



Why the supplier rebate model is broken — and how to fix it



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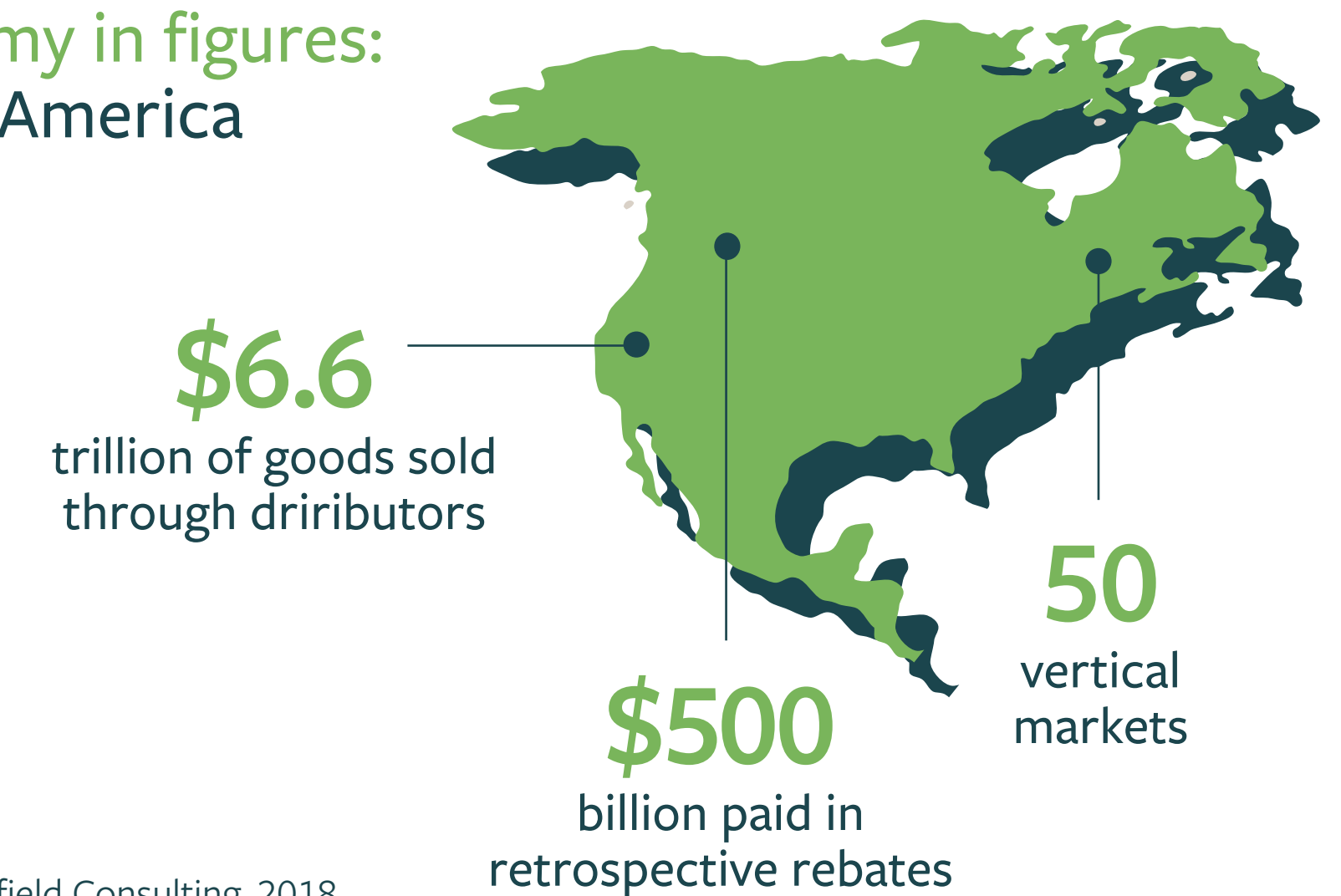


Supplier rebate management is broken

Supplier rebates seem like a great idea on paper. Manufacturers reward their distributors for helping them to sell more product and build customer loyalty. Distributors benefit by claiming juicy rebates that lower their costs. Both parties benefit by working together to win, serve and retain valuable customers.

This is the world we call the deal economy, and it's big business. Research conducted by Benfield Consulting showed that in North America in 2018, manufacturers sold \$6.6 trillion of goods through distributors, merchants and other wholesalers, and paid out \$500bn in retrospective rebates.

The B2B deal economy in figures: North America



Source: Benfield Consulting, 2018

There's just one problem. At most distributors, the mechanisms for agreeing deals and for tracking, calculating, and claiming rebates are broken. There are too many different deals, and most are too complicated for ERP systems to handle, so their true value is never realized. Instead of thriving in the deal economy, distributors become hamstrung by it.

Why supplier rebates matter

Rebates are the currency of the deal economy. Whatever the specific terms of the deal, it represents a promise by the supplier to reward the distributor for achieving certain goals: selling more product, selling higher-value products, developing loyal customers, generating demand, and so on.



Most popular supplier rebate types:

- **Volume-based rebate:** The supplier pays a retrospective rebate to the supplier when sales of a certain product or product category exceed a certain volume.
- **Value-based rebate:** The supplier pays a retrospective rebate to the supplier when sales of a certain product or product category exceed a certain value.

- **Co-op funds:** Funds where the supplier matches (co-ops) the distributor's funds for a variety of marketing and sales events.
- **Market development funds (MDF):** Funding for sales and marketing campaigns designed to generate demand and sales for the supplier's product.
- **Special pricing allowances (SPAs):** Funding to help the distributor match a competitive price in the marketplace.

BUT THERE'S MORE TO IT THAN THAT.

A rebate agreement is also a covenant between supplier and distributor; a commitment to work together for mutual success. That makes rebate agreements – at least in theory – a powerful engine for business growth; the foundation for a productive working relationship that delivers a valuable service to customers.

FIVE BENEFITS OF EFFECTIVE SUPPLIER REBATE MANAGEMENT

Functioning rebate agreements drive success in the deal economy, enabling distributors to:

- 1. Increase trade revenue:** When everyone is aware of rebate-related targets, sales efforts can be focused on achieving them, resulting in higher revenues and more valuable customers.

- 2. Boost bottom-line profit:** When all rebate is claimed, payments can amount to many millions of dollars a year, significantly boosting the bottom line.

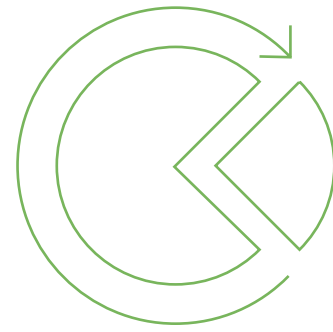
- 3. Improve cashflow:** Prompt and accurate rebate claims can accelerate the flow of cash into the business, reducing borrowing costs.

- 4. Develop strong business relationships:** Rebate agreements allow suppliers and distributors to craft mutually beneficial deals, creating strong working partnerships for long term gain.

- 5. Combat disintermediation:** Close alignment between suppliers and distributors creates a partnership that delivers added value and an informed, personalized service to the customer, making the distributor a preferable option over fixed-price online outlets.

What's stopping you managing supplier rebates effectively?

Unfortunately, supplier rebates are rarely the engine of business growth they're supposed to be. Instead, they're an administrative nightmare fueled by three key issues: deal complexity, technology constraints, and internal process breakdowns.



DEAL COMPLEXITY

Deal complexity comes in three main forms:

- **Volume:** A distributor can have hundreds of rebate deals in place across its supplier base. Keeping track of targets and performance against each one is a cumbersome process.

- **Variety:** Almost every deal has different objectives, terms and thresholds, making it difficult to reflect them in finance systems and to match purchases and sales accurately against them.

- **Complexity:** Deals are often extremely complex, with many layers of terms and restrictions. That can lead to misunderstandings, rejected claims and protracted disagreements with suppliers – the very opposite of what rebates are supposed to achieve.



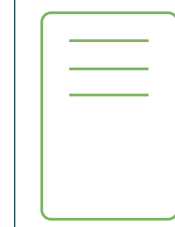
Technology constraints

The systems typically used to (try to) manage deals are inadequate for the purpose:



ERP systems

While most of the popular ERP systems (SAP, Oracle, Microsoft Dynamics) can handle some straightforward rebate agreements, there isn't one that's capable of handling all of the 300+ deal types we've encountered over the years. Essentially, that means deals must be managed and tracked outside of the ERP system, leading to missed claims and inaccurate forecasting and accruals.



Spreadsheets

Rebate deals are most commonly recorded, tracked and managed using spreadsheets, which takes a lot of time, creates the risk of errors and omissions, and makes forecasting and reporting difficult. Spreadsheets are often not set up to alert commercial teams of critical information like a rebate threshold approaching, or a contract nearing expiry, so opportunities are missed.



Vendor portals

Many suppliers operate web-based portals where distributors can track the status of sales and invoices. However, our experience shows that relying on information provided by suppliers is risky and can lead to rebate being missed.



The impact of poor supplier rebate management

When supplier rebates are poorly managed, it can have serious negative effects on the business:

Missed revenue: In our work with distributors, we typically find that 4% of potential rebate revenue goes unclaimed. This can amount to hundreds of thousands of dollars left on the table each year. (For companies with narrow margins, it can literally mean the difference between profit and loss.)

That happens for several reasons, including relying on suppliers to calculate rebate for you, or calculating rebate at a high level (e.g. by product or category) rather than the most granular level (e.g. per product per branch per transaction type per day).

4%

of potential rebate revenue typically goes unclaimed, amounting to hundreds of thousands of dollars annually for some firms.



Inaccurate budgeting and forecasting: If you can't get accurate visibility across your rebate agreements, you can't accurately forecast the impact on revenue, or budget for the quarter/year ahead – which can lead to unpleasant surprises for the business and its investors.

Compliance issues: Accounting for rebate revenue can get very complex very quickly, creating headaches for companies obligated to comply with International Financial Reporting Standards (IFRS) or local generally-accepted accounting principles (GAAP). Manual calculations can fall foul of financial reporting regulations, potentially leading to...

Misleading accounts: If rebate revenue is misreported in stock market filings – especially if it artificially inflates revenue for a given period – it can lead to restatements, regulatory

investigations and penalties, and even jail time for senior executives.

Missed opportunities: Rebates exist to encourage mutually beneficial relationships between suppliers and distributors. If there's disagreement over the terms of the deal, or if the distributor is seen not to be delivering on the terms of the deal, it can lead to a loss of trust and may even pave the way for the end of the relationship.

Tesco hit with £214m in penalties after misreporting rebate earnings

In March 2017, the UK's Financial Conduct Authority said that Tesco plc and Tesco Stores Ltd had “committed market abuse in relation to a trading update published on 29 August 2014, which gave a false or misleading impression about the value of publicly traded Tesco shares and bonds.”

On 29 August 2014, Tesco plc published a trading update in which it stated that it expected trading profit for the six months ending 23 August 2014 to be in the region of £1.1bn.

Twenty-four days later, it published a further trading update in which it announced that it had “identified an overstatement of its expected profit for the half year, principally due to the accelerated recognition of commercial income and delayed accrual of costs.” The Financial Times reported that the overstatement was due to inflated estimates of rebate income owed.

Tesco agreed to pay £85m in compensation to investors and also agreed to a £129m plea deal with the Serious Fraud Office – a total penalty of £214m.



Case study: Wolseley maximizes the value of supplier rebate agreements



Wolseley is the world's #1 distributor of heating and plumbing products to the professional market, and a leading supplier of building materials. Each year it strikes retrospective payment deals with hundreds of suppliers based on spend levels.

Retrospective rebate payments account for millions of pounds of Wolseley's annual revenue - but the entire process was managed in Excel, with a separate spreadsheet for each

supplier. This presented countless problems with regards to accessibility for purchasing staff, accuracy of data and the ability to run management reports on expected rebate payments.

Realizing it was missing opportunities, Wolseley implemented Enable to improve the management, visibility and tracking of payment terms, and to save time on administration of complex deals.

With Enable in place, Wolseley has been able to:

- Increase the levels of rebate and overall benefit achieved from suppliers
- Accurately report on all deals and rebates, and accurately record payments
- Alert the commercial team when a deal is nearing expiry
- Improve the visibility of approaching rebate thresholds, to maximize benefit
- Improve performance measurement of suppliers, categories and sourcing personnel

For more examples of companies who are thriving in the deal economy with Enable, visit enable.com/customer-stories

How to fix it: Practical steps you can start taking today

In our experience, every company that sets out to regain control of supplier rebates sees considerable benefits as a result. Those benefits range from the immediate (discovery of unclaimed rebate) to the long-term (the ability to work more closely and strategically with suppliers).

The extent of the benefit depends on the approach you take to handling supplier rebates more effectively. These eight steps can be considered a best-practice approach to turning supplier rebates from an administrative nightmare into a dynamic engine for business growth.

- **Think strategically about rebate deals:** Take a step back and view rebates not just as a bargaining tool or a necessary evil, but as a mechanism for mutual co-operation and growth between you and your suppliers. Use the analytics at your disposal to identify the suppliers that present the most strategic opportunity, and focus on negotiating mutually-beneficial rebate agreements as part of an achievable growth plan.
- **Negotiate viable rebate terms:** It's essential to negotiate a structure that can be implemented identically by you and your supplier. If the calculations aren't readily accessible to both parties, it can result in disagreement and the risk of missed targets or rejected claims.



- Expel ambiguity from rebate agreements:** Ambiguously worded agreements, unclear signoff procedures, no single version of the truth and overreliance on individuals (and their spreadsheets) all compound to create risk and uncertainty in assumed/ accrued rebate earnings. To mitigate risk and increase certainty, take a systematic approach to agreement content, internal approval and supplier signoff, change management, and rebate earnings calculations.
- Maintain a clear audit trail:** Auditors and internal compliance teams require a clear audit trail to ensure rebates are accounted for, accrued, and reported on accurately. This can be a challenge when a high number of complex rebate agreements are in place and subject to

periodic review and change. A systemized approach can capture an audit trail automatically, ensuring that the information is recorded and allowing easy monitoring and auditing to take place.

- Closely track rebate earnings and incentives:** Being able to calculate and track rebate earnings is fundamental to reliable rebate accruals and maximizing the incentives built into many rebate agreements.
- Review your current rebate management systems:** If your current systems don't allow you to manage supplier rebates effectively, explore alternative options. A good supplier rebate management system will integrate seamlessly with your ERP systems and enable you to structure, track, claim, report on, and account for even the most complex supplier rebates.

- Maintain close supplier relationships:** Close collaboration with key suppliers will enable you to work together to agree achievable deals, track performance against them, and course-correct swiftly if the deal doesn't seem to be delivering as planned. A mechanism for jointly monitoring progress on an ongoing basis, and agreeing appropriate actions, will go a long way towards both parties achieving the results they want.
- Consider appointing a Vendor Funds Manager:** In his analysis of the deal economy in North America, Scott Benfield identified the need for a new role to bridge the different functions that handle the various types of supplier rebate (finance, procurement, sales, marketing) . He believes that appointing a vendor funds manager would enable distributors to maximize the

financial and strategic value derived from supplier rebates.

- The value of dedicated supplier rebate management software:** Distributors that use specialized software typically claim rebate amounting to 12% of cost of goods, while those using spreadsheet-based or spreadsheet-and-ERP methods typically only claim rebate amounting to 7% of cost of goods.



Summary: Take control of supplier rebates and thrive in the deal economy

Supplier rebate management is broken, but it doesn't have to be. As we've shown in this guide, there are practical steps you can take, and practical solutions you can implement, that will turn supplier rebates from an administrative nightmare into a sustainable source of revenue and growth.

If you're currently relying on ERP systems, spreadsheets or supplier portals for rebate management, one of those steps may be to implement a specialist software solution that's better able to handle the volume and complexity of your supplier agreements. Enable is a cloud-based rebate management application that integrates with your existing ERP systems to manage large volumes of complex deals and ensure that all rebates are promptly invoiced and claimed in full. Companies that implement Enable typically find an additional 4% claimable rebate from existing deals, providing a full ROI in less than a year.

Leading companies worldwide are driving profitable growth with Enable.
Are you ready to join them?



Contact Enable today at **hello@enable.com** or visit **enable.com** to schedule a demo.

