The Upsides of Better Rebate Management: Improved Margins and Higher Revenue

By Chanan Greenberg, Senior Vice President and General Manager, High Tech, Model N

Executive Summary

Successful rebate programs can add from one to three percent to a high-tech manufacturer's top-line revenue. But too often that gain comes at the cost of millions of dollars in overpayments. The root of the problem? Program design and management complexity.

Most sales and channel managers consider rebate programs essential to business growth. But even in high-tech businesses where automation and innovation have long driven corporate success, channel sales teams typically lack the necessary tools to create sophisticated rebate programs. Lack of a centralized rebate management system and robust reporting tools also limit the ability of channel management, sales operations, and financial staff to track results against desired business outcomes.

On the finance side, analysts tasked with managing incentives find program implementation to be complicated, risky, and costly. Rebate programs can easily generate huge volumes of transactions driven by tens or hundreds of channel partners producing millions of line items. Reliant on manual processes and spreadsheets, finance teams simply can't manage such complexity at scale. As a result, many finance managers advocate for upfront discounting, a practice generally less lucrative yet more easily administered. To avoid the high operations costs and losses associated with unearned incentives, some companies underutilize or avoid rebate programs altogether—at a corporate price tag of tens of millions of dollars in missed opportunities.

This paper reviews the value of rebate programs and describes how companies can leverage rebate management solutions to overcome the challenges of complexity. Also included is a discussion of the essential functionality that business teams should look for in selecting an enterprise-grade solution.

Validating the substantial upsides of implementing effective rebate programs, the paper provides real-world examples of the dramatic returns companies are already achieving—from 10 percent reductions in overpayments (representing millions of dollars in revenue recovery) to 50 percent lower operational costs, significant top-line revenue increases attributable to expanded application of incentives, and net gains totaling from tens to hundreds of millions of dollars.

Also included is a brief overview of key features of the Model N Rebate Management Software-as-a-Service offering. Implementing the Model N solution can give companies opportunity to better align incentives with business objectives, design programs strategically with the visibility needed to avoid overlapping and double-stacked discounts, reduce program costs, eliminate overpayments and related resolution issues, maintain audit trails, and improve channel-partner participation.

Opportunities for Value

Rebate programs provide valuable mechanisms for driving top-line revenue and market share, as well as for shrinking operating costs through greater process and channel-sales efficiencies. Companies typically use rebates to:

- Avoid upfront discounts that leak revenue. It's an all-too-common scenario: the customer already benefited from an aggressive discount but by year end had still failed to meet the contracted volume commitment. In most cases, recovering that revenue is impractical or impossible. Model N studies suggest that companies can suffer as much as a nine percent revenue loss from unmet volume commitments. Rebates ensure customers actually consume volume or value before earning savings.

- Move inventory. Both performance and discount rebates help distributors move inventory. Rebates also enable manufacturers to accelerate revenue recognition and avoid rights-of-return liabilities.

- Increase market share. Providing a means for incenting channel partners to promote a manufacturer's product, rebate programs can be particularly valuable in bolstering sales of commodity products in crowded market spaces.

  In the high-tech industry, channel partners generate 70 to 90 percent of revenue. Most of those partners likely operate on razor-thin margins, so offering them an opportunity to earn an additional two percentage points can dramatically magnify the incentive and motivate changes in purchasing patterns.

- Incent growth. Setting performance-based rebate programs with volume or quarter-over-quarter growth goals motivates channel partners to increase sales in lock step with the manufacturer's growth-trajectory objectives.

- Prevent pricing abuse. Rebate programs can mask prices across multi-tiered reseller chains, providing an effective means for implementing end-user discounts while avoiding market pricing abuses.

To recognize such value from rebate programs, companies first must overcome the complexities—and associated costs—of designing and managing enterprise-scale incentives.

Addressing Complexity, Granularity, and Scale

For optimal results, businesses must be able to prudently target, define, and track programs. Unfortunately the process can be extremely complicated, routinely involving multi-tiered value chains, multiple entities potentially entitled to rebates, complex calculations, and hundreds of thousands of sales lines. At a global enterprise scale, rebate programs of this magnitude are virtually impossible to implement and manage using manual processes and spreadsheets —

calculation efforts alone can consume weeks and dozens of dedicated staff. In this setting, alignment of programs and results is simply an unattainable objective for marketers and channel strategists.

Overcoming these challenges requires that business teams be equipped with more sophisticated tools that enable them to define incentives with the very fine granularity needed to produce desired results. The ideal solution streamlines the entire workflow, from definition through payment.
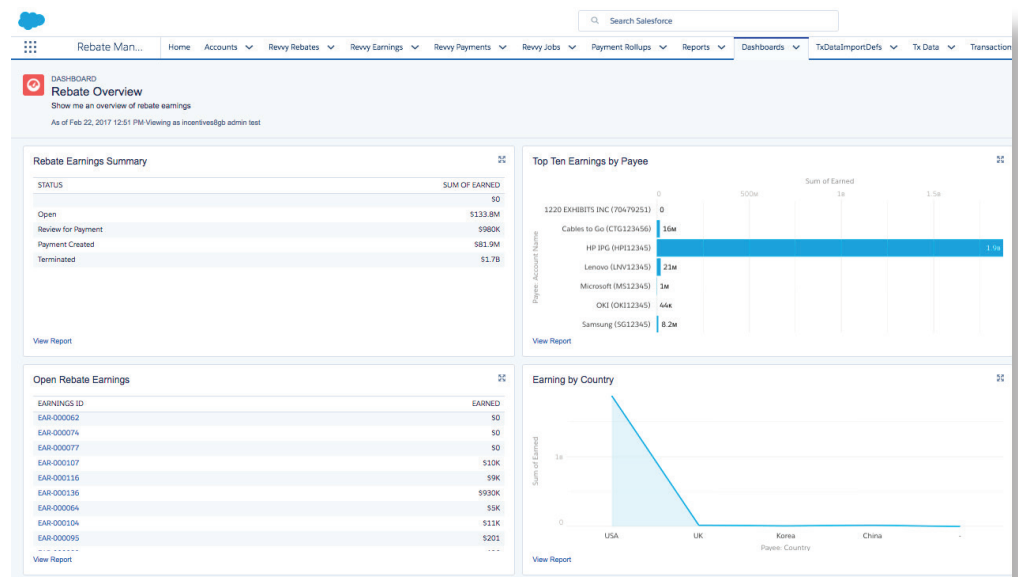
Rebate Management Overview Dashboard

The good news for businesses today is that, although not all solutions are created equal, there are products available to reduce complexity. The best products integrate tools for designing, tracking, and reporting on the results of highly targeted programs and automate some or many of the most resource-consuming steps in the process.

In evaluating rebate management tools for enterprise-scale program design and rollout, businesses should consider the availability and depth of functionality in three key areas: program communications and tracking; data collection and validation; and financial systems integration for managing program impact on cash flow, working capital, and revenue.

First and foremost, the solution must facilitate effective program communication for maximum visibility, participation/promotion, and achievement. Surprisingly, many major corporations still casually publish legally binding program terms and conditions in email and other informal systems. One multi-billion-dollar computer manufacturer acknowledges relying on social media to communicate rebate terms. Social media has its place, but it is not an acceptable platform for effective promotion or auditable communication of program terms.

Secondly, the solution should enable data collection and validation at global scale. The best tools simplify and streamline retrieval of point-of-sale (POS) data from the entire distribution chain, enabling integration of direct and third-party data from internal and external systems and automatic validation and application of sales lines to payments. Look for the availability of standardized, certified connectors for SAP and Oracle ERP solutions. ERP connectors should map customer and sales data, as well as financial documents between the rebate management tool and ERP systems. Support for EDI feeds and flat-file uploads and the ability to publish rebate attainment reports into CRM partner portals can produce huge time savings.

> *Reliance on email and manual calculations to administer hundreds of complex rebate programs cost one leading semiconductor manufacturer both margin and opportunity. Today that business relies on a Model N Rebate Management solution to streamline administration of some 300 concurrently running rebate programs, helping the company stop revenue leakage, optimize margins, and build market share.*

Financial analysts also require an audit trail and visibility into the liabilities created with the introduction of any new rebate program. The rebate management solution should provide accrual transparency and eliminate the manual effort required by finance to calculate accruals for each individual program. Analysts need dashboards with robust query and reporting tools to effectively manage program liabilities, assess program impact on accruals, ensure payout accuracy, and administer funds release at program expiration. Such tools help finance departments optimally manage cash flow, working capital, and revenue recognition.

In evaluating solutions, companies must assess the value to each stakeholder. Does the solution empower sales and channel teams to design programs that achieve very specific business objectives? Is there sufficient data accessibility and visibility for channel chiefs to assess program return on investment (ROI)? Will finance departments gain critical visibility to accurately accrue liabilities, ensure valid payouts, and eliminate overpayments? Can business teams articulate to executives the true costs and returns associated with every program? To make the successful, strategic decisions that simultaneously boost revenue and optimize margins, business teams need a solution that provides a complete, 360-degree view of rebate programs.

The best rebate management solutions should effectively address each of these challenges, giving sales, marketing, and channel management professionals, as well as IT and finance support teams, an enterprise-grade platform that facilitates design and management of highly effective albeit sophisticated rebate programs.

Expectations for Returns

Companies with successful rebate management solutions can expect dramatic positive impact to margins and revenue. Many Model N customers report solution ROI within six to nine months and net gains totaling from tens to hundreds of millions of dollars. Based on Model N experience in some 60 active rebate management solution deployments, businesses can expect to recover significant revenue dollars, shrink program costs by as much as 50 percent, improve accuracy of accrual of liabilities and payouts, maintain an extensive audit trail, and gain market share. Specific areas of benefits are described below. While individual corporate results obviously vary, the expectations for gains expressed in each category are based on real-world outcomes in Model N deployments.

Revenue Recovery

Deploying an enterprise-grade rebate management platform can help reduce rebate overpayments by as much as 10 percent. Never an insignificant number, in some cases that percentage equates to tens of millions of dollars—or more. For one very large manufacturer of handheld devices, a year-end analysis of rebate programs identified a startling loss of more than 200 million dollars in overpayments on a total program payout of two billion dollars. Multi-billion-dollar high-tech vendors reluctantly yet routinely confess to making from seven- to nine-figure overpayments. Rebate management solutions can help companies stop such revenue leakage without having to resort to upfront discounting.

Reduced Program Costs

Rebate management solutions can help companies avoid the one million dollars in program operations costs that a one-to five-billion-dollar enterprise would typically spend when relying on manual processes and niche tools to administer rebates. Prior to implementing a Model N solution, one well-known vendor employed more than 30 FTEs to run program calculations. The process routinely consumed from two to three weeks each quarter, and the limited ability to scale drastically restricted the company's use of incentives.

With tools that improve speed and accuracy of calculations and data validation, automated processes that offload IT, and strategic visibility to help finance departments optimize cost and revenue-management decisions, companies can realize as much as 50 percent reductions in operational costs.

Greater Business Agility, Intelligence, and Market Share

With better tools to create highly targeted programs, validate sales and POS lines against terms, accurately calculate both attainment and payment, and report results, companies can better leverage rebate programs to boost channel sales. Rebate management solutions help business teams make more strategic pricing decisions, more effectively target programs to achieve desired results, and clearly ascertain which incentives drive which results. Streamlined processes and automation also free users to focus on creating effective programs with sufficient precision to gain competitive advantage and to more quickly respond to market opportunities.

Magnified Top-line Revenue

Although standalone or point solutions can offer advantages over manually managed programs, a solution that integrates rebates with quoting and pricing systems can significantly magnify benefits. Such integration helps companies avoid double-stacking discounts and post-deal rebate payouts to boost deal value by as much as two to five percent. A revenue-management platform that can connect both upstream (quoting, contracts) and downstream (channel data collection) processes enables achievement of optimal margins.

Reliability and Scale

Particularly for large or high-growth companies, the selection of an enterprise-grade solution ensures support for expanding sales lines and rebate-programs footprint. The Model N solution, for example, is a state-of-the-art, enterprise-grade, Salesforce-native application built for reliability and scalability via a distributed computing architecture that runs on a secure cloud services platform. The platform meets the program management needs of small and medium-sized businesses with scalability to handle the requirements of multi-billion-dollar corporations annually paying out billions of dollars in rebates.

A Few Words about Model N Rebate Management

Model N provides rebate management solutions applicable across companies of all sizes, from small and medium-sized businesses to enterprises with tens of billions of dollars in revenue. With comprehensive functionality to address the requirements outlined above, the Model N Rebate Management solution is a Salesforce-native application delivered via Software-as-a-Service (SaaS) on the Model N Revenue Cloud. Rebate Management integrates enterprise-grade functionality and ease-of-use features such as an intuitive user interface and dashboards that help business users quickly and easily create, manage, and track a wide variety of rebate programs.

Designed to handle all the elements of business-to-business rebate programs reliably and at scale, Model N Rebate Management offers an appropriately robust solution for companies in the high-tech, discrete manufacturing, and distribution industries where the norm is complex, multi-tiered rebate programs that generate large volumes of transactions. Rebate Management features an elastically scalable calculation engine leveraging a big data technology architecture that supports millions of transaction lines for processing and payment.

Model N Rebate Management offers some 200 rebate and incentive configurations, including volume, growth, tiered, step, and direct and indirect customer rebates. The solution is also highly configurable. In addition to out-of-the-box rebate types, for example, Model N Rebate Management provides a configurable goal builder for creating custom rebate definitions.

Businesses use Model N Rebate Management solutions to manage incoming transaction, POS, and inventory data, as well as outgoing rebate earnings and payment data. The solution interoperates with Model N Revenue Cloud solutions for integration with the corporate ERP infrastructure and to support end-to-end workflows across the full rebate program lifecycle from quote to payment. End-to-end data integration and management gives business teams the tools and 360-degree visibility required to design intelligent rebates that optimize profit margins and revenue.

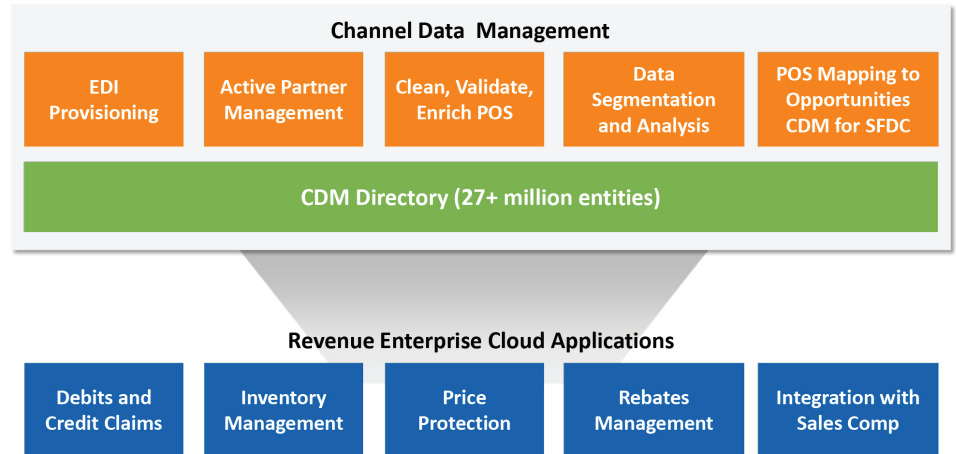*Out with the spreadsheets, in with Rebate Management*

- Reduce program costs as much as 50%

- Reduce overpayments by as much as 10%

- Boost deal value by 2-5%

- Add 1-3% to top-line revenue]

Other key functionality includes:

- **Accrual transparency.** Automatically generate accrual calculations at the program, brand, or customer level to monitor financial liability and minimize revenue leakage across programs.

- **Transparency balanced with control.** Maintain granular control with the ability to handle approvals and overrides at the program, earnings, and payments levels by channel, sales, marketing, finance, and operations managers.

- **Fast processing and scalability.** Run automated daily or on-demand rebates and incentive earnings and payment calculations across as many as five million transactions in less than one minute. The Rebate Management big data calculation engine can process hundreds of millions of transaction lines in minutes.

- **Payment flexibility.** Calculations can be both related to and independent of rebate-program earnings to enable early payments and payment rollups in matrixed sales or finance organizations.

- **Rebate performance dashboards and analytics.** Evaluate program effectiveness, sales uplift, and rebate-earnings progress on any attribute and analyze back to any historical period.

- **Partner collaboration.** The Model N Community Portal makes it easy to communicate performance goals, rebate earnings progress, and payments to partners.

Model N distinctively offers a full continuum of solutions for revenue management, delivering measurable advantages over siloed rebate management products that limit visibility, workflow support, and benefit synergy. Over a five- to ten-year solution investment lifespan, the Model N platform offers unique functionality and value to help businesses optimize rebate programs for maximum margins and revenue. Customers choosing Model N solutions can expect fast results and ROI, high value, and continued innovation from an industry leader.

Channel Data Management

EDI Provisioning	Active Partner Management	Clean, Validate, Enrich POS	Data Segmentation and Analysis	POS Mapping to Opportunities CDM for SFDC

CDM Directory (27+ million entities)

Revenue Enterprise Cloud Applications

Debits and Credit Claims	Inventory Management	Price Protection	Rebates Management	Integration with Sales Comp

Model N End-to-End Channel Management

Founded in 1999 and a pioneer in revenue-management platforms, Model N brings unmatched expertise to rebate management solutions. Companies that partner with Model N gain access to a wealth of expertise gleaned from more than 60 active Rebate Management deployments in Fortune 1000 life sciences and high-tech businesses, including multi-billion-dollar corporations. Measured against other industry providers, Model N boasts from two to five times the revenue and from two to ten times the number of deployments, giving the company unique authority in applying best practices. Model N provides the enterprise-grade functionality, scale, and experience to help companies more effectively manage and scale rebate programs, implement best practices, and leverage innovation to drive top-line revenue, gain market share, and improve margins.

Additional Information

Model N Rebate Management Web Page

Model N Rebate Management Datasheet

For more information, visit www.modeln.com

About Model N

Model N is the leader in revenue management solutions. Driving mission-critical business processes such as configure, price and quote (CPQ), contract and rebate management, business intelligence, and regulatory compliance, Model N solutions transform the revenue lifecycle from a series of disjointed operations into a strategic end-to-end process. With deep industry expertise, Model N supports the complex business needs of the world's leading brands in pharmaceutical, medical device, high tech, manufacturing and semiconductors across more than 120 countries, including Pfizer, AstraZeneca, Sanofi, Gilead, Abbott, Stryker, AMD, Micron, Seagate, STMicroelectronics, NXP, Sesotech, and Southern States. For more information, visit www.modeln.com. Model N® is the registered trademark of Model N, Inc. Any other company names mentioned are the property of their respective owners and are mentioned for identification purposes only.

Model N Headquarters
777 Mariners Island Blvd., Suite 300
San Mateo, CA 94404
Phone: 650.610.4600
Fax: 650.610.4699

sales@modeln.com | www.modeln.com | © Model N, Inc.

Model N