BUSI740 - DISCUSSION BOARD GREAT DEBATE - REPLIES - ALISA PEHRSON

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Smart Pricing: Rebates

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I have no known conflict of interest to disclose.

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Smart Pricing: Rebates

            The business landscape is increasingly global and highly competitive. Companies must be attuned to the factors that influence consumer purchasing and how to use those to create competitive advantages (Huang et al., 2013). Regarding supply chain management, pricing strategies must be aligned through the supply channel. Using manufacturer rebates pushed down through the retailer and to the customer creates a scenario where the channel can be aligned, demand can be influenced, and forecasts can be normalized through supply chain echelons. However, it is more likely that retailers would be most interested in abandoning rebates.

Customized Pricing with Rebates

            According to Simchi-Levi et al. (2021), customized pricing involves a company charging customers different sales prices based on price sensitivity. Companies typically engage in either cost-reducing activities, which indicate offering lower-cost products or concentrate on quality-improving activities, which indicates the product will be sold at higher cost levels (Matsumura and Matsushima, 2015). Highly price-sensitive customers will wait until discounts are provided or when everyday low-cost items are offered.  Low price-sensitive consumers will buy a product at higher costs. The goal for organizations is to appeal to both high and low price-sensitive consumers through price customization.

            Rebates are temporal price reductions, but the consumer must make an effort to redeem the discount (Johnson et al., 2013) by filling out the documentation and mailing in the rebate request. These potential price reductions are offered at the time of sale and are targeted mainly at price-sensitive consumers (Simchi-Levi et al., 2021). The assumption is that those customers who are price-sensitive will be the ones who are most motivated to redeem the rebate. At the same time, those consumers who are willing to pay the high price will also buy the product, but will not take advantage of the price reduction through rebates. Therefore, this pricing strategy is customized by selling at a higher cost to low price-sensitive customers while concurrently offering the cost-reduction to high price-sensitive consumers.

Rebates versus Decreased Wholesale Price

            Taylor (2002) notes that manufacturers can offer two types of rebates to retailers: linear and target. Linear rebates pay the retailer a specific amount per unit sold; whereas, target rebates only pay after a certain level of sales are met by the retailer (p. 993). With a linear rebate, it is assumed that demand can be influenced by the retailer through pricing, promotions, and advertising. In this scenario, implementation of a manufacturer target rebate can achieve channel coordination due to uniform, normal demand forecasting (p. 993).

            Further, Simchi-Levi et al. (2021) note that rebates are in a manufacturer's best interest as a means of influencing customer demand. Where the retailer will focus on profit maximization through price and order quantity, the manufacturer is most interested in selling as many units as possible at wholesale price. However, introducing the rebate decreases the cost to the customer which increases demand (Simchi-Levi et al., 2021; Huang et al., 2013). In turn, this increased demand means the retailer has to order more products from the manufacturer; thereby, increasing manufacturer units sold and profit.

            Analyzing the scenario with the manufacturer and retailer perspectives in mind provides deeper insight into each side’s motivation to implement rebates. In addition to the points above, a manufacturer would still want to implement rebates, even if all of them were redeemed, because the retailer may not pass on wholesale discounts to the customer. If the retailer retained those discounts and did not pass them down to the customer, the manufacturer's influence on demand is severely diminished (Simchi-Levi et al., 2021). The potential price decrease is unable to create increased demand and, therefore, the retailer doesn't need to submit additional orders to fulfill the increased demand.

Rebate Elimination

            Rebates are big business for manufacturers and retailers. As an example, Ong (2008) notes that 400 million rebates are offered to the consumer each year and represent a face value of $6 billion. However, consumers redeem only 60% of those rebates (breakage) and an additional 20% of those submitted are disqualified (slippage). This indicates that less than half of the offered rebates are redeemed. This translates to increased profits for the retailer and manufacturer. The retailer has increased demand by offering the manufacturer rebate and the manufacturer has sold more units at wholesale than they may have without the rebate incentive. Essentially, the retailer and manufacturer have enticed the consumer with the idea of a discount while still paying full price and, in many cases, never actually receiving the incentivized rebate. According to Simchi-Levi et al. (2021) “anything less than 100 percent redemption is free money” (p. 424).

            However, there are some significant downsides to consumers and retailers in offering rebates. First, consumer complaints have risen exponentially, specifically, in regards to the ease of redeeming a rebate (Simchi-Levi et al., 2021; Ong, 2008). Many customers who want to receive the discount are unable to do so because the redemption process is stringent and complex. For example, many rebates have short turnaround timeframes and there have been legal calls to allow a minimum of 30 days after purchase (Simchi-Levi et al., 2021). Additionally, if the rebate is submitted in time there are many reasons why it may be disqualified based on handwriting or incomplete information. These types of discouragement strategies look very similar to a bait and switch scheme and many legal calls to eliminate rebates have been debated (Simchi-Levi et al., 2021).

            Lastly, the retailer bears the brunt of the customer backlash when they are dissatisfied with rebates. As Simchi-Levi et al. (2021) point out, customer dissatisfaction is directed at the retailer and not necessarily the manufacturer. This is likely attributed to the fact that the retailer is the face of the sale, so to speak. Lastly, the retailer also foots the cost of the fulfillment house that processes the rebates. These costs cut into potential revenue for the retailer. In viewing these points, it is more beneficial for the retailer to support eliminating rebates instead of the manufacturer who is mainly concerned with how many units can be sold.

Conclusion

            There are clear advantages to implementing rebates for manufacturers, retailers, and price-sensitive customers. Manufacturers can influence demand and can sell more units to retailers. Retailers can increase profit due to the increased demand with the inferred discount, especially when incentivized customers do not redeem the rebate. For price-sensitive customers, they can receive the discount they are searching for. However, some downfalls are also identifiable. The customer faces a difficult task, in many cases, to receive the discount due to the rigorous effort in filing the documentation. And, retailers receive backlash from these frustrated customers which can damage customer satisfaction and brand reputation. These difficulties have led to legal and retailer calls to eliminate the use of rebates.

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