

# Effective Rebate and Incentives Management in Manufacturing



## Introduction

For Manufacturers, rebate payments can range from 1% to more than 10% of revenue. This practice has a measurable impact on a company's margins. It also influences market share and impacts many financial processes, including accrual of liabilities, payment approvals, ASC 606 revenue recognition and SOX controls.

Thirty percent of companies surveyed in a Gartner study of U.S.-based Manufacturers confirmed that their use of rebate management solutions had a measureable positive impact on margins.

Intelligent and effective rebate management allows companies to:

- Shape customer and channel purchasing behavior and influence market share
- Analyze which programs are yielding the best result and invest in those programs
- Improve financial controls
- Calculate accruals accurately
- Eliminate incentive overpayments

Considering the financial impact and benefits listed above, it is surprising that the same survey showed that only 21% of companies feel they track rebate payments effectively and only 10% measure the yield of their rebate programs. However, manufacturers' attitudes toward rebate management are changing. In the survey, 34% of the companies stated they plan to make investments in rebate management.

This white paper will examine the current state of rebate management in the Manufacturing industry and offer a framework of capabilities for evaluating rebate management solutions. Additionally, it will present an overview of the Model N Rebate Management solution.

## Key Drivers for Business Transfer

Rebates are often viewed by sales and channel sales managers as a necessity for conducting business. Finance departments often view rebates as a major headache that involves cleansing and reconciling mismatched data and complicated accrual of liabilities with implications on fund management and financial reporting.

There are, of course, many legitimate reasons why companies engage in the practice of rebates, and these include:

- Avoiding up-front discounts and paying out only against attained performance
- Driving top-line dollars and increasing market share by:
  - Rewarding customers and channels for larger market share
  - Rewarding volume and value tier attainment
  - Leveraging cross-sell opportunities to push new and old products
- Improving channel sales efficiency through:
  - Fast and accurate POS data reconciliation to be validated against rebate programs to ensure fast and accurate payment
  - Standard processes to resolve claims and disputes
  - Enabling visibility into progress towards attaining rebate tiers
- Masking end customer prices from multi-tiered reseller chains to avoid price abuse in the market

In addition to reducing up-front-discounts, improving market share, improving channel efficiency, and masking end customer pricing, there are additional business and financial reasons that more and more companies are investing in rebate management solutions.

- **Improving Financial Controls**

- Eliminating Incentive Overpayments — Reconciling sales lines and POS data against rebate programs has a significant error rate. PWC and KPMG have conducted audits of companies that uncovered overpayments as high as 10%. Most if not all of these error can be eliminated with the correct processes and tools.
- Accrual of Liabilities — The introduction of rebate programs introduces a liability the company needs to accrue deferred revenue correctly. As the size of the company and number of rebate programs grow this becomes a daunting tasks. Mistakes can lead to revenue restatements and overcompensating with large buffers hinders the financial performance of the company. With the right tools and processes in place, companies can find the golden path balancing a conservative approach with accuracy, enabling visibility into progress towards attaining rebate tiers.
- Efficient Fund Management — With the right processes and tools, companies can more effectively track how many funds have been consumed by rebate claims and automatically release those funds once a program has expired.
- ASC 606 — Tracking channel revenue with incentives means manufacturers should design incentive programs that accelerate revenue recognition, not impact it.
- SOX Audits — Every rebate that is paid and every sales line or POS line that is rejected is subject to a SOX audit, as all of them impact price and revenue recognition. As many as 25% to 30% of Manufacturers have implemented rebate management systems with automated controls that provide a full audit trail and reduce audit costs.

**With the right processes and tools, companies can more effectively track how many funds have been consumed by rebate claims.**

- **Significant Funds under Management:** Manufacturers pay out between 1% and 10% of revenue in rebates. This represents substantial sums of money that cannot and should not be managed via spreadsheet and manual data entry.
- **Rebates Efficiency:** Providing rebate programs are a standard practice. But it is very surprising to see how few companies actually analyze the yield of these programs. Some programs are very effective and should be pursued further, while other programs produce very little and are a cost burden. Without systematic capabilities to intelligently analyze the impact of these programs, companies lose the ability to create programs that drive real value.
- **Rebates Impact Net Pricing:** When analyzing gross-to-net pricing and margins, rebates are an important factor. Yet few companies have the processes and tools to effectively factoring rebate information into deal management and deal analysis processes.

- **Cost Efficiencies:** The process of setting up programs and then collecting direct sales data and channel sales data to be validated for rebate eligibility and reconciling this information with claims that are submitted is an error-prone and labor intensive process. In addition, the risks it introduces to accruals and potential overpayments can be very costly. Automating some of these processes simplifies the workflow and reduces operational costs, guaranteeing fast, accurate payments that improve customer and channel satisfaction.

Since rebates impact margins, financial controls, accrual of liabilities, revenue recognition and even market share, one would expect every Manufacturer to have completely automated and optimized rebate management to the nth degree. Surprisingly, this is not the case.

## Current State of Rebate Management in Manufacturing Companies

Although effective rebates programs can influence consumption behavior by customers and channels and rebates impact financial controls and margins through overpayments and operational costs, a relatively small number of companies have invested in dedicated rebate management solutions.

The Gartner survey has shown that while finance and operational professionals have first-hand knowledge of the impact of rebate programs on company performance and their own department, only 30% of Manufacturers have made any material investment in this space. However, this is changing as many companies are now taking a serious look at investment in rebate management.

According to the survey, it appears some companies are happy to pay out and fly blind:

- Only 21% effectively track rebates overpayments
- Only 10% actually analyze rebate program yields

Most companies that participated in the survey indicated that rebates are important but claimed not to have the tools or the processes to manage rebates effectively:

- 54% consider managing rebate programs as a process that directly impacts margin
- 32% rate rebates as the top driver impacting margins

Few companies feel there are good processes in place and most manage some aspect of rebates manually:

- Only 29% feel their company has a good / reliable rebate management process in place
- 53% claim to manage rebates manually or with home-grown tools

Those who implemented rebate management solutions see the value:

- 30% of companies have implemented rebates solutions and claim they can show a positive impact on margin

A significant number of companies are investing in rebate management solutions:

- 20% of companies rate incentive payments as the #1 factor in their margin improvement initiatives
- 34% of companies state they have a rebate management project planned

## Rebate Management System Requirements and Capabilities

When a company embarks on the quest for an effective rebate management solution it needs to prioritize, based on business needs, what capabilities a system should have. Below is a brief summary of the various factors companies should consider when evaluating rebate management solutions.

**Proven Scalability:** For companies with a significant number of transactions eligible for rebate payments and or a large number of reporting entities, e.g. channels and partners who submit POS data and rebate claims, proven scalability can be critical. The process of loading hundreds of thousands and sometimes millions of sales lines in potentially different formats into a rebates system requires:

- Standardization
- Data cleansing
- Validation of eligibility
- Line rejection
- Rebate calculations
- Approvals

When applied to large data sets, this can introduce many architectural bottlenecks that can cause systems to “freeze” for hours during a calculation. Companies that select rebate management solutions based on feature sets or ERP integration without verifying the ability to manage extremely large data sets, often find themselves saddled with a low-performance solution. It is therefore vital in the evaluation phase to speak to references that have similar data sets to validate capabilities and performance.

**Financial Processes Support:** Rebate programs have many downstream financial implications. It is therefore critical to evaluate if the solution being considered can support the key financial processes that are impacted by rebates. These include:

- **Managing Amendments and Adjustments** – Terms of rebate programs and related contracts may change overtime. It is critical that these changes are automatically applied to rebate validation and calculations. Additionally, various scenarios may require a rollback and reversals on rebates that have already been paid, it is therefore important to provide financial managers with the tools to manage this process with the appropriate audit trail.
- **Accruals Calculations** – Accurate bucketing of rebates and calculating the impact on accruals
- **Payment Approval** – Supporting multi-flow conditional reviews and approvals
- **Funds Release** – Connecting to the ERP system to release funds once a program has expired

**Analytics and Reporting:** In addition to transactional-level reporting, analytics offers the opportunity to achieve intelligent rebating. By analyzing program performance and partner performance, market share, and growth, companies can make better decisions on which programs are delivering greater value to the company. Generic business intelligence tools are one way to go, but usually require a significant set-up effort, from establishing the right data exports to extensive configuration and customization to provide the most useful views. By having these reports built-in as a standard part of the rebate management solution, companies can increase time to value and lower upfront costs.



**Connecting Programs to Contracts:** Some rebate management solutions treat rebate programs and contracts as two separate entities, which in turn requires two systems and two processes. Linking a rebates program to contractual terms and commercial conditions enables companies to manage the process on one platform and benefit from all the contract life cycle management capabilities applied to rebate programs, e.g. expiration, renewals, amendments, and termination.

**Flexible Program Modeling:** Marketing and channel managers can be very creative and devise a wide range of programs that may not only be driven by dollars and units but also by market share, penetration levels, and other non-monetary conditions. This requires a flexible environment in which these programs can be modeled by business users without dependencies on code writes and IT personnel.

**Rebates and Pricing Methods:** At a minimum, a rebate management solution should support the following rebate methods out of the box: volume, revenue, growth against base, price differential, market share, tiered step programs, and multi-conditional performance tiers. The solution should also support pricing methods such as fixed price, discount off list, dynamic discounts off list, tiered with dynamic discounts, and product bundles.

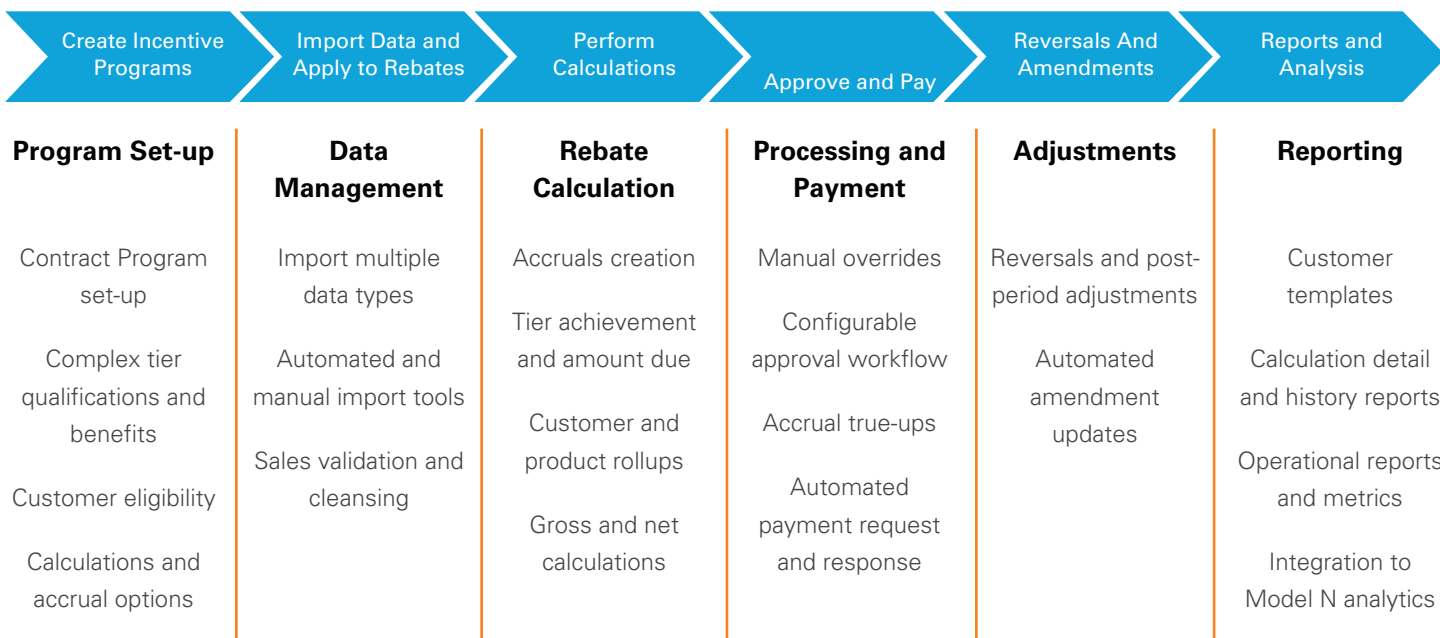
**Integration:** Last but not least is integration. Integration with ERP is critical. Mapping customers and products is a baseline requirement. Additionally, the ability to review and validate sales lines, check credit memos, approve payments, accrue liabilities and release funds on programs that have expired all require standardized integration with ERP systems.

## Model N Rebate Management

Model N offers the most robust rebate management solution on the market that has been adopted by multi-billion dollar corporations.

Key attributes that has driven many Fortune 1000 companies to select Model N Rebate Management are:

- Flexibility – the system can model a very wide range of rebate programs
- Scalable – tried and tested enterprise level application capable of managing hundreds of millions of lines
- Standard Integration with ERP solutions such as SAP and Oracle
- SaaS Delivery – via the Model N Cloud
- Highly rated by analysts (Gartner)



**End-to-end process for creating, paying, and managing the rebate life cycle.**

- Create contracts with pricing and/or rebate programs
- Manage all settings to determine products, customers, data sources, accruals, and rebate calculations
- Support simple and complex tier basis and rebate types
- Create linkages between the rebate setup and the calculation structures
- Automatically updates contract amendments

**Rebates and Pricing Methods**

The Model N Rebate Management application supports Rebate methods including: Volume, revenue, growth against base, price differential, market share, tiered step programs, multi-conditional performance tiers including non standard and non monetary data. The application also supports a wide range of commercial pricing methods including: fixed price, discount off list, dynamic discounts off list, discount off current price, tiered with dynamic discounts, product bundles, reagent rental and risk share.

**Rebate Approvals**

The Model N solution supports a wide variety of approval routing. It manages rebate validation prior to payment and conditional approval routing with a fully automated check credit memo data feed to and from the ERP system including accrual adjustments.

**Adjustment Amendments and Recalculations**

Rebate programs are tied to a contract for the length of the agreement with automatic updates applied when changes and amendments are made. Designed to address the real-life scenarios financial managers need to address, Model N Rebate Management provides extensive options to handle reversals after rebate payments are made. The system also provides a full audit trail that displays initial and adjusted calculations with an explanation of net amount due.

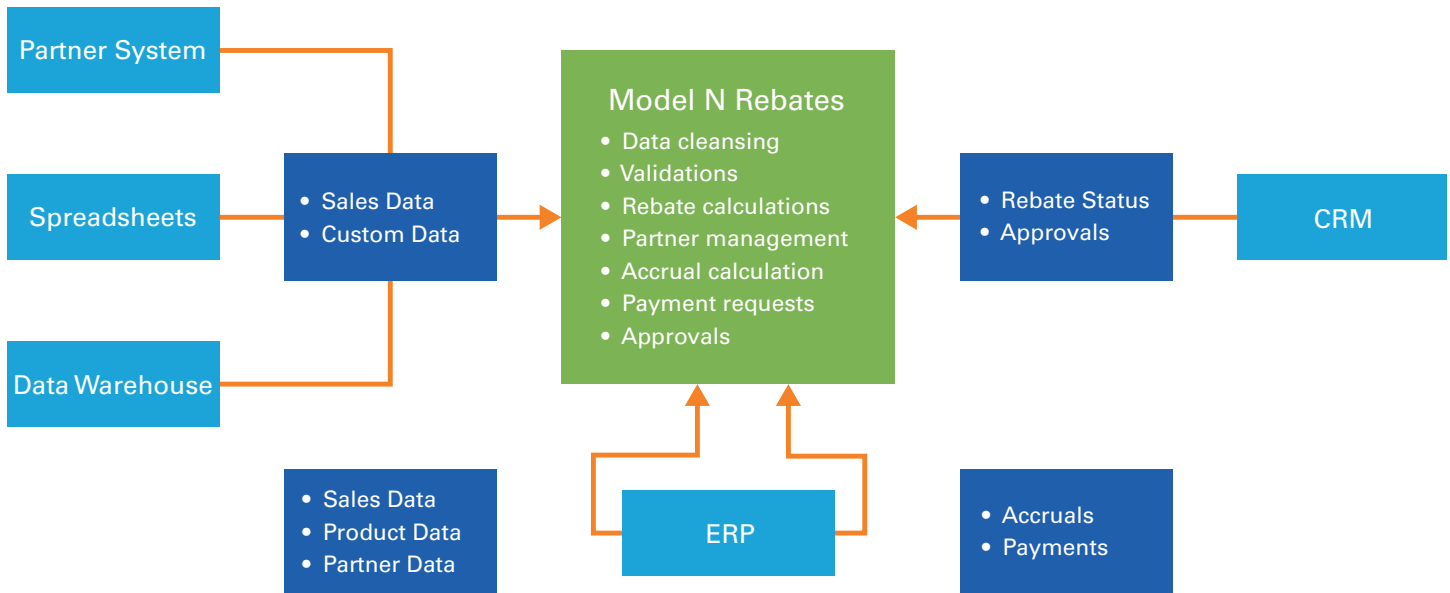
**Reporting and Analytics**

Model N Rebate Management offers an extensive framework for reporting and analytics including:

- Full access to transaction level details directly through the rebates application pages
- Library of pre-configured reports with ability to easily add additional
- ETL to Model N Performance Impact or external analysis system for additional in-depth analysis
- All data exportable to Excel
- Customer specific report formatting
- Program performance:
  - Tier achieved
  - Tier paid
  - Overrides
  - Product performance
  - Partner performance
  - Growth
  - Market share

**Integration**

Model N Rebate Management uses standardized, certified connectors for SAP and Oracle. The ERP connectors map customer and sales data as well as financial documents between Model N and the ERP system. In addition to ERP, the Model N system supports EDI feeds as well as flat-file uploads to support data imports from channel partners. It can also publish rebate attainment reports into CRM partner portals.





**End-to-End Incentives Management with Model N:**

- Closed-loop process support for diverse and complex programs: Customer Rebates and Channel Rebates
- Utilize data from multiple channels: direct, indirect, and customer supplied in a wide range of formats
- Real-time sales line bucketing, calculations, and accruals management; full visibility to rebate details and audit reporting for internal and external usage

**Customer Implementation: Leading Consumer Electronics and PC Manufacturer**

One of the world's leading consumer electronics and PC manufacturers made a strategic change in its go-to-market strategy to include channels, resellers, and VARs. As a first stage, the company offered channels deal registration through its Salesforce.com portal. While this was received well by the various channels, it fell short from meeting their expectations.

At that point only a select number of channels could participate in rebate programs, the entire process was managed via spreadsheet, and partners had zero visibility into the process. There was strong demand for extending rebate programs to a larger group of channels and to provide them with visibility into rebate attainment, status, and payments.

The company initiated a project to implement a rebates system that could support tens of thousands of partners, carry a heavy transactional load, be deployed globally, and provide partners with the visibility they needed. After an extensive nine month evaluation, the company selected Model N. The Model N system was deployed in under six months. Within the first few weeks, thousands of partners were using the system. The company chose to implement the system via the Model N Cloud and the deployment was fully integrated with the company's partner portal and Salesforce.com and delivered external reports to partners.

## Conclusion

Manufacturers often pay between 1% to 10% of revenue in the form of rebates, which can have a measurable impact on a company's margins and market share if not managed correctly. Rebates also impact many financial processes, including accrual of liabilities, payment approvals and SOX controls.

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Intelligent and effective rebate management allows companies to:

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Model N offers the most robust rebate management solution on the market and has been adopted by global leaders. Key attributes that have driven many Fortune 1000 companies to select Model N Rebate Management include:

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