Tracking Rebates Can be Tricky

by: Nathan L. Phipps

If you have rebates, then you must have skilled, curious, intelligent people managing your rebates. Furthermore, you will need appropriate tools to manage rebates. For many companies, that will involve software. Finally, you must be intentional and strategic when managing rebates. Otherwise, rebates are sure to trip you up, as the author explains.

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Let's talk about rebates. Anyone who has ever dealt with managing rebates knows that it is difficult. There is generally a lot of data to consider. To start with, you must have a good handle on how many rebates you have and what they are used for. Simplification can be useful.

I know a company that had 85 separate codes for all their rebates and discounts. Have you ever tried to create (or read, for that matter) a pricing waterfall with 85 separate variables? Spoiler alert: the visualization was unreadable. They were finally able to aggregate the 85 price variances into 15 separate clusters. (That pricing waterfall was workable!)

Quick Definitions

Before we get too far down this path, I want to touch base on some quick definitions of rebates vs. discounts. Sometimes different authors use different language. In my experience, precise language helps pricing projects.

We generally refer to on-invoice, at-the-time-of-sale price reductions as discounts. If the negative price variance is off-invoice and provided after the sale, then it is a rebate.

There is an exception here: instant rebates. They share too many features with traditional rebates to not call them "rebates," but they are applied at the time of the sale. They may require a coupon. Instant rebates and mail-in rebates are completely different beasts for multiple reasons, but the one I care about now is the redemption rate.

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By requiring the customer to mail in the coupon, mail-in rebates have a (potential) obstacle that can lower the redemption rate (i.e., the percentage of buyers that actually redeem the rebate). Simply removing the obstacle (i.e., making the coupon instant, and completely removing mailing from the redemption process) will result in a higher redemption rate for the instant rebate vs. the mail-in rebate.

Three Basic Numbers

The simple fact is that tracking rebates can be tricky. At a minimum, there are three basic numbers that must be tracked to have accurate rebate management. First, you must track the rebate accruals themselves. How much rebate has the customer earned? Second, you must track the actual rebate payments sent to customers. Finally, you must have an accurate, up-to-date calculation of the actual expected amount to be paid.

This last part may seem redundant upon first glance, but I assure you that it is not. Rather, the role of this final figure is expectation alignment. Essentially, you wish to telegraph to the customer the expected rebate amount they are currently expected to receive. This is to keep the customer from spending effort negotiating an even lower price because they do not understand how low their price already is. We don't like to waste time and effort in pricing. (Well, at least, I don't.)

If Plato Managed Promotions

What would the world look like if Plato (or Aristotle or choose your favorite philosopher) decided to make a mark on the pricing world? Well, I would expect a pricing philosopher to always be looking for context and searching for the big picture.

Likewise, beyond simply tracking the rebate numbers themselves, you must do more than just scratch the surface if you are going to be strategic about your rebates.

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Two fundamental (and interlinked) questions in philosophy are "What am I, and why am I here?"

Studying philosophical traditions can lead you down a rabbit hole of metaphysics, ontology, axiology, ethics, aesthetics, and more. It's very easy to get overwhelmed with all the knowledge, history, opinions, counter-opinions, counter-counter-opinions, etc. Simplification is important in philosophy. Simplification is also useful in pricing. Let's try to apply those two simple, direct questions above to pricing.

From my perspective, we can apply the spirit of the questions thusly: Why is this rebate here? Naturally, we can unpack this question just a bit more. More granular questions would include: What was the historical purpose of this rebate? Has the purpose of the rebate changed? And, perhaps most importantly, is the rebate affecting customer behavior in the desired manner?

Other Rebate Considerations

Additionally, rebates can help you segment your customers by price sensitivity (i.e., their willingness to pay).

Furthermore, once you have clearly defined customer segments, rebates can be used to target those segments in a highly effective way.

As mentioned above, mail-in rebates are different from instant rebates.

And don't forget about year-end rebates used by manufacturers for their distributors. Generally, these come with milestones that the distributor must meet to receive the rebate. For instance, there could be year-end (or quarter-end) rebates that are only released to the purchaser once certain criteria are met.

You will also want to consider that using promotions can make your customers more price sensitive. Of course, there are tactics you can use to mitigate this effect, including focusing on the value the customer gains (instead of the discount) when designing the marketing communication for the promotion. Basically, you want the first thing that comes to your customer's mind to be "this product has so much value for me!!" rather than "what a great discount!!"

STUDYING PHILOSOPHICAL TRADITIONS CAN LEAD YOU DOWN A RABBIT HOLE OF METAPHYSICS, ONTOLOGY, AXIOLOGY, ETHICS, AESTHETICS, AND MORE. IT'S VERY EASY TO GET OVERWHELMED WITH ALL THE KNOWLEDGE, HISTORY, OPINIONS, COUNTER-OPINIONS, COUNTER-COUNTER-OPINIONS, ETC.

If you have the customer focus on "what a great discount," then they will go away when you stop offering the discount. If you have the customer focus on "this product has much value for me," then they will continue to purchase once you remove the discount (assuming that their willingness to pay is still above the non-discounted price).

Strategic/Management Considerations for Promotions (Discounts and Rebates)

Here is how world-recognized companies approach discounting:

- Do we even use discounting?
- If so, which customer segments do we target?
  - Furthermore, HOW do we target those segments?
  - And HOW will we DEFINE and MEASURE success?
- Will the discount be offering-specific (i.e., it only applies to one type of good or service)?
- Will you discount the same amount with your low-end offerings as you do with your high-end offerings?

First, is your company even going to use discounting? There are companies that use discounting to achieve business success (READ: pricing success), and there are companies that refuse to use discounting and still achieve business success.

Example: Apple has historically avoided discounting entirely. Yet, Apple is still successful. On the other hand, Samsung offers a variety of discounts across its various product lines. Yet, Samsung is also successful. Offering discounts or not will not determine the success of your business. Rather, success is determined by whether or not your Price Variance policy supports your Market Pricing policy, the success of which depends on whether or not your Market Pricing policy supports your Pricing Strategy policy, the success of which depends on whether or not your Pricing Strategy supports your Business Strategy, the success of which depends on whether or not your company **even has** a Business Strategy.

Pop quiz: how many of you could write down your company's business strategy on a postcard right now? How many of you believe that a majority (50% + 1 person) of your team could write down your company's business strategy on a postcard right now? What about your boss? What about your CEO/President? What about the shift worker on your front lines?

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Don't worry, I'm not recording any of the hands in the air. Most businesses don't seem to have a clearly defined pricing strategy. I'm sure that it'll all be fine in the long run, and the more strategic (and profitable) businesses will gladly share their market share with strategy laggards.

Well, guess what? If you don't take the time to clearly define your Business Strategy, then you could lose your lunch to the company that **DID**. And if you don't start investing in your pricing capabilities right now, then you will not be able to build and develop a team when you need their capabilities most (i.e., when your next pricing emergency occurs).

But I digress! Back to the pricing questions. Second, will your company discount the same amount with your low-end offerings as you do with your high-end offerings?

- Example: Volkswagen owns several car brands, including Porsche, Audi, Volkswagen, and Skoda. Discounts and promotions become more common towards the lower-end of their brands, but are almost never used for their premier Porsche brand.
- Other companies do the exact opposite: they hold their low-end offerings at a constant price (with no discounts) while potentially offering steep discounts to their high-end offerings. This is common in software and service markets where fixed costs are high but variable costs are low.

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Just to be clear, both Price Variance policies (Pillar 4 of 5) could be valid, depending on the choices that your Pricing Council has made about your Market Pricing (Pillar 3 of 5), Pricing Strategy (Pillar 2 of 5), and Business Strategy (Pillar 1 of 5). And we haven't even made it to Price Execution (Pillar 5 of 5)!!

The Key Challenge of Any Price Variance Policy

The key challenge of any price variance policy: **"How can executives detect when granting a price variance is both necessary and profit-enhancing, and how can they detect when withholding a price variance is both necessary and profitable?"**

Do you realize that the single compound sentence that you just read LITERALLY BOILS DOWN the **MOST IMPORTANT GOAL** that you **must achieve** in any project that involves discounts and rebates (i.e., price variance)?

And would you like to know which members of your Pricing Council (or pricing working group or whatever you wish to call it) need to be in the room when the decision is made?

The Bottom Line

The bottom line that I want to communicate to you is that you must have the right mix of people, process, tools, and **strategy** if you want to have an **outstanding rebate program**.

If you have rebates, then you must have skilled, curious, intelligent people managing your rebates. Furthermore, you will need appropriate tools to manage rebates. For many companies, that will involve software. (You don't want to be managing 50 rebates for 20,000 customers for 7,000 products using Microsoft Excel, DO YOU??!!!) Finally, you must be intentional and strategic when managing rebates. Otherwise, rebates are sure to trip you up.