LOCAL FOOD SOLUTIONS

VOLUME 17

Possibility grows here.

ACCESS: REBATES 101

Barrier

Rebates can create supplier lock-in by providing deep discounts to customers.

When you think of rebate programs, your first thought might be of consumer-facing sales strategies. In an effort to lift sales, brands will offer mail-in rebates to give consumers money back, but only if they actually go through the effort of sending it in through the mail.

In fact, similar strategies are common practice in business-to-business sales as well.

The way rebates work in the B2B world is similar to the rebates we know from the consumer world: you initially buy something at full price, and through some process you get a specified amount of money back. However, with B2B rebates, the amount a customer gets back is entirely dependent on how much they buy. These rebates take the form of terms and conditions in procurement contracts that provide customers with special prices based on 'actual' rather than 'promised' purchases.

The alternative option is to negotiate price, but if the negotiated price is based on buying 100,000 units and a customer only buys 50,000, the supplier can be left at a loss of revenue. Instead of granting a discount up front and accepting the responsibility to audit sales, the seller grants a discount only for actual volume purchased. It essentially creates a loyalty program that provides incentives for the customer to purchase the promised volume of product.

One of the other strategic advantages of rebates is that thresholds and conditions are rarely for single SKUs. Instead, customers can buy a mix of products at cumulative volumes to get their desired pricing, rather than negotiating price product by product.

For the supplier, they can lock buyers into loyalty programs for multiple products, not just one or two.

Rebates are provided after the fact, that is, a customer pays full price and then either annually or quarterly, their purchase volumes are reviewed. If they reach the negotiated thresholds, they are given a refund on their purchases. This refunded money is not tied to a particular line item or budget. It is now a discretionary budget which can be applied elsewhere, which is particularly valuable in broader public sector settings. In addition, it is common practice for many foodservice companies and group purchasing organizations to retain a percentage of the refunds, meaning there are lock-in incentives for both the institution and the service providers.

Local Food Implications

Rebate strategies can be problematic for local food companies trying to get their foot in the door. In many cases, switching to a local supplier means buying less of another supplier's product. In many food categories, it is highly likely that the buyer has deep incentives to avoid that decision as a result of a rebate program.

In addition, such rebate agreements are typically less feasible for smaller companies to offer. If a supplier has a wide range of products and operates at larger economies of scale, they have greater opportunity to bundle items together in a rebate program. In addition, many companies that use rebates are working with national buyers.

Since many local food suppliers don't operate at this scale, it can hard to match strategies.

Progress Being Made

- Vendor education and training programs could be developed to elevate the sales strategies of smaller local food companies, giving them more equal footing when competing with established vendors.
- Some broader public sector institutions are choosing to negotiate directly with local food suppliers instead of using rebates. The volume, quality, and price of specific foods are negotiated in advance of the growing season, and then delivered to the buyer when ready. The strategy is similar to the community-supported agriculture programs that many consumers use to support local farmers.
- A city in Northern Ontario has used this strategy to increase the amount of local food they purchase by 11 percent.