

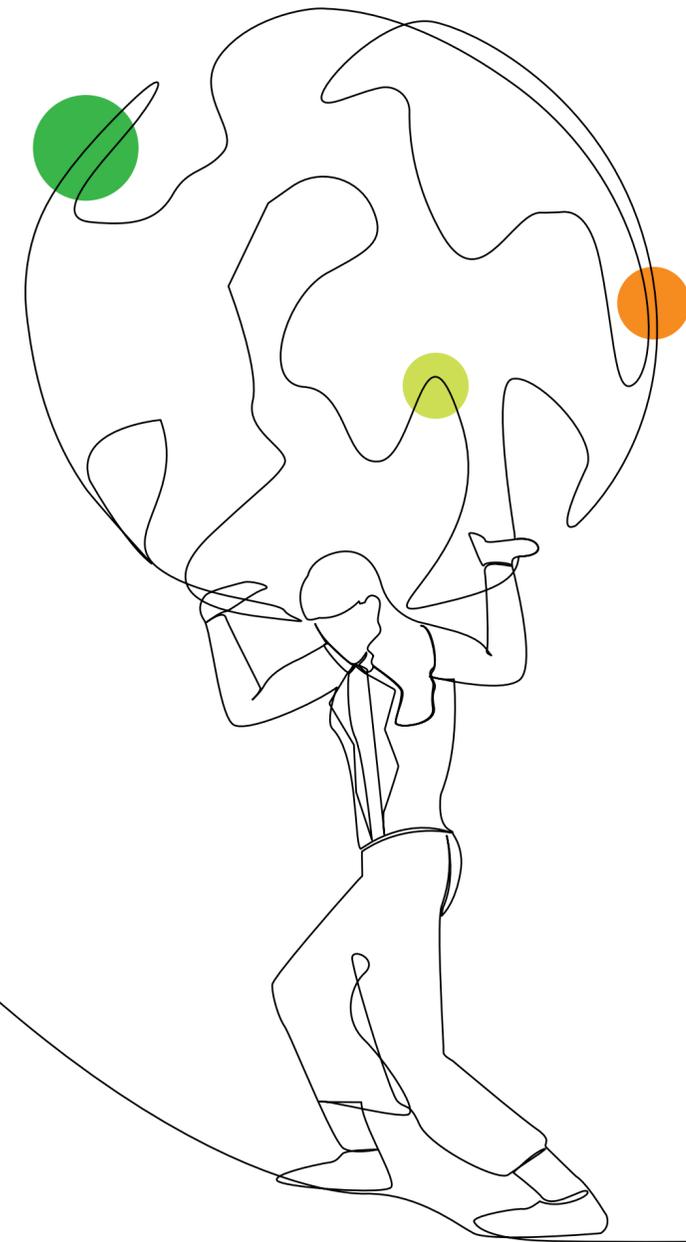


The Annual State of Volume Rebates for Distributors 2022



The global supply chain faces tremendous pressures. Consumer expectations have increased over the past decade, accelerating demands on suppliers and retailers. Lead times between order and delivery have vanished, and for many consumers, shipping costs are now a dealbreaker. As if consumer demands aren't enough for the stressed supply chain, those same consumers work for companies who are part of the supply chain — and they're bringing those consumer expectations with them to their jobs.

Today's supply chain grapples with the ongoing impact of the COVID-19 pandemic, the war in Ukraine, surging fuel costs, spiraling costs of labor and raw materials, the threat of stagflation and economic recession — whether current or impending — all in addition to rising consumer demands. All these factors build up, stressing relationships between trading partners and, ultimately, reshaping trading behaviors between manufacturers, distributors and retailers. On top of everything else, these changes have accelerated mergers and acquisitions, yet another contributor to stress and frustration.



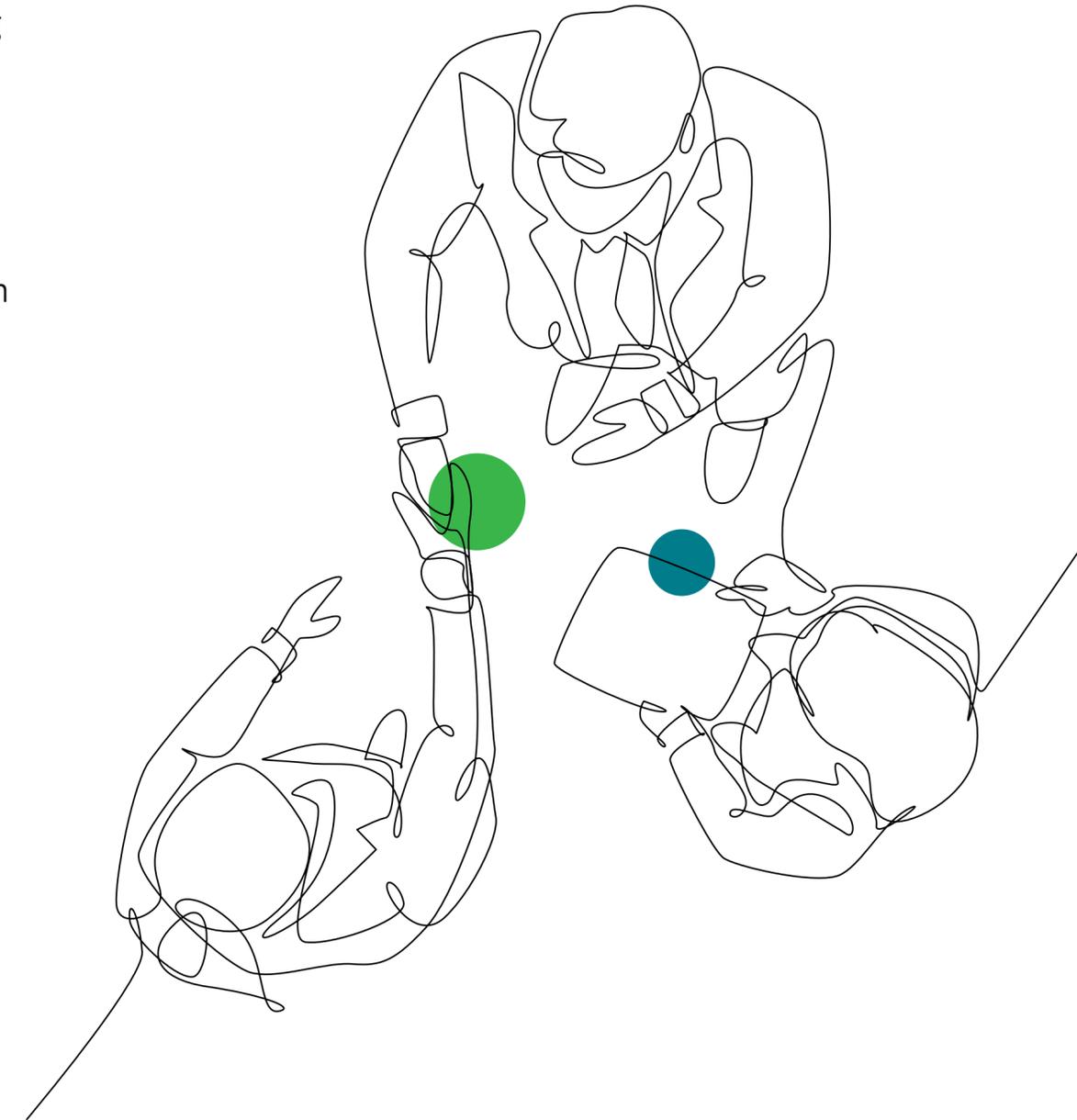
While consolidation forces trading decisions between partners away from the local level to a more abstract corporate level, more and more businesses operate in silos. This means that trading partners' data-sharing fluidity is broken, resulting in disputes that further erode trust and complicate end service to the customer.

With all this bad news, seeing a light at the end of the tunnel for a struggling supply chain may at first seem difficult. But there is a light—and that light is rebates. As businesses continue to function under these incredible pressures, rebates offer a tool to alleviate stress, build trust and encourage more desirable behaviors between trading partners. Ultimately, when managed correctly, rebates help both parties in a trade agreement reach their desired outcomes. They are a powerful motivating tool and can be used to build trust between trading partners.

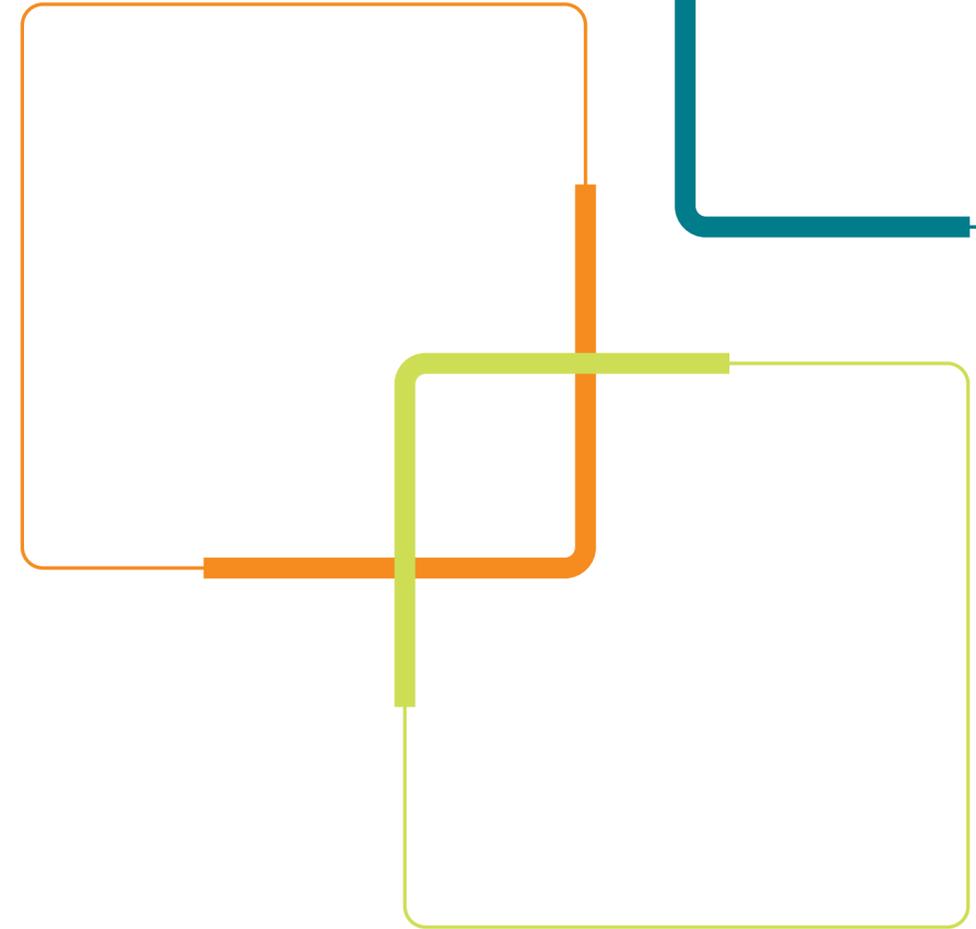
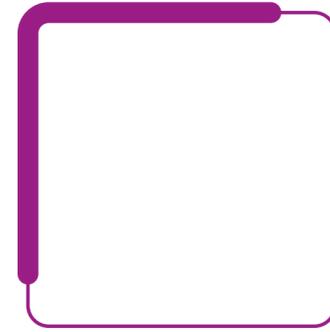
Taking all of this into consideration, Enable decided to survey manufacturers and distributors. We asked nearly 250 manufacturers and distributors across 14 industries about their volume rebate programs. We wanted to learn more about how trading partners use their rebates, how important rebates are to business

and the challenges trading partners face in executing their rebates. Some of what we learned confirmed what we already knew—that rebates are integral to distributors' profitability equations and that many manufacturers already use rebate programs to increase trust and influence long-term behavioral changes. But we uncovered some challenges for both distributors and manufacturers, too: namely that communication is a difficult barrier to overcome.

This report comes in two halves: one unpacking what we learned about distributors, and one focusing on manufacturers. This part of the report focuses on manufacturers. If you'd like to read about the distributors' side of the equation, you can find that version of the report here. Reading both reports will paint a fuller picture of how volume rebates are used to support the supply chain.



1 Key Takeaways

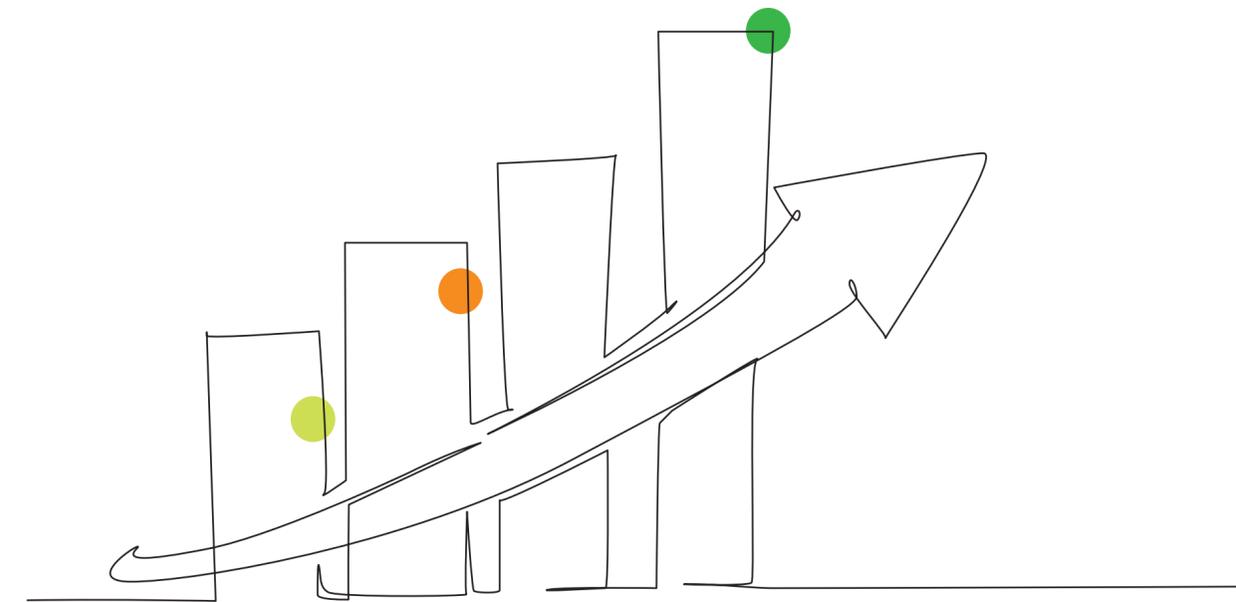


Buying Groups Diminish Administrative Load on Distributors

**Nearly
2 in 3
distributors**
are part of a
buying group.

57%
of distributors in
buying groups don't
know the rebate
amount earned from
each manufacturer.

75%
of distributors
report that knowing
rebate amounts
would influence
their support of a
manufacturer.

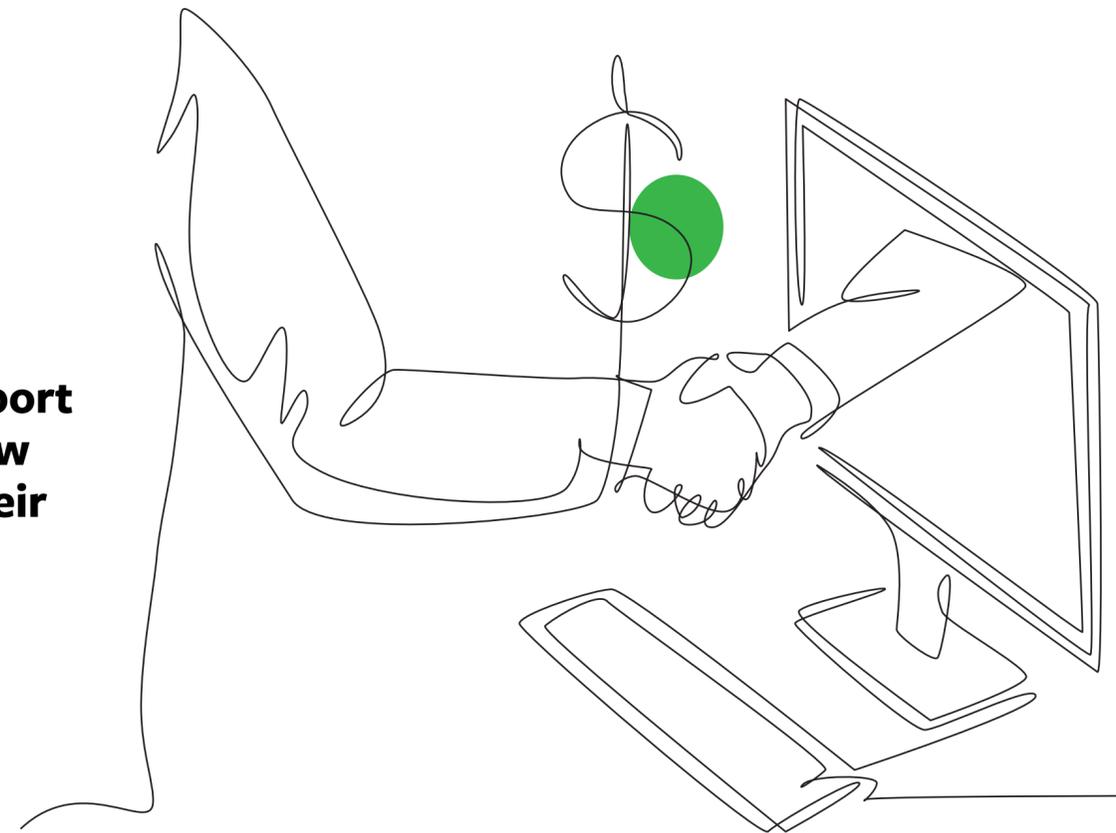


Rebates are Integral to Distributors' Profits

On average, distributors have rebate programs with **50 of their top 100 manufacturers**, representing two-thirds of sales.

When asked to rate the importance of volume rebates to company profitability on a scale of 1 to 10, distributors rated them a **7.2.**

25% of distributors report not knowing how they measure their rebate goals.



Difficulties Communicating Programs Creates Ambiguity Among Distributors

44%

of respondents told us only purchasing and senior management are familiar with their rebate programs.

47%

receive updates from their local salesperson.

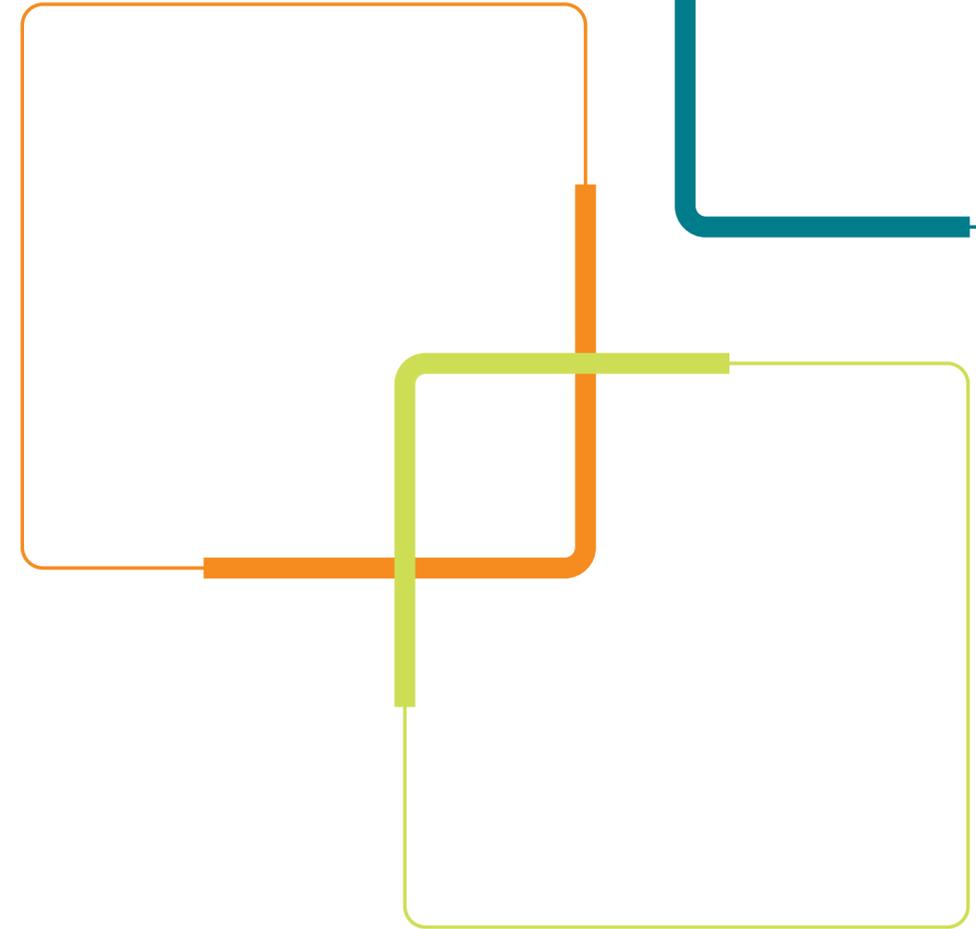
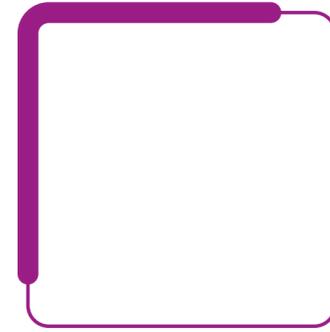
36%

told us they receive poor communication or only receive updates until they receive their payment.

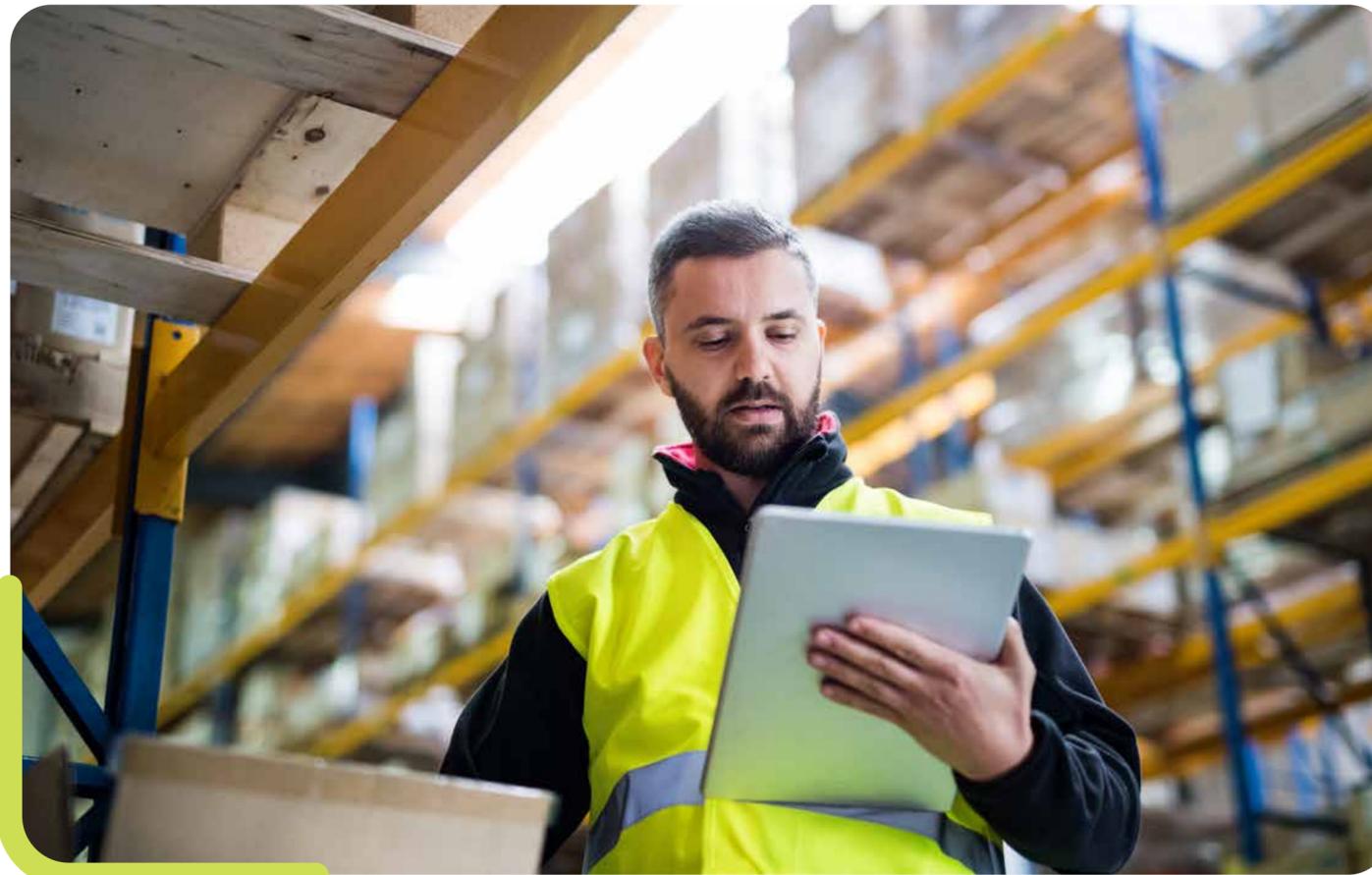


2

Buying Groups Diminish
Administrative Load
on Distributors



Buying groups are tremendously helpful for any distributor, especially when it comes to taking advantage of volume rebates. Buying groups enable distributors to reach higher tiers of volume rebate programs that they would not be able to reach on their own. Buying groups also alleviate administrative burdens on distributors.



The Power of Buying Groups

According to our survey, 2 in 3 distributors are part of a buying group. These distributors receive numerous benefits, such as access to:

- Increased negotiation power, resulting in better prices and rebates for the products each distributor in the group needs
- Higher tiers of volume rebate programs as distributors' individual purchases contribute to the larger volume threshold
- Reduced costs for freight and delivery
- Centralized purchasing
- Decreased administrative burdens

Buying groups traditionally have excellent track records for reporting. This means that when distributors who are members of buying groups receive their rebates, they can be confident they are being paid out the rebate dollars owed to them and that there are no errors in calculations. Being part of a buying group means a distributor receives industry intelligence and rebate program tolerance when it comes to program negotiations. Plus, buying groups alleviate administrative workloads by managing rebate programs on behalf of their members. This allows distributors to work on more strategic tasks. One electrical distributor told us they were very happy with their buying group because the group delivers monthly reports on their progress — something many distributors don't have time to do.

While every buying group works a little differently, sharing rebate performance is critical to the success of trading partner relationships.

Distributors who are members of a buying group rely on detailed reporting. The survey shows 57% of distributor members don't know the rebate amount by manufacturer. This promotes distributors to find ways to do their own rebate calculations for more clarity. Helping one another understand reporting and communication needs will only strengthen the buying group's ability to perform for their members. Distributor members also have the responsibility of educating their trading partner strategy internally to generate movement in harmony with the rebate agreements provided by the buying group.

Whether rebate performance is robustly or exclusively shared within a distributor company, it is critically important to the bottom line to successfully perform against these rebate programs.

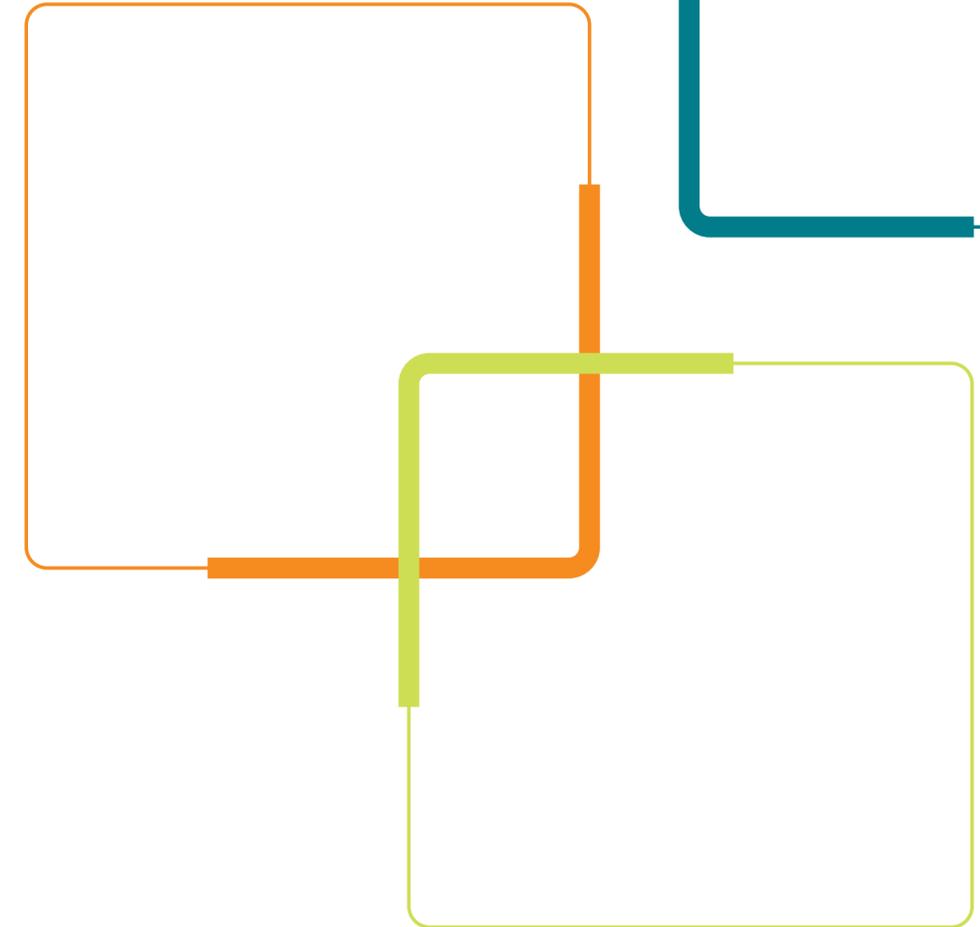
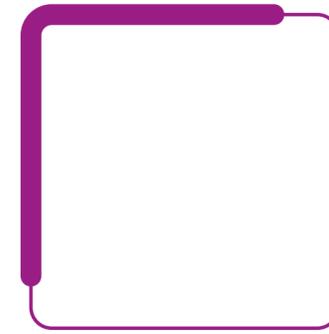


What Manufacturers Should Know: Rebates Offered Don't Override Strategic Business Considerations

Volume rebate programs are important to distributors but don't rule the relationship. While 3 in 4 distributors told us that rebate programs influence their support of a manufacturer, they also told us in interviews that rebate deals don't override other, strategic considerations in doing business with a supplier. Local support, price competitiveness, product reliance and brand impression all influence these relationships. Distributors care about their rebates from the start. Manufacturers should consider where they place their volume thresholds to encourage increased purchasing from distributors.

3

Rebates are Integral
to Distributors' Profits



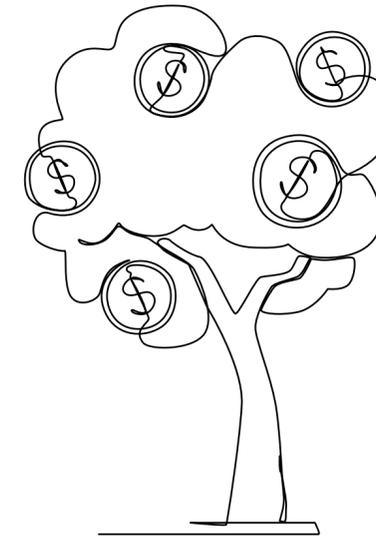
Distributors have long considered rebates integral to their profits. In fact, depending on the distributor, rebates represent an incredible 60% of net profit. The distributors we surveyed told us that they have rebate programs with 50 of their top 100 manufacturers, accounting for, on average, two-thirds of sales.

Given how important rebates are to earnings, distributors must be intentional in developing and executing on rebate earnings goals, with their trading partners and their customers.

Distributor Goals with Trading Partners

For distributors, rebate strategy with manufactures must take into account more than just the rebates a manufacturer offers. Protecting margins, offering shelf space and consolidating buying power are all critical parts to a good rebate strategy for distributors.

This means having deep conversations with manufacturers about business direction and goals. A distributor that doesn't inform a manufacturer they want to move into a new product line could be missing a great opportunity for new business synergies.



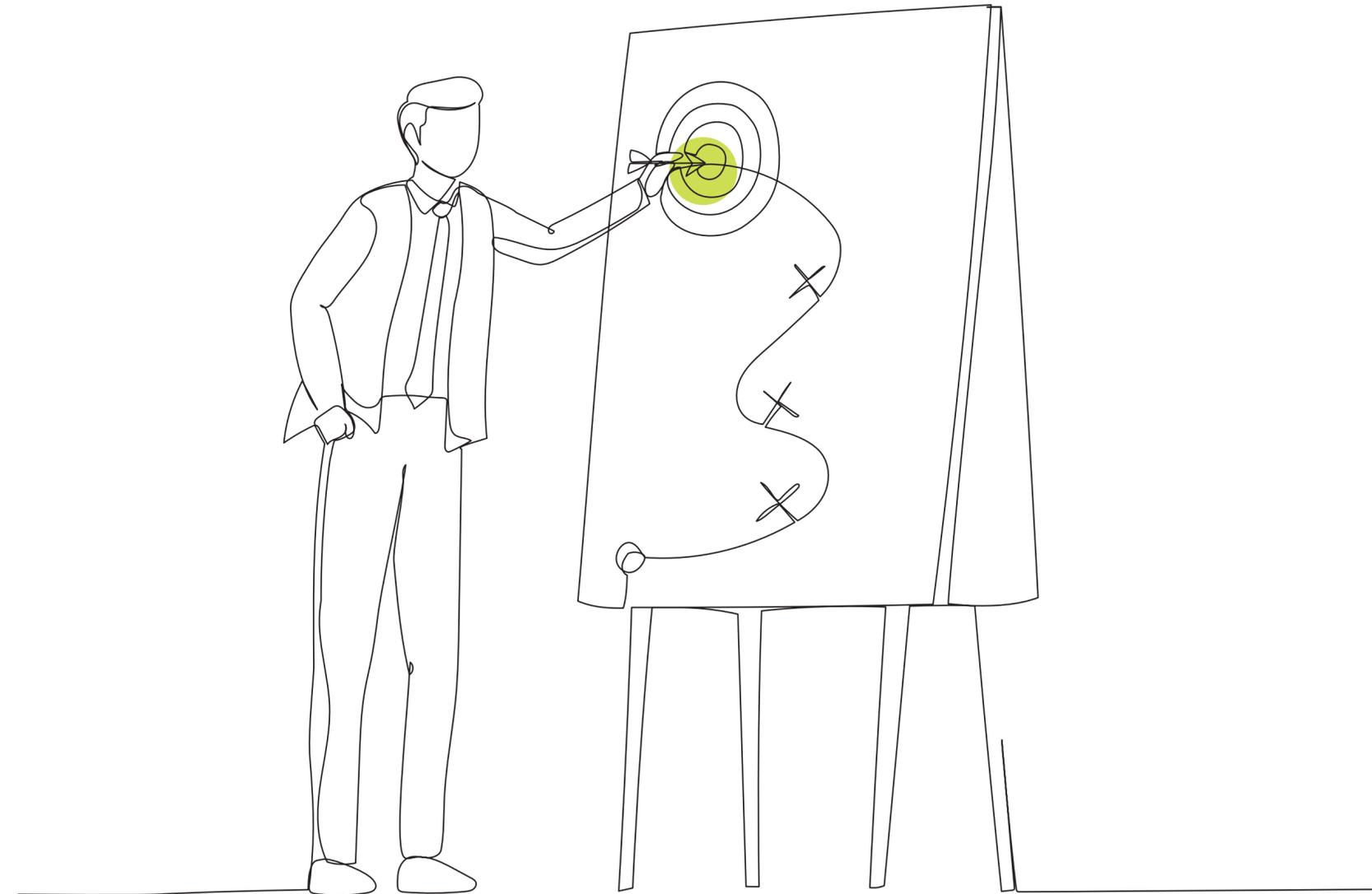
depending on the distributor, rebates represent an incredible **60% of net profit.**”

Distributor Goals with Customers

When distributors consider their goals for the year, they need to take into account the rebate structures they have in place to incentivize the customers who buy from them. Distributors can consider their own volume rebate incentive structures and adjust tiers as necessary to encourage directional buying behaviors from their customers. They can also consider what product mixes might incentivize customers to add new products or lines to their shelves. Essentially, distributors can follow manufacturer rebate programs in parallel.

Beyond considering the type of incentive structures offered, distributors can align with their customers' goals. A distributor may have purchased too much of a product line from a manufacturer and need a way to offload it. Meanwhile, a customer might want to expand that same product line in their area.

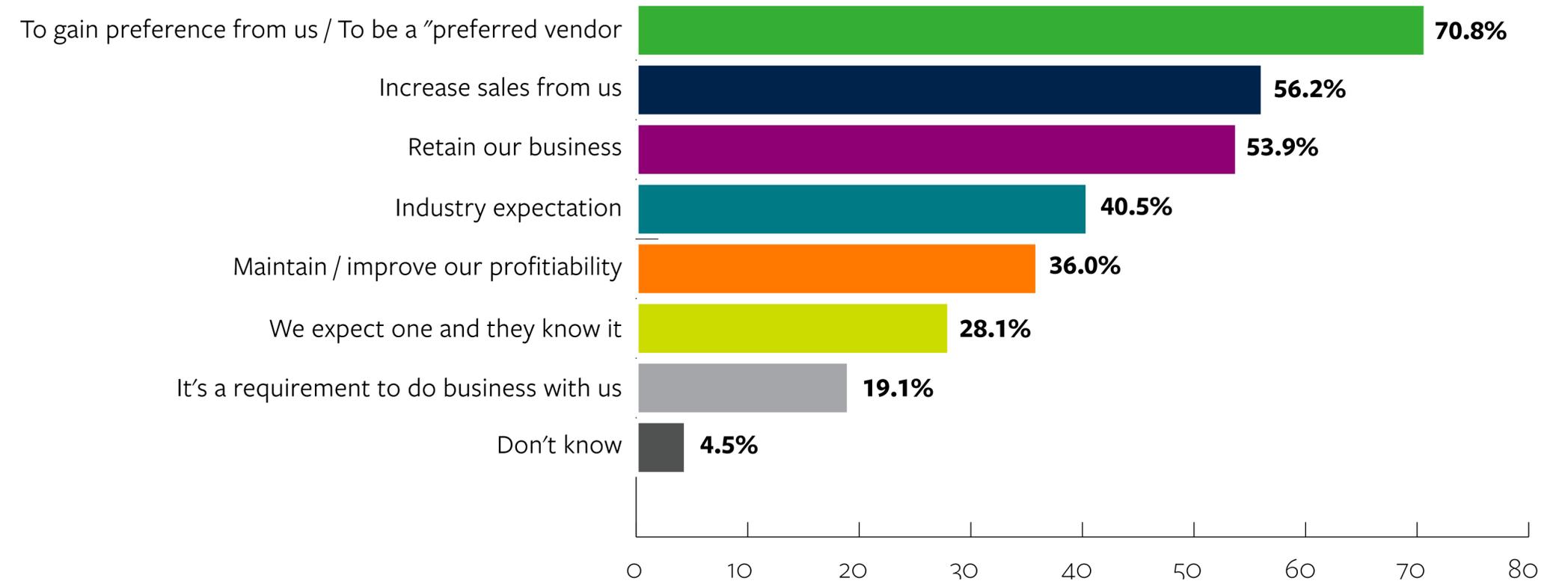
For example, a distributor may have overpurchased filler stones the previous year. By having a frank conversation with a retailer, they discover the retailer is interested in expanding into filler stones. Together, they craft a product mix that incentivizes the retailer to purchase filler stones while also moving other, higher margin items off their shelves, creating a win-win situation. Aligning on goals will become even more critical for trading partners.



What Manufacturers Should Know: Why Rebates are Offered

Most distributors believe that manufacturers offer rebates to become the distributor’s preferred vendor, increase sales and retain business, in that order. Critically, distributors told us that a rebate program will influence whether or not they chose to stock a product line or new item. According to a \$400M regional distributor, “We require every stocking manufacturer to provide a rebate either directly or via our marketing group.”

Why Manufacturers Offer Rebates

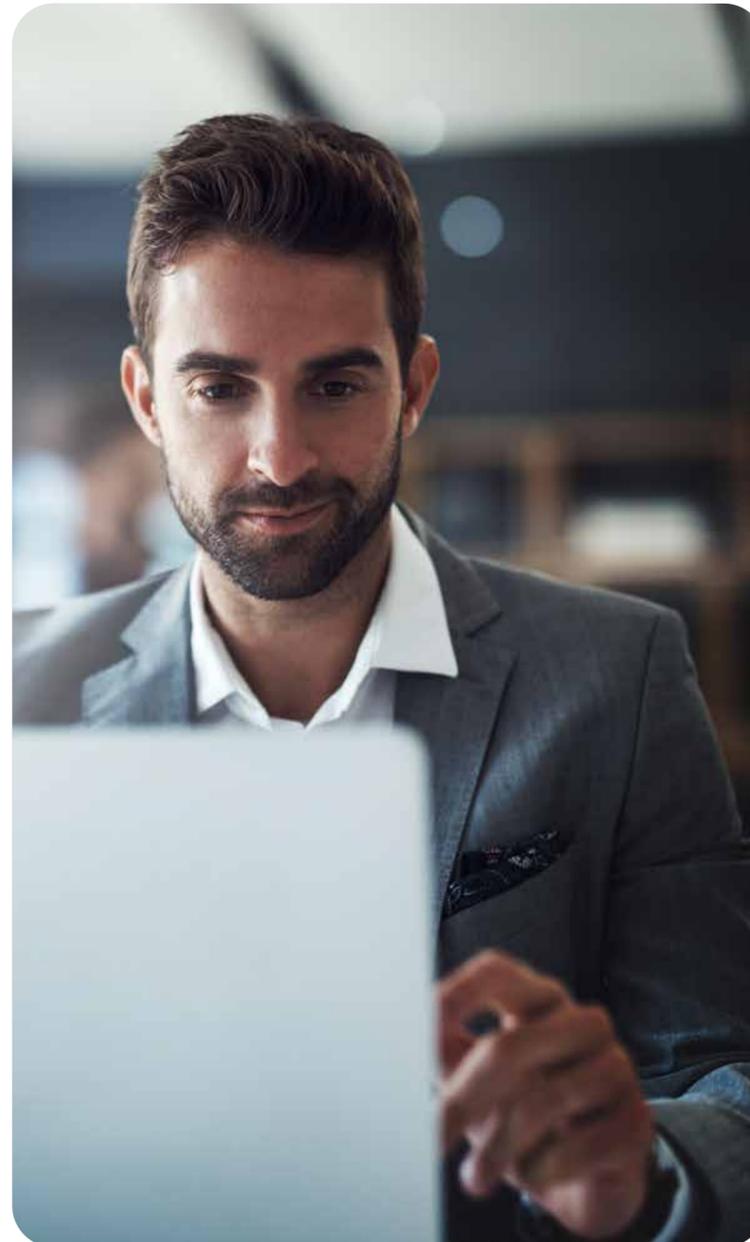


Missed Opportunities: Better Tracking is Necessary

Tracking rebates is notoriously difficult for distributors and manufacturers. Many times, when a manufacturer delivers a rebate payout, a distributor's reporting says they are owed a different amount. This ultimately leads to disputes between trading partners, further rupturing trust along the supply chain.

According to our survey, 45% of distributors don't track their performance (or don't know if they track their performance) against supplier goals. Some distributors may not track performance because they rely on their buying group, while others trust their supplier to handle tracking information for them. This means 45% of distributors are flying blind if they aren't part of a buying group and are likely to be missing out on rebate earnings.

In fact, one plumbing distributor we spoke with told us they discovered \$500,000 in rebates owed when they dug into their numbers. Matt Freedman, Director of Finance at General Plumbing Supply, told us, "Rebates can play a very large role in the profitability of the business. As I built out our forecasting capabilities, I realized that rebates were a major blind spot."



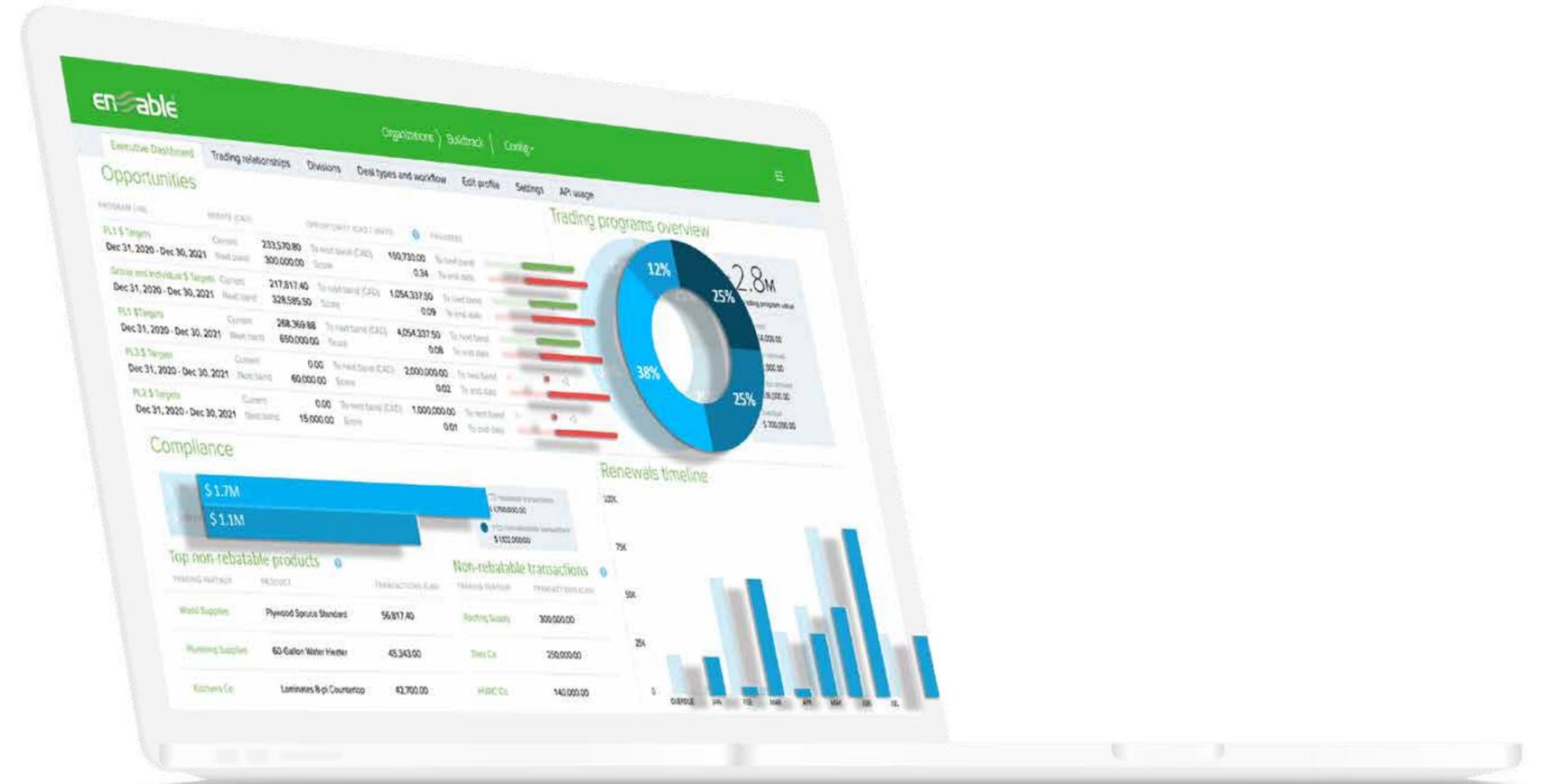
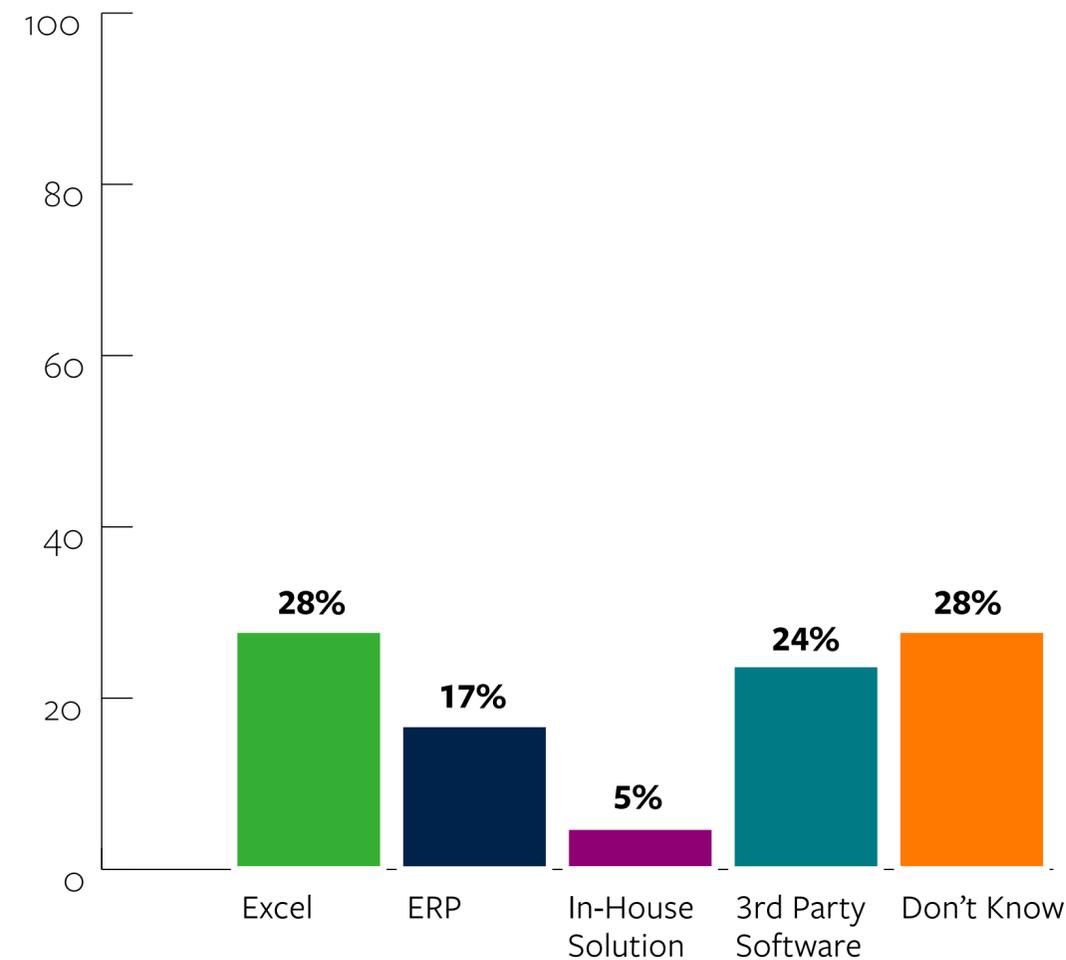
What a 100-year-old business can teach us about risk, rebates and cash confidence

When General Plumbing Supply discovered they were owed \$500,000 in rebates, they knew the accuracy of their forecasts and reliability were at risk. Recognizing the need for a dedicated rebate management tool, they went in search of a solution that would give them confidence in their finances, how to use their cash and what investments to make.

[Read the full story](#)



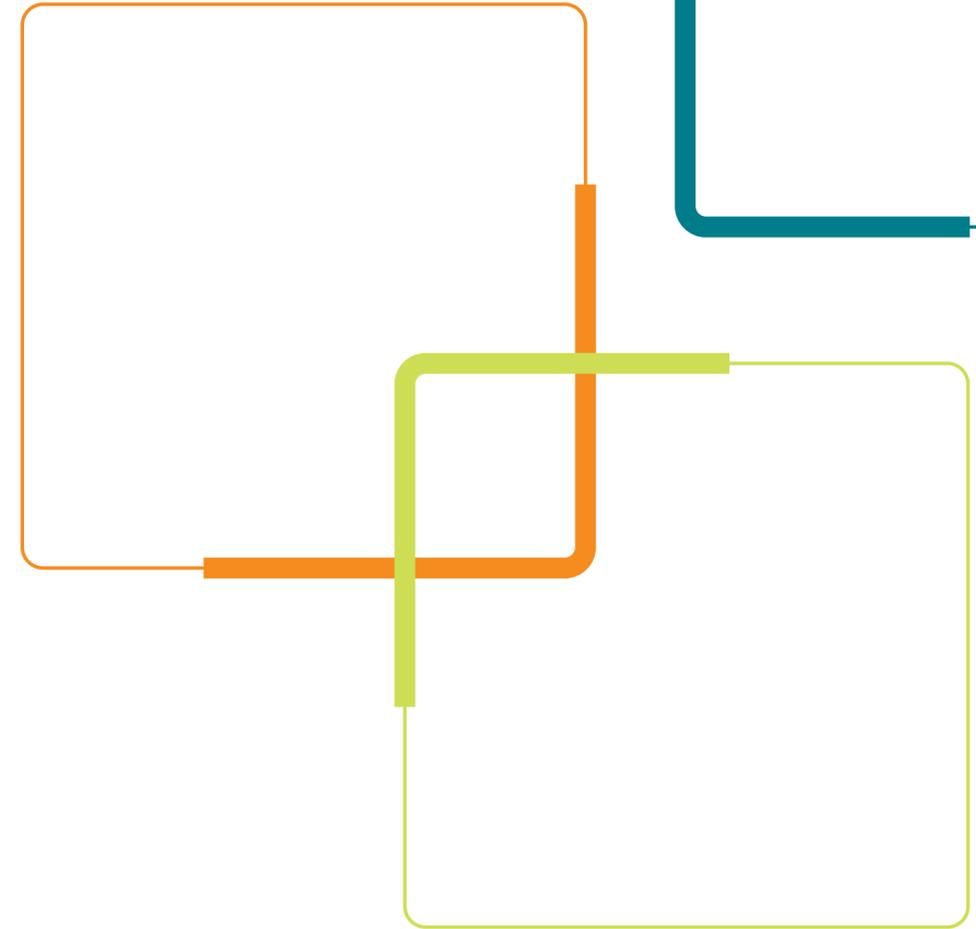
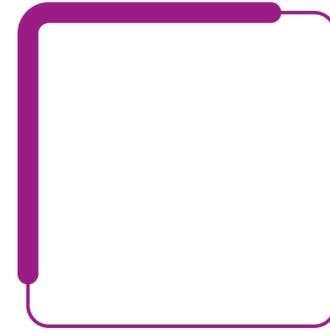
Of those who do track rebates, just over 1 in 4 use error-prone spreadsheets — much like Freedman and his team were — and approximately 17% use an enterprise resource planning (ERP) solution.



Considering how important rebates are for distributors, it is critical that distributors track their progress against goals. Failure to do so means missing out on rebates earned, which can dramatically impact the bottom line. Distributors must invest in tools that simplify rebate tracking, whether that is through buying groups, spreadsheets, ERPs or other platforms designed specifically for rebate management.

4

Difficulties Communicating Around
Programs Creates Ambiguity
Among Distributors



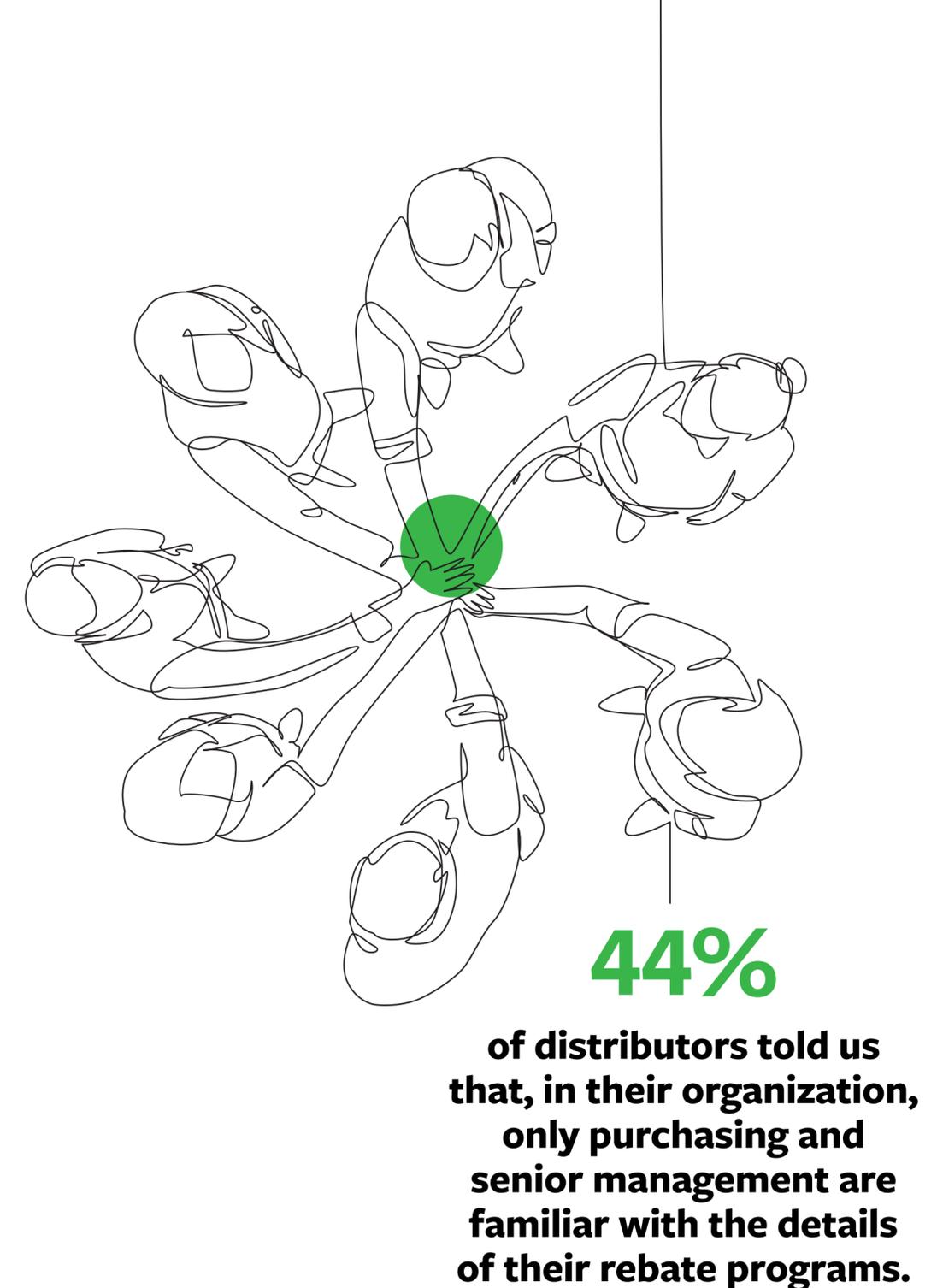
Effective communication is difficult, and poor communication costs businesses a lot of money. A recent study by Salesforce stated 86% of employees, corporate executives and educators all believe that workplace failures are a direct result of ineffective communication. According to communication expert Debra Hamilton, those failures cost a company of up to 100 employees \$420,000 per year.

Distributors aren't exempt from this. In fact, they face communication challenges on two fronts: internally, with key stakeholders, and externally, with their suppliers or buying groups.

The Challenge of Internal Communications

Distributors can be better about communicating around their rebate programs within their organizations. In fact, 44% of distributors told us that, in their organization, only purchasing and senior management are familiar with the details of their rebate programs.

There is good reason for this, as not all rebate programs are robustly shared internally. However, it is important that finance teams have full understanding of how to calculate their rebates to ensure they are accruing, receiving or paying out the correct amount. Employees in purchasing, sales and marketing departments may not understand which vendors are preferred for which SKUs. Related to this, one of our other findings indicated that 35% of distributors indicate a supplier is "preferred," but offer no additional clarity, leaving purchasers, sales and marketing without critical information.



The Challenge of External Communications

According to research, nearly half of distributors surveyed rely entirely on their manufacturer representative to keep them knowledgeable about performance against goals. Most concerning, 1 in 5 distributors reported that they only receive updates when they receive their payments.

This poor communication leads to difficulties for distributors throughout the year. With no idea if they're on track to meet their rebate goals, distributors may be blindsided at the end of the year by smaller than expected payouts. This also damages a distributor's ability to accurately forecast and accrue earnings for the year, causing issues when they attempt to true-up at year end.

Nearly half of all distributors receive updates on their progress against goals from a manufacturer representative, and just over 1 in 3 distributors only receive those updates when they ask for them and without adequate information.



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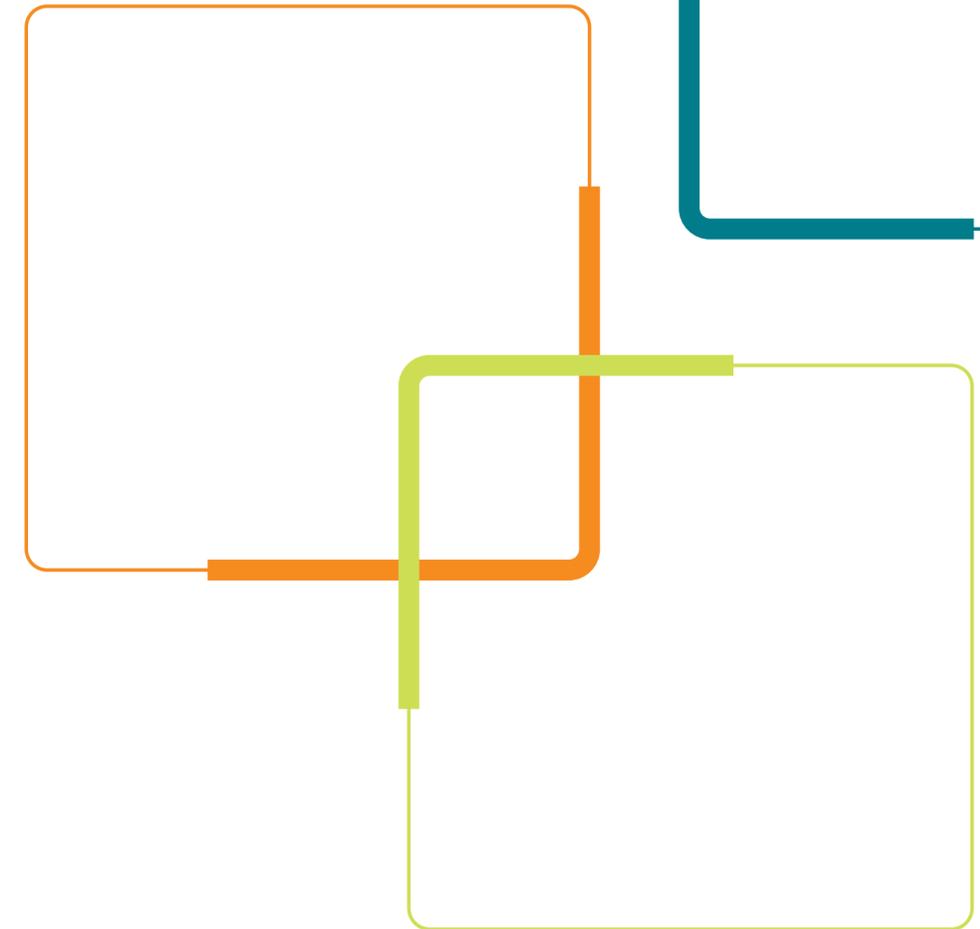
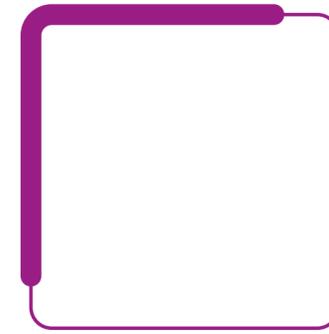


What Manufacturers Should Know: Better Communication Leads to Better Results

We know that better communication on a corporate level leads to better engagement and retention among employees. Likewise, better communication between trading partners leads to better, longer lasting trading relationships. By communicating distance to target goals to distributors, manufacturers stand to increase sales. Distributors report that rebate amounts matter when they're close to a volume threshold.

5

Where Do Distributors
Go from Here



Rebates are a critical and significant portion of a distributor's profits, and distributors can do more to manage their success with rebates by crafting a detailed rebate strategy. This rebate strategy should be underpinned by transparency between the distributor and either their supplier or buying group as well as good communication.

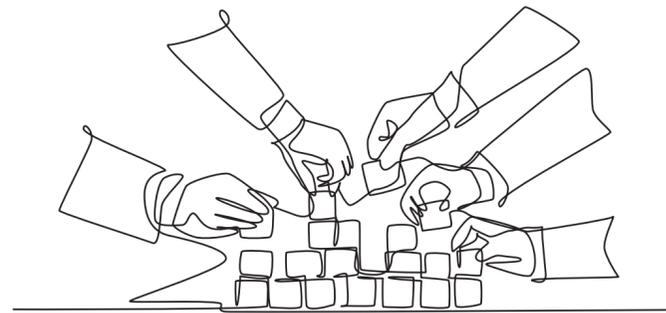
Distributors can and should be more involved in tracking their progress toward their goals so that they can accurately forecast and accrue their earnings for the year and avoid complex audits at year end, whether internally or externally imposed. Accurate tracking and forecasting eliminate any surprises, especially payouts that are smaller than anticipated. For distributors who also support customer rebate programs, this means less of a chance of overpayment, too.

As we move into 2023, incentive and rebates will continue to play a critical role in how manufacturers and distributors do business together. With the growing volatility in our economic markets, they may become more critical than ever before.

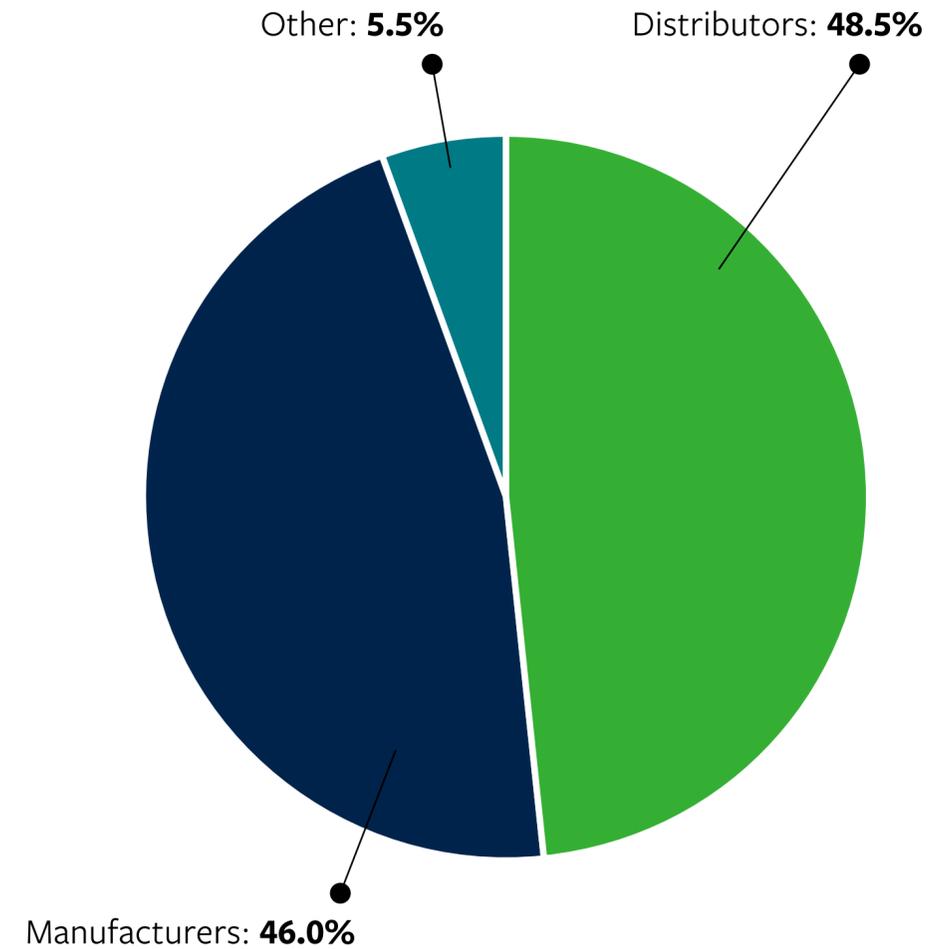


Our Methodology

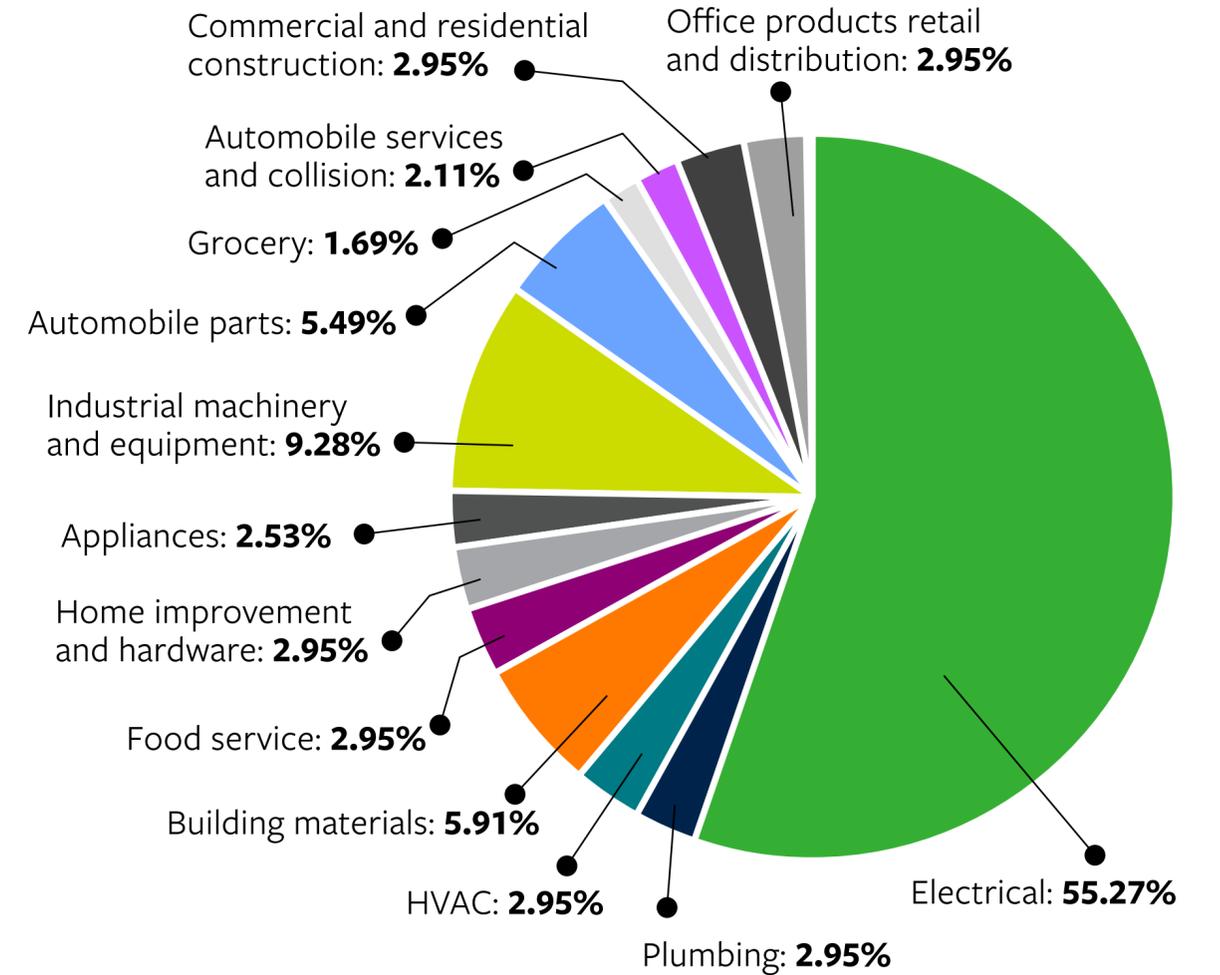
We surveyed 237 distributors and manufacturers across 14 industries. Selected survey respondents were interviewed following completion of the survey.



Respondents by type



Respondents by industry segment





About **Enable**

Enable helps manufacturers, distributors, and retailers take control of their rebate programs and turn them into an engine for growth. Starting with finance and commercial teams, Enable helps you better manage rebate complexity with automated real-time data and insights, accurate forecasting and stronger cross-functional alignment. This lets you — and everyone in your business — know exactly where you are with rebates. Then you can extend Enable externally to suppliers and customers, setting them up with one collaborative place to author, agree upon, execute on, and track the progress of deals. Find out more and try it for free at enable.com.

