

The No.1

REBATE PRICING STRATEGY



The capability to maximise margins while offering financial incentives is an important proposition for customers. Especially new customers that are cautious about the purchasing process and/or existing customers experiencing margin pressure as a result of the recent crisis. This is where the right B2B rebate pricing strategy can be a powerful tool and option for sellers. As rebates can be a great way to close deals, secure cash flow and maximise margins across the product portfolio.

The problem is, though, B2B rebate pricing strategy, design and management still have a lot of grey areas. It is common to find rebates creating significant channel conflict and the business losing significant margin on deals. We ask, then: Is there a rebate pricing strategy that can help managers to maximise margins across their product portfolio while securing genuine loyalty from their customers?

In this article, we will discuss the common types of rebates, the benefits, and the key challenges to consider when implementing rebate programs.

WHAT IS A GOOD REBATE?

Simply put, rebates are cashback or reimbursements that customers receive from sellers for their loyalty. However, good rebates are a price incentive or reward for good purchasing Behaviour. The overall intention of using rebates is to incentivise or influence customers to commit to the selling organisation. The ideal outcome from using rebates, therefore, is that both the seller and the customer come out the other end of the deal with a win.

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TYPES OF REBATES PRICING STRATEGY

Below are 4 common types of rebates B2B businesses use to drive customer loyalty and maximise margins:

1. Volume Rebates:

This is the simplest form among rebates. The rebates are earned when the customer reaches an agreed volume-based turnover target. This rebate rewards customers for purchasing above a certain threshold of product units.

2. Growth rebates:

Rebate earnings for growth rebates are calculated through several incremental targets i.e., growth rate plus last year's turnover. This rebate incentivises customers to increase total volume, rather than individual order volume.

3. Mix rebates:

This rebate is based on the total mix of products purchased over a specific time period. A mix rebate scheme is designed to motivate customers to make purchases across a range of products, as opposed to low value or single item purchases.

4. Retention rebates:

Retention rebates can be any form -- growth, volume, or mix – and are generally paid annually. Typically, these rebates are given to customers to reward loyalty over a long period of time.

WHY DO B2B BUSINESSES USE REBATES?

Customers like rebates because they receive monetary reimbursements for committing to significant purchases - and everyone likes to feel they are getting value for money. Also, the customer can go back and show their business that they have made a cost-saving through the rebate scheme even though the upfront spend is higher.

In effect, customers can get more value for their money through a rebate scheme as they are not paying the full list price for goods purchased. While sellers can: push more volume, change mix, optimise costs, lock-in cash and in turn hopefully make more margin using rebates.

WHY DON'T MORE B2B COMPANIES USE REBATES?

Although good in theory, many rebate pricing strategy scenarios do not always work out well for the seller. Selling organisations frequently lament using rebates saying they are a money pit. This is because rebates are either improperly structured or poorly managed. In reality, after the deal is made, customers may not always commit to their purchase agreements and even buy less than the agreed amount.

It is also common to find sellers not calling their customers to account when they've breached the contract. When this happens, the price agreement continues even though the customer is loosely or 'passively' agreeing to contractual terms.

At Taylor Wells, we believe the problem with rebates comes down to this:

- miscalculated quantity breaks
- quantity considered in absolute terms rather than in relation to changes in price, cost and mix
- poorly measured and seldom tracked against margin changes
- poorly managed with customers
- poorly conceived rebate channel strategy

In effect, then, even though rebates present sellers with a good opportunity to generate more value from their product portfolio, they end up doing completely the opposite.

IMPLICATION

Every organisation should carefully evaluate rebate performance. If the rebate system is achieving its objective to attract and generate loyal customers while generating profitable revenue growth across the product portfolio, then this is good news. If not, discontinue the rebate system or bring in expertise to re design a better rebate pricing strategy that prevents channel conflict and margin issues.

CONCLUSION

When developing the right rebate pricing strategy to maximise margins, there is no one cookie-cutter approach. The right rebate pricing strategy for your business and your customers almost always depends on the nature of the business, pricing structure, product portfolio, deal mechanics and the needs of the customers (i.e., their spend, where they fit in your segmentation, their volume, cost, mix commitments, their margin targets, their supply chain needs, how loyal they are and have been to you).

TAYLOR WELLS IS A GLOBAL PRICING & ORGANISATIONAL ADVISORY FIRM

Since 2014, our single focus and mission is to help our clients deliver increased profitability today and ongoing through our end to end approach to pricing transformation initiatives.

We work with leaders and pricing teams to develop pricing strategies, tests and trials to drive profitability. We work with sales directors to isolate the activities that lead to revenue growth and then build the tools, structures and processes to get there faster. We work with HR and marketing leaders to design organisational structures, roles and responsibilities to accelerate business outcomes and embed sustainable EBIT growth. We work with HR to hire the right pricing managers and advise them on how to build, reward, develop and motivate their pricing teams and commercial function. And, we help pricing professionals navigate and advance their careers.

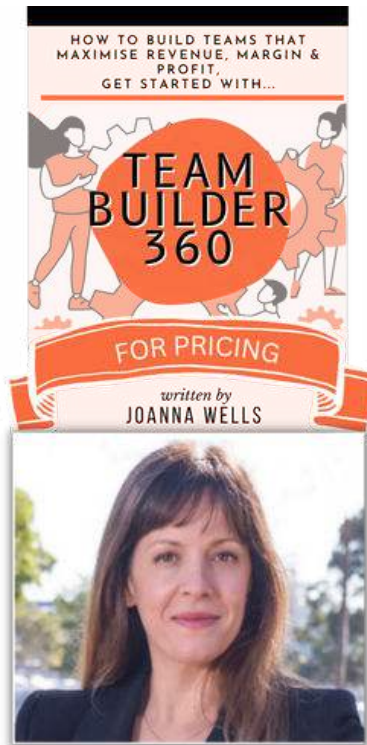
SERVING CLIENTS ACROSS THE GLOBE



THE ROI

THE REAL FINANCIAL BENEFITS

The key differentiator of our offer is that we enable our clients to internalise the pricing expertise so that they can build a sustainable pricing system that generates at least 3% - 10% additional margin each year.



JOANNA WELLS

Director

BA / MA Arts, Msc Science
University of Cambridge

“My passion is building world class pricing organisations using the latest pricing strategy, people and operations. My mission is to maximise and combine the power of strategic pricing, teams and culture to help leaders and teams drive profitable revenue growth.”

FOUNDER

MANAGING DIRECTOR

Joanna Wells is the founder and managing director of Taylor Wells Advisory, a pricing and organisational advisory firm that supports Fortune 500, private Equity and ASX Listed companies in pricing & organisational strategy, commercial capability building and talent strategy and recruitment since 2014.

A Cambridge University qualified psychologist with over 12 years' experience in latest pricing and organisational consulting across B2B and B2C markets in Australia, the USA, the UK and Ireland; 25 years experience in industrial psychology & hiring; Joanna's sole focus and specialisation is helping business leaders build world class pricing organisations.

Joanna has worked on > 23 major pricing transformations, studied > 100 firms' pricing strategy and culture, evaluated 7,000 global pricing skills and capability assessments, and interviewed over 4,000 executives and managers around the world to answer complex pricing and commercial problems:

- How can we accelerate the ROI in pricing in < 12 months?
- How can we move the business from cost plus to value based without disrupting teams, customers and operations?
- How can we build high performance pricing organisations?
- What's the best way to integrate a new pricing team and/or system in the business?
- Why do over 70% of price change / improvement initiatives fail?

EVIDENCE

OUR RESEARCH

Our findings show that with the right strategy, set up and pricing team in place, incremental earnings gains can begin to occur in less than 12 weeks. After 3 months, the team can capture at least 1.0 to 3.25 per cent more margin using better price management processes. After 6-12 months, businesses are very often generating between 3 to 10 per cent additional margin each year as they identify more complex and previously unrealised opportunities, efficiencies and risks.

OUR CAPABILITIES

Our unique strategy advisory de-risks pricing strategy development. Our optimised commercial system ensures your teams drive an efficient and effective transformation process. Our scalable design structures and processes; and research and experience that spans over 25 years and over 23 major pricing transformations around the world, ensure your teams learn and embed the right skills, at the right time to drive the right outcomes - no matter how tough the challenge or how challenging the business culture.



PRICING & ORGANISATIONAL STRATEGY

Our focus is to enable leaders and pricing teams to develop and implement best-in-class pricing strategy. Unlike traditional consultancy, we strongly believe that the pricing transformation is powered through your teams from start to finish, not consultants. Our advisory, expertise and optimised systems support and guide teams to reach outcomes faster. Our expertise lies in enabling and supporting teams to be the best they can be using best-class pricing strategies, structures and practices.



COMMERCIAL CAPABILITY BUILDING

Unlike traditional consultants, we specialise in unlocking the value of your teams & culture to drive & capture commercial strategy faster. Our optimised commercial system covers the basic pricing skills. Just like a fitness programme. Then, it builds up from there as teams master new skills, kick key milestones, reach personal and team goals, and achieve shared outcomes.



PRICING TEAM ASSESSMENT & EVALUATION

We are world leaders at identifying and evaluating the pricing talent you need compared to the talent you have to prepare teams for a pricing transformation. Our founder, Joanna Wells, started her undergraduate research in devising multi trait assessments & evaluations to identify high performance leaders and specialist financial teams at the University Of Cambridge, Great Britain, 22 years ago. She further developed her research as a post graduate at Manchester Business School; and continues to invest in research and development at Taylor Wells Advisory. We have now collected millions of data points and valuable insights on high performance pricing strategies, teams, business culture and pricing transformations. Our objectivity and unique research and data is crucial to strategic decision making at the executive and board level. Our clients rely on us to mitigate risk and safely forge a clear path forward.



PRICING RECRUITMENT

Our consultants are all highly qualified executives with backgrounds in pricing, economics, finance, psychology at the post graduate level. Our consultants also hold professional industry certificates in accountancy and industrial psychology and testing and all practice best-in-class value based pricing. We know exactly what great pricing talent looks like, and have worked with world leading pricing functions and executives around the world to find the right pricing professionals for their pricing and revenue management roles and transformational projects.



SCALABILITY

We have created a scalable and optimised commercial system called Value Culture to enable leaders to build and embed commercial strategy development and price-setting capability across all teams in a business.



SELECT TAYLOR WELLS CLIENTS

Taylor Wells has had the pleasure of working with many top companies in a variety of industries.



SELECT TAYLOR WELLS PRESS ARTICLES & NEWSPAPER FEATURES

Taylor Wells has had the pleasure of working with many top newspapers, magazines to educate on business, teams, psychology and pricing related topics.

