

## Overview

The following paper has been prepared by the LBMX Group Consultancy Practice, a division of LBMX focused on helping Purchasing Co-operatives, Buying Groups and Independent SME's (small medium enterprises) become more effective through strategic process improvement. This paper is part of a series of papers describing key business process improvement strategies for these kinds of organizations.

One of the key ways organizations (groups) can become more effective is to manage and track rebates in real time. This paper will investigate the benefits of this approach and discuss how they can be achieved.

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## The Problem with Current Methods

The current methodology in rebate management is primarily based on supplier reporting. That is, suppliers advise the group on the amount of purchases that their members have made during a specific time period. Some groups then have their members confirm the purchases that the suppliers have reported.

The issue with this methodology is that it is after the fact and often prone to error. In addition, it is time consuming and does not provide an opportunity for the group to develop creative rebate programs, since by their nature they can be complex and very difficult to track.

One example where this “after the fact” reporting is harmful is with “plateau” or “graduated purchase” rebates. These rebate programs often pay an additional rebate on all purchases if a certain volume of purchases is reached. Given the time delay in reporting, the group is often not aware of the purchases with respect to meeting the next attainment level until it is too late. As a result the group often leaves significant rebate dollars on the table.

Since suppliers often only report rebates at the category level or even total purchases level, groups are not aware of their member's purchases at the line item level. This means the Group does not have the information to effectively negotiate strong programs putting the balance of power in the hands of the suppliers.

In most groups, the rebate line on their financial statements makes up the majority of their revenue, yet they are dependent on 3<sup>rd</sup> party organizations (suppliers) to define and validate this revenue. The suppliers are often late in reporting, occasionally incorrect, and most members do not have the time or ability to appropriately confirm their purchases. As a result too much effort is wasted and rebate dollars are lost.

Groups that are unable to manage rebates will often revert to negotiating discounts on behalf of their members. In fact for many groups, the overall group strategy is to achieve a face of invoice discount for their members. Although on the surface this seems attractive, the problem is that over time, members begin to question the value they receive for being part of the group, as the discount becomes viewed as their regular price.

In addition, face of invoice discounts immediately become the “street” price of the product, negating the advantages of being part of the group. By negotiating a rebate and paying the member money instead of a discount, they are constantly reminded why they belong to the group. This strategy also allows the group to target certain categories of items for more significant rebates and protects the market price of the supplier’s products.

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## The Concept of Real Time Rebate Management

Real time rebate management is based on using supplier invoice information as the key tool to calculate rebates. Since invoices flow to members in near real time, the group is able to capture the data elements from this document to process and manage rebates owed by suppliers. This model works in any kind of billing model; central, direct or central pay.

The model is based on electronically capturing all invoices, debits and credits, from suppliers. The supplier invoices are then forwarded electronically to the members to be processed as either a central, direct or central pay invoice as appropriate. The key issue is...can the group take advantage of this information as it flows from the supplier through the group, on to the members?

The answer of course is...yes!

This information can be analyzed by software to determine the rebate owed by the supplier right down to the item level. This means the amount of rebate owed is calculated in real time as the invoice is processed, and not based on an “after the fact” report from suppliers. It also provides the opportunity for the group to understand current achievement levels with respect to “plateau” or “graduated purchase” rebates thereby maximizing rebates earned. This type of approach means the group will automatically have the ability to calculate the rebate due to each member and manage the payout process.

This type of approach provides groups with an advanced way to assign, track, record and calculate rebates at the product category and / or item level. Supplier “electronic” invoices are imported into the system ensuring that rebate calculations are based on actual invoice amounts, allowing users to track and reconcile rebates with confidence.

Since the group is able to capture the invoice information, they now have access to item and category purchase information ensuring more effective rebate negotiations with suppliers. For example, this information can provide the organization with real time

information about the total purchases and rebates earned of a given product category or item across all suppliers.

It also provides the supplier with the opportunity to offer larger rebates for very specific product categories which they wish to strategically market to the members or for categories that have higher gross profit margins and consequently there is the ability to provide greater rebates. This information shifts the power of knowledge at the table, from the supplier to the Group, in rebate program negotiations.

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## Benefits

The benefits of real time rebate processing can be very significant. In fact, solving issues in this area often provides groups with the largest payback in both operational savings and strategic advantage.

For example, there is often an opportunity for improved rebate achievement through real-time reporting. The group simply shares the current plateau attainment and the amount of purchases needed to reach the next plateau with members to enable them to make additional purchases now, to drive increased rebates from suppliers.

There is also significant potential for product / rebate analysis since line item detail is electronically available for all purchases – both member-direct billed and those centrally billed through the group

This approach allows the group and members to gain control over rebates and not depend exclusively on supplier reporting. This model ensures there are no more missed rebates.

This also means the group is able to report on rebates at the invoice line item level, which provides additional scope for creative rebate development and advanced rebate reconciliation. In addition, item level reporting provides the opportunity for the group and their members to understand the true net-net item cost after all rebates have been taken into consideration. This information can be particularly helpful in both special order and special bid situations.

Finally, this kind of automated approach reduces the time and effort to verify and reconcile rebates by members and by the group.

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## About LBMX Inc.

LBMX is a leading provider of technology solutions for buying groups, purchasing co-operatives, independent members and their suppliers. These solutions comprise rebate and purchase analysis software, member electronic document delivery and complete EDI services to assist members and groups to connect to suppliers.

LBMX's close association with this specific supply chain model has allowed LBMX to develop a unique understanding of groups, their members and suppliers. This has resulted in the implementation of LBMX technology solutions that are a fit with both the strategic direction and operational priorities of their customers.

Based on LBMX's "many-to-many" technology, LBMX solutions are helping to connect suppliers, groups and independent member owners resulting in over 250,000 trading relationships. This has resulted in significant operational efficiencies for all members of the supply chain as well as providing groups with access to line item member purchase detail upon which better buying and rebate decisions can be made. LBMX has customers in Canada, United States, Australia and New Zealand.

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