Supercharge your rebate management

What is a Rebate?

Rebate Management

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Introduction

If you're new to the world of rebate management, you're probably wondering what they are and how they're used. So, what is a rebate and how do rebates differ from regular trade discounts?

In this mini guide, we explain exactly what a rebate is, the key differences between rebates and discounts and provide some examples of the different types of rebate companies commonly use to drive various types of buyer behaviour.

What Is a Rebate?

Rebates are a popular tool used by businesses to promote their products and drive increased sales. You may hear or see them being referred to as supplier incentives, vendor incentives, special pricing agreements, guaranteed income or retroactive discounts.

But what is a rebate exactly?

Very simply – a rebate is a partial refund of the cost of an item(s). For example, if you were to buy a £500 smartphone that came with a 10% rebate, you would pay the full price for the phone and then the seller would reimburse you £50 at a later date.

This, as you can see, makes rebates distinct from discounts. Whereas discounts are applied at the point of sale, rebates are issued after the sale is concluded in order to influence buyer behaviour.

Why Do Companies Use Rebates?

It may seem that offering rebates causes unnecessary complexity. Why go through the hassle of issuing rebates when the discount could simply be applied upfront to promote the sale?

It's a good question. In the B2B world, where enormous volumes of sales are made across multiple product lines, both buyers and sellers must track sales and purchases made against any rebate agreements that are made. Half of the time you will find that the supplier will just pay up. But in other situations, buyers will need to claim for the rebates they believe they're owed and provide evidence for these claims. Or the supplier pays the rebate based on their calculations. In this scenario, either way there is a timing issue and generally validation is required before the actual payment is made.

Wouldn't it be simpler for suppliers to simply reduce the upfront buying price for the seller? Well, yes it would. However, while upfront discounts are useful for increasing short-term sales, rebates are long-term and tactical. They are designed to drive customer loyalty and brand affinity, while at the same time reducing the risk of buyers over-promising during pricing negotiations.

Consider the following scenario. A buyer for a construction company contacts a building materials seller and says they plan to buy 100 tons of cement over the course of the year – what's your best price? It's a big order and so the seller would likely quote a lower price per ton than if the opportunity had only been for 30 tons. The volume-based discount is applied and the customer places their first order for 10 tons.

However, over the course of that year, the construction company only places two more orders – each for 5 tons, bringing the total volume to just 20 tons. They haven't bought the promised volume, but they still received the discount – leaving the building materials supplier out of pocket with no way to retroactively change the buyer's price and no way to incentivise further sales.

How can rebates solve these problems? Let's consider some examples.

Volume Incentive Rebates

Volume incentive supplier rebates are used to form trade agreements that are based on "actual" rather than "promised" volumes of purchases. Instead of granting the discount upfront and shouldering the risk of buyers not keeping their promises, rebates ensure that volume-based discounts are only awarded when the terms of the agreement have been met – thus passing the risk of non-compliance onto the buyer.

There are more benefits. In addition to eliminating the risk of overpromising, rebates offer an actual incentive for buyers to purchase more volume. In fact, volume incentive rebate programmes are usually tiered – the more volume purchased, the greater the rebate buyers can earn – encouraging buyers to keep purchasing from you (as opposed to a competitor) for longer periods of time.

To use our cement example, the tiered rebate structure might look like this:

Quantity	Rebate per ton
0-9 tons	£0.00
10-49 tons	£10.00
50-99 tons	£15.00
>100 tons	£20.00

Alternatively, percentages can be used to calculate rebates. For example, buying £2,000 worth of cement would qualify the buyer to receive 2% of the paid bill back at the end of the year, whereas increasing purchase value to £3,000 would qualify the buyer for a 3% payback and so on.

Other Types of Rebate

In addition to encouraging volume, rebates can be fine-tuned to drive other types of buyer behaviour, such as growth, retention and product mix improvement.

Product Mix Rebate

Since our construction company is buying cement, it will likely be in the market for sand as well. However, the building materials supplier knows that the construction company is buying sand elsewhere – and so it offers a product mix rebate to tempt the construction company away from the competitor.

With product mix incentives, buyers get a rebate on their regular order of product X (in this case cement) on the condition they buy product Y (sand) as well.

For example:

Sales of Product Y (sand)	Rebate on Product X (cement)
1-9 (tons)	£2.50 (per ton)
10-49 (tons)	£5.00 (per ton)
50-99 (tons)	£7.50 (per ton)
>100 (tons)	£10.00 (per ton)

Retention Rebates

Retention rebates are offered as a reward for loyalty and continued or regular business. They are effectively an incentive for buyers to purchase consistently over a certain period of time. They are usually paid at the end of a twelve-month period when certain conditions have been met – such as regular quarterly, bimonthly or monthly orders.

For example:

Orders	End of Year Rebate
Quarterly over a year (4 orders)	1% of total value
Bimonthly over a year (6 orders)	2% of total value
Monthly over a year (12 orders)	3% of total value

Growth Rebates

Growth rebates encourage both loyalty and, crucially, a sustained increase in order volume or value over a specified period of time. Effectively, growth rebates say to buyers if you increase your spend by X% this year over last year, you can earn a better price for your purchases.

For example:

% Growth Value Over Previous Year	Rebate Volume
2% growth	£2,000
4% growth	£4,000
6% growth	£6,000

Why A Rebate Management System Is Needed to Manage Rebates

Rebates are common practice across various industries, including FMCG, pharma, automotive and construction. There are numerous benefits to implementing rebate programmes. Companies use them to drive sales, build loyalty, reduce risk, encourage growth, move old stock, reward valuable customers and more.

Unlike discounts, however, which are relatively straightforward to manage, rebates are complex. Contracts are required and organisations must continuously keep track of sales and purchases made against rebate agreements with strong collaboration between internal teams and external stakeholders.

It is for this reason that a rebate management system is usually required to manage rebate programmes.

To learn more about how rebates work and the advantages of rebate management software, why not book a demo of e-bate, the Intelligent Rebate Management Solution? Your demo will be conducted by one of our rebate management experts, who will show you precisely how rebate programmes can be built and managed using e-bate and the huge business benefits you can unlock for your organisation.

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