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Tips for Procurement Managers when Negotiating Rebates

Rebate Management

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Negotiating rebates with suppliers is one of the most important jobs of the procurement manager. Rebates represent real cost savings on goods purchased, while the agreements themselves help you form lasting, mutually beneficial relationships with the organisations you do business with.

Strong relationships are key to a successful supply chain. Why? Because establishing mutually valuable relationships with your key suppliers results in improved availability of goods, consistency of supply and long-term cost savings.

Nonetheless, many procurement professionals underestimate the importance of good supplier relationships. Feeling the pressure to reduce costs and manage spend at any expense, choosing suppliers based only on the lowest price for all goods or equipment is a common mistake that too many purchasing teams make.

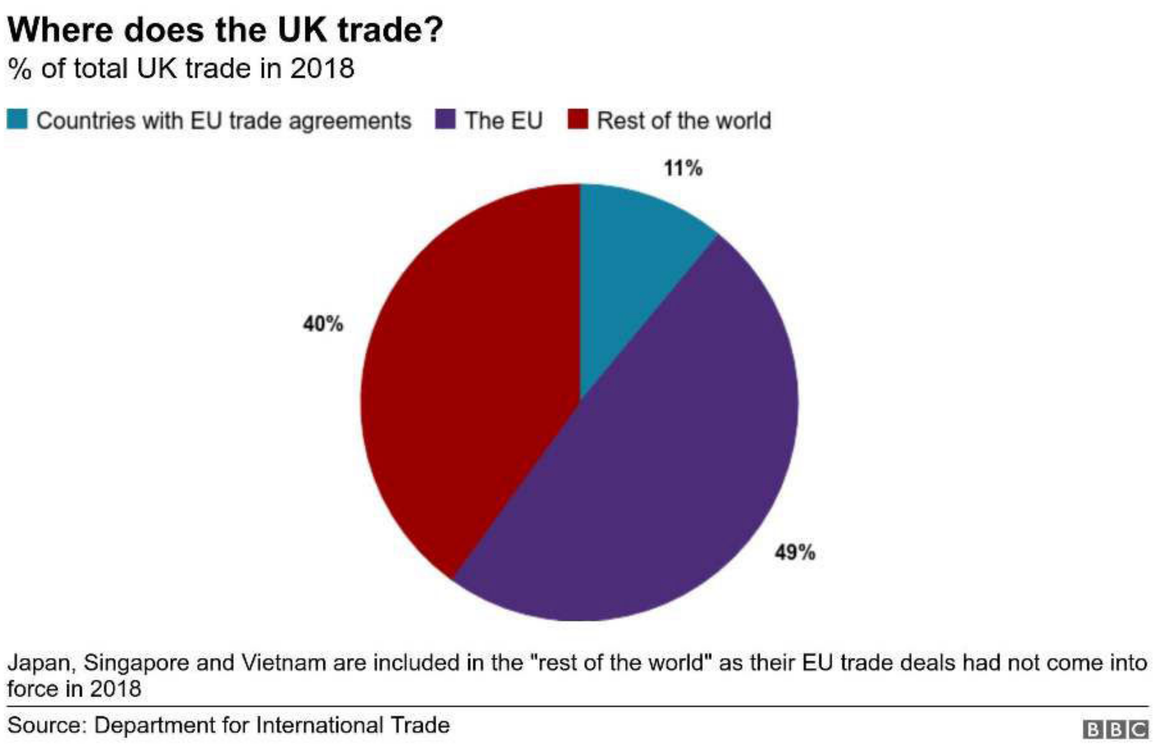
While of course it's crucial for the procurement manager to ensure deals are struck that result in great value for the business – value is not measured in the price of goods alone. It's just as important to choose quality and relationships you can trust – for when something goes wrong, there's a global health crisis to contend with, or a new set trading law is in force, you'll soon know the value of having trustworthy suppliers on your side.

The Impact of Brexit on Procurement

This year of all years, building strong, lasting relationships with suppliers – some existing, some new – will be more important than ever.

The new Trade Cooperation Agreement (TCA) between the UK and the EU – announced on Christmas Eve 2020 – took effect on 1st January 2021. Needless to say, it's been a drawn-out and arduous affair for all of us with much political drama along the way – resulting in years of uncertainty for businesses.

But now, we can finally see how Brexit will affect various industries across the UK – and what the challenges and opportunities are that arise for procurement teams sourcing goods from outside the domestic market.



(Image source: bbc.co.uk)

The good news is that the TCA provides for zero tariffs and zero quotas on all goods traded between the UK and the EU. There is, however, an important qualification that will affect certain industries. For a product to qualify for a zero tariff, it must meet the new "rules of origin" requirements that determine how much of its content – generally more than 50% – must be derived from EU or UK processing or materials.

As Investopedia points out, this will require adjustment by some businesses, such as manufacturers and automakers, who currently rely heavily on other regions of the world for parts in their finished products.

Importantly, the UK failed to achieve its objective of "diagonal cumulation" – which would have meant that components from third countries that both the UK and the EU have trade agreements with (such as Canada, Switzerland and Japan) could be counted as if they were made in the UK or EU. This means that many UK procurement teams will need to seek alternative British sources for such parts so that their products contain the mandatory content-source percentages for treaty benefits – a challenge, yes, but also an opportunity to forge strong relationships with new suppliers.

For food and fast-moving consumer goods (FMCG), the zero tariff, zero quota deal should keep things moving back and forth across the Channel – and of course protect businesses and consumers alike from billions in import tariffs on everyday goods. That said, the deal means more border checks and more paperwork for businesses on all sides, potentially causing delays in the supply chain and increasing costs, which may well reflect in prices paid for goods.

Brexit also means that the rules have changed for UK companies buying from outside of Europe. Before Brexit, the UK was automatically part of the EU's 40 or so trade deals covering more than 70 countries. So far, the UK has made deals to continue trading in the same way with 60 of these countries. However, where agreements haven't been made – such as with China and India – the UK moves to World Trade Organisation (WTO) rules, which may mean import tariffs are higher, depending on the country of origin and the product being sourced.

EU rollover agreements that will start from 1 January 2021

Name of agreement	Countries / territories covered	Total UK trade, 2019 (£m)
Andean countries	3	2,876
Cameroon*	1	200
Cariforum trade bloc	13	3,046
Central America	6	1,411
Chile	1	2,171
Eastern and Southern Africa	3	1,569
Egypt	1	3,503
Faroe Islands	1	293
Georgia	1	183
Iceland and Norway	2	26,747
Israel	1	5,014
Ivory Coast	1	398
Jordan	1	548
Kenya	1	1,407
Kosovo	1	10
Lebanon	1	849
Liechtenstein	1	159
Moldova	1	395
Morocco	1	2,251
North Macedonia	1	1,774
Pacific states	4	232
Palestinian Authority	1	9
Singapore	1	17,636
South Korea	1	11,777
Southern Africa Customs Union	6	11,875
Switzerland	1	37,063
Tunisia	1	561
Turkey	1	18,559
Ukraine	1	1,566
Vietnam	1	5,706

* Agreement in principle

Source: Department for International Trade

BBC

(Image source: bbc.co.uk)

How to Get Better Rebates from Suppliers

Brexit, combined with the continued complications arising from the ongoing pandemic, means supplier relationship management needs to be a high priority in the coming months. Strong supplier relationships are key to the health and growth prospects of any business – and entering into rebate agreements with vendors is a great way to foster those strong, mutually successful partnerships.

Indeed, negotiating good rebate agreements with suppliers should be a key part of the procurement manager's negotiation strategy.

Rebates ensure that you, as a buyer, can purchase products at a competitive price without committing to quantities or values you can't guarantee, while your suppliers remain under no obligation to honour a special price based on volumes you might not meet.

This reduces the supplier's risk and creates a win-win scenario for both of your businesses – which is what strong, collaborative relationships are built upon.

Strong supplier relationships can also help you get a better rebate deal in the first instance. So, let's consider some tips you can bring with you to the bargaining table to negotiate better rebates.

1. Analyse Vendors to Determine Your Bargaining Power

The first step is to assess your product needs to determine which offer the best route to the most favourable deal when you enter into negotiations with suppliers. You can use the Kraljic Matrix to do this.

The Kraljic Matrix is used to segment suppliers into one of four categories as follows:

(Image source: bidwrite.com)

What you're looking for are products that fall into the "leverage items" quadrant. These products are in abundant supply and available from multiple vendors. As such, they present you with the best leverage (i.e. the most bargaining power) to go to these suppliers and have a discussion about rebates.

2. Talk to More than One Supplier

Don't simply accept the first offer. Always make a counter offer – and increase your bargaining power even further by talking to more than one supplier.

Due to high competition, leverage vendors are likely to be flexible with their rates and open to special pricing agreements in order to win your business. As you approach each supplier, let them know that you are actively in the process of reviewing the market and will go with the supplier that offers the best rebate agreement.

It's a simple tactic, but an effective one. Just by letting suppliers know you're exploring your options will quickly open up which ones are able to present you with the most favourable terms.

3. Look for Areas of Mutual Gain

Suppliers are businesses, too. They have goods to sell, money to make and margins and cash flow to protect. As such, you will likely meet some resistance when trying to barter an upfront discount, even on the promise of large orders.

Instead, show that you are committed to protecting both parties' interests by proposing a conditional discount, such as a volume- or value-based rebate.

With such an agreement in place, you can immediately ease the supplier's concerns about having to honour a special price for volumes that may not materialise.

For example, you could propose a tiered volume-based incentive that looks like this:

Orders	Rebate per Unit
0-99	£0.00
100-499	£2.00
500-999	£4.00
>1,000	£6.00

This way, for small orders, the supplier is not obligated to reduce the price whatsoever, offering them the reassurance and protection they may need (especially if they've never worked with you before). It also shows that you are a customer that takes supplier needs seriously and worth doing business with.

4. Sell Your Company as One that Will Give the Supplier Lots of Business

Naturally, suppliers want to sell as many products as possible and are more forthcoming to buyers who can help them reach that goal.

As such, when negotiating with suppliers, you need to make sure they know your organisation is one that will give them repeat business over the long-term. Provide the supplier with well-researched sales projections so they can see for themselves how much business they can expect.

Again, the relationship must be mutually beneficial. The supplier wants your business – but you of course want the best price possible. Negotiating a volume-based rebate may again be appropriate here, or, alternatively, a value-based rebate.

For example:

Sales	Rebate
£0.00-£999	0%
£1,000-£4,999	1%
£5,000-£9,999	2%
>£10,000	3%

With a strong sales projection backed by research, you'll be in a great position to negotiate a high-value rebate deal.

5. Give the Supplier More of Your Business

Suppliers, of course, like customers that order lots of different products from them. Often, buyers can achieve better deals in exchange for greater loyalty.

If you're spreading your purchases out across multiple suppliers, consider negotiating transferring some of that business over to one supplier in exchange for a better rebate deal. This could take the form of a more favourable value-based rebate, a growth rebate, or a product mix rebate.

Pursuing a product mix rebate is a smart move when you have no extra demand for a certain product beyond your regular order – and so little in the way of bargaining power to lower the price – but want to tempt the supplier to granting you a better deal on the condition that you give them extra business.

Your aim is to negotiate a rebate on your regular order of Product X when you also purchase product Y.

For example:

Sales of Product Y	Rebate on Product X
0-99	£0.00
100-499	£2.00
500-999	£4.00
>1,000	£6.00

6. Use Rebate Management Software to Share Deal Information and Collaborate

When negotiating and managing rebates, it's important to have the right collaboration tools in place that allow both your internal teams and external partners to share agreement information and communicate seamlessly. Transparency is key to all rebate negotiations – as it is to strong relationships with suppliers.

The best tool to use in this regard is purpose-built rebate management software, which centralises all communications, contracts, negotiations and pre- and post-agreement decisions in the cloud with easy access to all parties. This provides all stakeholders with a single source of truth, which leads to greater transparency, paves the way to greater collaboration and ensures that important purchasing decisions can be made based on hard facts and real-time data.

In this way, rebate management software enables you, as a procurement manager, to fully understand the performance of all of your deals – and see which ones need to be brought back to the negotiating table. The best solutions on the market today automatically track all purchases made against your rebate agreements and perform real-time calculations and recalculations for in-depth scrutiny and analysis.

The data generated can then be used for forecasting and deal-modelling, allowing you to plan and model different rebate scenarios on individual agreements. Using the software, you can undertake "what if" analyses to understand the financial impact of any deal you are negotiating as well as any changing factors – such as a rate increase or change of supplier. This allows you to see whether a proposed deal for a new contract will meet business objectives, giving you greater clarity and power when heading into negotiations.

If you're a procurement manager and want to learn more about how rebate management software can help you during rebate negotiations, talk to our experts at e-bate today or request a demo of our intelligent rebate management solution.

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