frontline sales team can better focus their activities on product lines that are approaching thresholds and so procurement can make strategic buying decisions that will maximise earnings.

04. How to improve revenues and maximise margins

In turn, accurate tracking leads to accurate forecasting – essential when it comes to the calculation of accruals, which again must be accurate.

The rate at which you earn rebates will often differ from the rate at which you receive them. For example, you may earn rebates quarterly based on your volume of purchases from a certain supplier, but the same supplier may pay rebates not quarterly, but annually instead. This means that rebate income must be accrued for, in order to accurately calculate profit and loss.

Again, this can be complicated, especially when rebates are tiered, as one rebate accrual calculation will be dependent on others earlier in the chain.

Accurate forecasting is essential not only for your organisation's own visibility into its financial health and profitability, but for compliance purposes, too.

Since January 2018, a new financial reporting standard – [IFRS 15](#) – has been in effect, placing additional scrutiny on companies that have to account for rebates. The legislation places strict rules on organisations in terms of revenue recognition, including the correct reporting of rebate income. This means that rebate accountants must always have full access to up-to-date information on all rebate agreements and report precisely the value of all accruals to ensure compliance.

SUPPLIER REBATE MANAGEMENT BEST PRACTICES

Supplier rebate programmes are complex and the need for visibility and accuracy is paramount in order to improve revenues and maximise margins.



EXPERT VIEW

Watch out for being overly reliant on the supplier to advise what is owing. Question the accuracy in their processes and data. Rebates amount to a significant portion of income - would you rely on someone else to calculate it for you?

It may be the case that you don't even make a profit on certain goods or services until the rebate has been received, so it is absolutely essential that you have a robust rebate management system in place that ensures that all activities are aligned – from sales to purchasing and on to finance – and that claims are never missed.

Spreadsheets are clearly not up to the task of managing supplier rebates effectively and there is little value – and great risk – in relying on your suppliers to perform all the relevant rebate calculations on your behalf.

It is for these reasons that an increasing number of organisations are turning to [specialist rebate management software solutions](#) to handle supplier rebate management. Today's most effective solutions enable organisations

04. How to improve revenues and maximise margins

to implement rebate management best practices for planning, modelling, structuring, calculating, tracking, claiming, analysing and reporting on all manner of both simple and complex supplier rebates.

In doing so, rebate management software helps companies manage their supplier rebates successfully and reap impactful financial rewards.

ACCESS FOR ALL – A SINGLE SOURCE OF TRUTH

Effective rebate management means providing access to a single source of true rebate information for all concerned parties. This is important during the negotiation period when you're thrashing out terms with suppliers and then right through the agreement's whole lifecycle. When all parties are clear on rebate terms in advance and all calculations are visible, there is less chance for disputes later on.

In addition, having a single source of truth helps ensure that your sales, purchasing and finance teams are all on the same page when it comes to rebate activity. This fosters a more collaborative environment that leads to quicker, more profitable decisions being made.

With a rebate management software system, all rebate details are centralised in the cloud, providing one single source of rebate data that anyone with the right permissions can access, at anytime from anywhere. With such a system in place, not only do all sides of an agreement (buyers and sellers) have full visibility into live contracts, but your sales and purchasing teams can input any information on deals that are made and finance teams can then easily review and sign them off.

This keeps the whole rebate process moving in a transparent, predictable and reliable fashion.

KEEP TRACK OF EARNINGS AND DEALS IN REAL TIME

In order to maximise margins, you need the ability to accurately track and calculate rebate earnings and incentives in real-time. How close are you to reaching the next supplier rebate tier so you access an even greater rebate? If you fall short by just a handful of sales, will you miss out on an important business opportunity and significantly increased rebate revenue?

Rebate management software means that you'll never miss an important deadline or opportunity ever again. Real-time calculation engines automate the tracking of purchases and sales against your agreements and forecasts in real-time, giving you immediate results. The engine also automatically performs any recalculations should the details of any of your agreements change, or if historical data is amended.

All types of rebates can be tracked in this fashion, including volume rebates, growth rebates and any other special pricing agreements you've made.

In addition, sophisticated rebate management software also comes with robust deal modelling features, enabling you to quickly and accurately identify

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which rebates and pricing incentives offer the best return before agreeing them commercially. The software allows you conduct “what if” analyses on individual agreements so you can understand the financial impact should underlying rebate conditions change, such as an increase in rate or a change in supplier.

This empowers you to analyse any proposed rebate deal in real terms, meaning you can negotiate the best possible agreement for your organisation.

SYSTEMATIC WORKFLOWS FOR STREAMLINING PROCESSES WITH A CLEAR AUDIT TRAIL

A properly implemented rebate management system should provide a clear and transparent audit trail allowing for easy monitoring and auditing of all relevant information. This not only cuts down on the administrative burden – time and cost – involved in providing evidence for rebate claims, but ensures that you can be confident in your accruals and rapidly demonstrate regulatory compliance as well.

With rebate management software, accruals recording is automated and audit logs are automatically generated for every action undertaken in the system. What’s more, creating systematic workflows for the actions that need to be undertaken in the first place becomes a matter of simplicity. Configurable workflow engines allow you to build systematic workflows that assign key roles and responsibilities to the right people at the right level in line with business rules.

This ensures the proper segregation of duties to improve accountability and mitigate business risk, while making certain that all information is visible and easily accessible to both internal and external auditors.

A powerful rebate management software solution will even send automated notifications to alert individuals whenever their actions are required. This ensures that all tasks, decisions and approvals that may have a business impact are actioned in a timely fashion and that important deadlines and milestones are never missed or savings opportunities overlooked or forgotten.



05. THE NEXT STEP TO REBATE MANAGEMENT SUCCESS

05. The next step to rebate management success

CONCLUSION

Supplier rebate programmes are crucial for maximising revenues and increasing margins. However, in order to take full advantage of supplier rebates, you need a robust rebate management system to ensure you're making the best purchasing decisions, managing costs, maximising earnings and never missing out on claims that are rightfully yours. Relying on your suppliers to calculate your rebate earnings risks leaving huge sums of money on the table, while trying to manage complex rebate programmes across multiple vendors and products, using spreadsheets, is a recipe for disaster.

Purpose-built rebate management software is the only solution to ensure you're following rebate management best practices for maintaining compliance, providing access to a single source of truth for all, streamlining processes and keeping track of all earnings and incentives.

[e-bate](#) can help you do all this and more.

Our intuitive rebate management software comes with a built-in calculation engine that enables you to easily calculate all types of rebates and track and analyse all data against those agreements in real-time. In addition, our robust deal modelling features allow you to make rapid assessments of the deals you are negotiating, meaning you can remove the guesswork and understand fully how each deal will impact revenue and profit margin.

e-bate is delivered as a SaaS and automates every element of the rebate process, helping companies manage complex pricing schemes and increase revenues and profit while ensuring compliance through a full audit trail and comprehensive approval workflows.

e-bate is your single source of all rebate information, providing you with the tools and insights you need to make proactive decisions that drive business value.

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.



Phone: 033 022 32500

Web: www.e-bate.io

Email: enquires@e-bate.net
