



Manufacturer Rebate Programs ... Are they worth the cost?

Like so many things in life, the answer is yes, no and could be.

Back in the 1960's manufacturers initiated the process of providing rebates to distributors. The concept, as we know it, is for distributors to purchase from manufacturers who provide financial incentives. In many instances, these programs were focused on growth, and significantly helped manufacturers differentiate, and grow their business – they were a competitive difference.

Over the years, however, programs grew. Now most manufacturers now offer similar programs. And while some only focus on growth, most offer some type of financial inducement for maintaining a purchase volume or “first dollar” business (a rebate is earned for each dollar purchased from the manufacturer, regardless of performance). While times were good, this system worked for distributors and manufacturers. Distributors focused their efforts on those manufacturers who were important to their operation and/or those manufacturers who offered programs where the distributor could earn from the first dollar (typically the way buying groups negotiate their programs). Manufacturers, because times were good, focused on customer retention and incorporated a growth element. The financial aspect of the relationship worked.

But what has changed over the past 40 years? Much.

- The manufacturer landscape has changed due to consolidation and product line expansion.
- Distributors have consolidated, transferring negotiating strength from a manufacturer to the national chains.
- Distributors have reduced the number of suppliers that they work with.
- Marketing and training have become more important.
- Manufacturers desire their salespeople to focus more on end-users.
- More distributors, and manufacturers, have joined marketing/buying groups; making more and more deals “transparent”.
- Distributors view many manufacturer products as commodities, especially contractor-oriented material, and know that they influence the business; hence they are making strategic supplier decisions instead of strictly rebate-oriented decisions.
- Many distributors, especially small to mid-size distributors, rely on rebate income for their profitability.
- Distributors view line change decisions as strategic issues rather than solely rebate issues.
- The significant revenue growth opportunities, typically achieved through product line conversions, are becoming limited.





With these dynamics, will the “old” system work for the future?

In the airline industry, frequency programs (frequent flyer points) are considered a “given” by the consumer - an entitlement. Who among us would fly an airline if we weren’t getting something? This is called WIIFM (what is in it for me). In other words, a frequency program is a barrier to entry into the market – or a cost of doing business. Your rebate program is similar. It is not something you can cancel, but it can be “enhanced”.

If you are a small manufacturer, rebates provide you a level of visibility, even though your typical dollar payout is small per distributor. For “strategic” and larger manufacturers, opportunities exist to refine your program. The key is understanding what is of importance to your customer.

What do I mean by this? Every distributor seeks to grow his/her business. They have sales people, and may have a marketing department, but they also need market intelligence and support to grow their business. And manufacturers can get greater distributor support by making support commitments to distributors.

In some industries these are called “excellence”, “business development” or “partnership” programs. These strategies are *holistic business approaches* that typically focus on:

1. Achieving purchasing support
2. Exceeding purchasing levels
3. A detailed planning process where both parties make commitments
4. Delivering upon training commitments
5. Achieving operational benchmarks
6. Marketing support and marketing intelligence
7. Sales personnel commitments

While not every program involves all seven elements, you can see that this is a more involved process. Distributors, and potentially your sales organization, are rewarded based upon their total success, with greater payouts based upon broader achievement.

Is this program for every distributor? No. This approach must be focused on those distributors who are key to your success. And it may only be a couple of people in each marketplace because the key is that you commit more resources (people, time, money) to particular customers and they make a commitment to you. This process also presumes that your sales organization is trained to be able to fully support the participating distributor.

Is this an involved process? Yes. It requires training, commitment, communication and ongoing program administration. Will it work? It has in other industries, and it will





differentiate you as a company that “partners” with key distributors to achieve mutual growth objectives.

And where is this all going?

To a concept of defining a ROI for your trade marketing expenditures.

I have heard manufacturers say there are only “x” dollars that they have to go around. After you take out rep commissions, distributor rebates, distributor dating, co-op, ad hoc distributor marketing expenses, channel / sales promotions, buying/marketing group rebates, end-user discounts, training, merchandising and who knows what else, how much is left? And what payback are you getting? Perhaps developing a trade marketing ROI for each territory, and possibly for each distributor, is appropriate. Or looking at what is the “total” value of that distributor to you? By measuring performance, should more effort be placed in a particular area, should you work more with a particular distributor, should less be spent somewhere?

Positioning yourself as a company that can totally support a distributor’s effort, helping them make money (on the front end and back end) can differentiate you. Will it make you popular? Probably not, since a) no one likes change and b) this is a performance-oriented process, but with the right approach, proper communication and focused implementation, rebate programs can be worth it.

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