



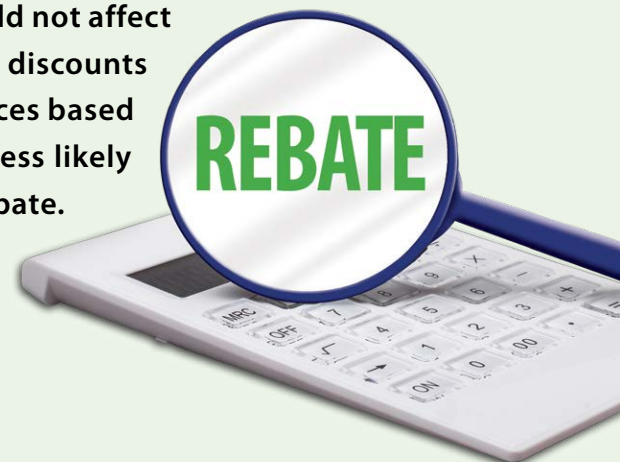
# B2B Rebates and Loyalty

**B2B rebates are one of the largest expenses for manufacturers and critical to distributor profitability. But just what are rebates and what are the best ways to use them to build B2B Loyalty?**

## What is a Rebate?

A rebate is a financial incentive used to drive sales and build customer loyalty. But unlike discounts which occur at the point of sale, rebates are refunded after the buyer pays full price and submits proof of purchase. This is an important feature of rebates. Since the rebate comes after the sale at full price, it allows the sponsor to maintain their own gross profit and the margins for their channel partners. A discount would lower the gross profit for both as the price would be reduced at the point of sale. While the sponsor's net profit would be lower on any eligible products based on the rebates redeemed, it would not affect the distributor or dealer profitability at all. Additionally, discounts encourage customers to try to negotiate future purchase prices based on the discounted point-of-sale price. Customers are much less likely to try to negotiate a lower price after receiving a one-time rebate.

Rebates can be powerful tools in B2B transactions. They can influence purchasing behavior, reward loyalty, and strengthen long-term supplier relationships.



# How are Rebates Used?

## Channel Rebates

The lion's share of these are volume rebates between manufacturers and their distribution partners. Manufacturers offer rebates to these partners when they reach specific purchase targets. Simply put, this means a distributor needs to purchase a certain volume of product units in a defined time period to earn a specified rebate.

For example, when a partner purchases their 101st unit of a given product in a calendar year, the manufacturer will pay a 4% rebate on all units purchased. So, if the partner paid \$100 per unit throughout the year, they would receive a \$4 rebate for each unit at the end of the year. That would reward them \$404 for buying 101 units.

Rebates like this are especially important to distribution partners. They carefully plan their purchases to ensure they receive those dollars to increase their profitability. Partners will often "load up" on inventory at the year's end to ensure they achieve the minimum purchases to earn these rebates. This demonstrates just how effective rebates are in driving purchase behaviors.



Channel partner rebate programs can be designed to reach various goals. These programs may:

- **Reward partners for buying in larger quantities to gain shelf space and crowd out competitors.**
- **Focus partners on exceeding overall sales targets.**
- **Encourage them to consolidate purchases with the sponsor.**
- **Help increase margins for both the manufacturer and supplier by stocking high margin products.**
- **Or simply ensure new products are available in the marketplace and on the shelf at distributors.**

Manufacturers may also sponsor incentive programs rewarding distributor field reps for sales of specific units. These spiffs are sometimes called "unloader programs" because they are designed to help sell the product the rebate encourages the partner to load into inventory. The spiff helps build demand. When combined with a rebate to ensure inventory is in stock, the manufacturer creates a push-pull approach promoting ongoing success.



## **B2B Customer Rebates**

Most people automatically think of a consumer purchasing an item for their own personal use when they hear the word customer. But when we talk about B2B customer rebates, we are typically looking at a business owner buying a product the business will use. It could be a warehouse purchasing a forklift. Or perhaps a small business owner buying a new printer. A plumber buying new faucets to install in a customer's home is another example. Or it might be your local auto repair shop owner buying a new tire changer for their business. None of these people are purchasing for home use, but all those could be eligible for a manufacturer or dealer rebate.

In these cases, the rebate acts as a promotion designed to encourage the purchase of a specific product. Most rebates are offered for a limited time. This creates a sense of urgency to buy now before the rebate disappears.

## **Benefits of Rebates?**

The primary benefit of rebate programs is flexibility. Sponsors can implement a singular rebate program for all customers and communicate it to everyone. Or choose to customize individual programs for their partners. These might have individual product goals or require bundled purchases to earn the rebate. A manufacturer could even work with a distribution partner to address regional or local product preferences by building location-specific rebates that encouraged shifting to new products.

## **Challenges with Rebates**

One of the biggest challenges with partner rebates is tracking and administration. Performance metrics in channel partner programs must be tracked carefully. For a rebate to be most effective, the partner must be shown their status frequently. This will encourage engagement and keep partners working toward their individual goals. But this tracking requires both an administrative interface to load performance data for all enrolled partners as well as a user interface allowing individual partners to log in and see their current performance. Plus, the more complex the rebates, the more time required to administer the programs. Look for a partner experienced in managing rebates with a system designed to effectively manage your rebates.

End-user rebate programs often require the customer to apply for the rebate and include some proof of purchase. The challenge here is simplifying the validation process. Some products have a unique serial number on each unit which can make validation much smoother. Look for a supplier experienced in capturing and validating serial numbers as well as electronically receiving copies of invoices or receipts as proof of purchase. This can save lots of work and headaches moving forward.



## Rebates as a Tool

A rebate program is a sales tool. Make sure your sales team understand the program and how to use it to maximize sales. Plan training for your team on the program as well as roll-up reporting showing their partner and customer standings in the programs. Your sales team should consistently remind customers of the rebates available to them and where they stand on achieving those rebates. To do that, your program administration must provide regular reporting. This helps them keep their customers on track and will avoid surprises later.



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