

Rebates and Discounts Guideline

Purpose

This guideline seeks to provide direction to procurement officers regarding rebates and discounts in procurement activities.

Rebates

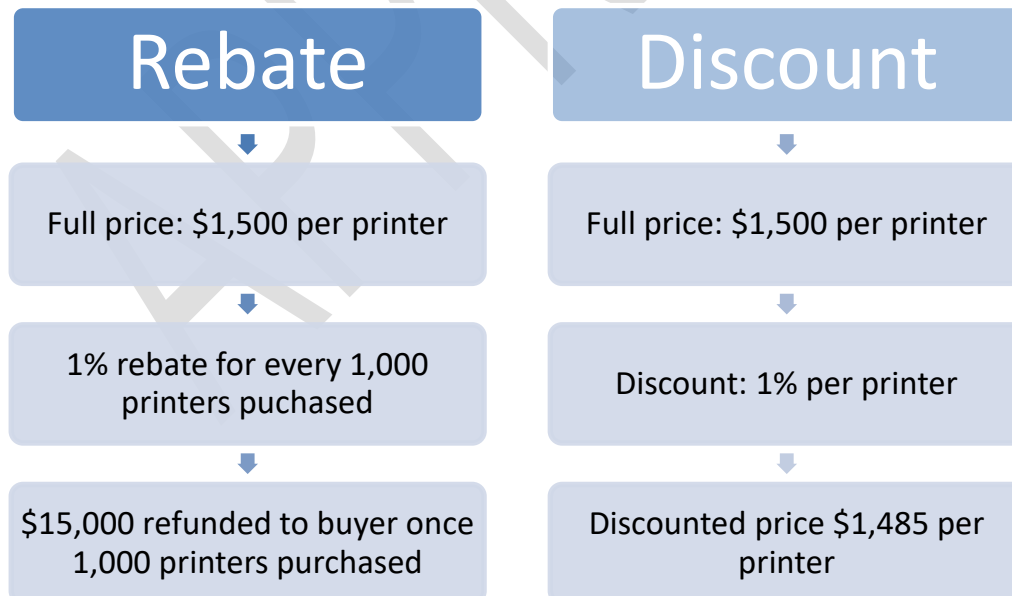
A rebate is money or value credited back to a public authority¹ by a supplier upon the public authority meeting a set of conditions laid out in a contract. In the context of government procurement, this would involve a public authority paying an amount upfront to a supplier and then claiming or being provided credit or cash back from the supplier at a later time.

A rebate is different from a value-add, which is an enhancement or additional feature to a good or service offered by a supplier to obtain a competitive edge.²

Rebates are usually tied to the buyer meeting a set of conditions such as achieving a purchase volume under a contract or making a purchase during a promotional period. Rebates can have value for the public authority as they can reduce costs without any compromise in quality or product features.

A rebate is different to a discount as a rebate assumes that an amount has been paid and part of it will be returned or provided as a credit. Conversely, a discount is applied at the time of payment resulting in a lower price paid. A discount may be off an entire price, or off an outstanding amount.

Figure 1: Example Rebate vs discount



¹ and not a non-government entity (e.g. charity) or individual

² Refer to the Value-adds in Government Procurement Guideline for further guidance on value-adds.

Rebates and Discounts Guideline

Use of rebates in procurement

Rebates are offered to incentivise buyers to purchase a product. It could be an incentive to purchase more (e.g. rebate if a certain volume threshold is achieved) or to change the timing of a planned purchase (e.g. rebate if purchase made during a promotional period). Rebates provide an attractive option for suppliers to secure ongoing or additional sales.

Public authorities should consider the following when developing or assessing whether a rebate is appropriate:

- the rebate must be a refund, return or credit on an amount already paid.
- the rebate must be directed towards the public authority that paid the initial price.
- a public authority may also qualify for a rebate based on purchases made by other public authorities, for example when reaching a collective purchase volume under an across-government, multi-agency or panel contract.
- rebates relating to service or support should be objectively quantifiable. For example, a supplier offers an initial 10 free hours service/support and a further 10 free hours service/support credit for every 1000 hours consumed and paid, or a refund of \$1000 for every 1000 hours consumed and paid.
- rebates offered in a supplier's offer should be compared objectively and fairly (see example below).

As an example, a supplier may quote a product price with no volume discount but offer a substantial rebate if a certain procurement volume is achieved. During the evaluation of the supplier's offer, the public authority would have to assess whether the procurement volume is readily achievable and calculate the unit price of the product with the rebate applied. This new calculated unit price would then be used to compare the price of the product with other offers where a straight discount is proposed.

Where forecasted volumes are not certain it may be fairer to assume a set of agreed volumes with each proposal and these may be published in the market approach. Alternatively, it may be more effective to require all suppliers to tailor their offer to rebate steps proposed by the public authority in the market approach. This will ensure that rebates are directly comparable.

Managing a rebate offer through a tender process

The intention to request or negotiate a rebate must be articulated at each stage of the procurement from initial planning and sourcing through to contract management.

Attachment 1 provides some case studies on the consideration of supplier rebates.

Rebates and Discounts Guideline

Rebate requested by the public authority:

A rebate should be linked to the intended procurement objectives and deliver a quantifiable value for money outcome for the procurement. In developing and assessing the requested rebate, public authorities should ensure that it is:

- measurable, so that it can be quantified and compared;
- practical, reasonable and credible given available resources;
- relevant to the procurement; having regard to the environment in which the public authority entity operates; and
- achievable given the expected conditions: Relevant to the success of the contract and, specifies a timeframe.

Rebate offered by the Supplier:

To obtain value, rebate offers by suppliers should be approached with close consideration to assess the benefits, value for money, potential disadvantages and the probity of the transaction. A rebate offered by a supplier must be assessed on its merits:

- Is the rebate related to the procurement?
- Does the rebate contribute to the procurement outcome?
- Does the rebate provide value for money?
- Can the rebate be managed within the contract management system?

When assessing the benefits of rebate offers, the public authority should consider whether an improved discount model could be pursued instead. These considerations should be made as part of the negotiation plan.

Rebates within a contra-deal

Some procurements may involve negotiations where a public authority and a supplier exchange goods and/or services under an agreement without cash changing hands.

This would be on the basis that both parties have goods or services that the other wants and that their relative worth has been agreed. In that regard the fundamental rules of negotiating a rebate still apply:

- identify upfront and be transparent in the market approach about rebates/sponsorship to ensure transparency in the procurement;
- establish a mechanism to calculate the value of the rebates, both tangible and intangible; and
- assessments during the evaluation process should consider Value for Money.

Rebates and Discounts Guideline

Contra deals require careful management to ensure that the value of the goods and/or services exchanged is broadly equivalent and to manage the implications if a one-off transaction becomes reciprocal trade³.

Use of Rebates in Contracts

Rebates should be described in the contract to ensure that it is secured. The contract should define the rebate value and the criteria on which the rebate is based.

Public authorities should consider a bespoke “review of rebate” clause in long-term contracts to ensure the rebate remains appropriate to the procurement.

APPROVED

³ CIPS UK Procurement Glossary

Rebates and Discounts Guideline

Attachment 1 – case studies

Case Study 1 - An appropriate rebate

Example Scenario

A supplier of medical equipment offered a rebate scheme known as a “Medical Equipment and Supplies Fund” (the Fund), as part of their response to an open Invitation to Supply. This had not been requested by the public authority as part of their market approach.

Details of the proposed Fund:

- *The amount credited to the Fund is dependent on the public authority’s annual spend.*
- *The amount credited to the Fund can only be used to purchase products at recommended retail price (RRP) from the supplier. Public Authority purchases of products using the Fund would not receive the discount product price available under the contract.*
- *The supplier could limit the Fund to the purchase of specific products*
- *The amount in the Fund may expire if not used in a pre-determined period.*
- *The supplier could potentially credit amounts to the Fund at the commencement of the contract (before any sales or services with the public authority had been processed).*

Example:

- *the public authority spends \$30 million with a supplier offering a Fund*
- *the supplier credits \$500,000 to the Fund.*
- *the credit must be spent by the public authority within a year of the contract commencement date.*
- *the credit can be used to purchase products from a catalogue provided by the supplier.*

The example of the rebate was appropriate given:

- The example ‘rebate’ went back to the payer of the original amount.
- The form of the example rebate was related to the procurement outcome.
- However, the public authority should confirm the products that can be purchased from the Fund are the same products under the contract. It can be a limited catalogue, but if the products are different, then this may be an inappropriate incentive. For example, if the contract catalogue includes only surgical equipment and supplies, the ability to procure hospital linen from the Fund would be considered an inappropriate incentive as this would exceed the scope of the contract.

Case Study 2 - An inappropriate rebate

Scenario

As part of market approach process, a public authority requested suppliers on a panel to identify rebate and discount offerings, but also, as an example, named a charity that rebates could be directed to.

The request for rebates and discounts in a market approach was acceptable, including at a secondary procurement stage.

The example of the rebate was inappropriate given:

- The example ‘rebate’ did not go back to the government party.
- The form of the example rebate was unrelated to the procurement outcome.