

Unit 5 discussion board



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The Rebate Shell Game People love getting something for nothing and the lure of a rebate can seem like free money to many shoppers. Faced with the choice of a \$30 item, or a \$50 item with a \$20 rebate, the unsuspecting consumer will often choose the more expensive item. It is human nature to believe that the \$50 item is higher quality, even though they are actually paying the same price. Rebate offers may be good for the consumer, yet most seem to favor the manufacturer. They are a short-term business gain that increases ready cash, but may have negative effects on consumer brand loyalty and result in a loss of customers.

In 2002, 70% of the notebook PCs sold were offered with a rebate and the concept seems simple enough (McGinn, 2003). Buy a \$1000 notebook and save \$200 after filling in the required paperwork, sending it into a third party processing center, and waiting the required number of weeks for your check to arrive. This is a great deal for the manufacturer as they have sold you a PC that was on sale for \$800 and then asked you to loan them \$200 for a couple of months. No interest is offered, and there is a risk that you may never see your money. Manufacturers rely on human nature to misplace the paperwork, send it in incomplete, or forget it ever existed. For the people that do get the rebate, they merely break even. The sellers have increased cash flow and sold a number of their products at \$200 above market value. These practices are as deceptive as a carnival shell game and could have a negative effect on a company's reputation.

Whether a consumer will even apply for the rebate is largely determined by the amount being offered. While cosmetics that offer \$1 back may go discarded, more expensive items will naturally get a better response. However, even on high-dollar electronics the rates can be surprisingly low.

Timothy Silk, a University of Florida researcher, found, "... redemption rates, even on larger-ticket purchases such as computers and televisions, are well below 50 percent" (Keen, 2004). Networking accessories manufacturer Asante Technologies sees an even lower response rate. Jim Hsia, vice president of marketing says, " the typical redemption rate for his companys products hovers between 2 and 15 percent" (Millard, 2003). Most people will never see a rebate.

In new car sales, rebates can work against the automakers intentions. A consumer electronics rebate can be used to attract attention to an item and create store traffic. However, on an expensive purchase such as a new car, the customer sees the rebate as part of the deal. The redemption rate will be nearly 100%, so manufacturers cant rely on a low rate for an economic gain. Also, automakers that are already seeing slumping sales and red ink will only decrease revenue by adding a rebate incentive. Rather than being a cash flow that may not be claimed, these rebates will become obligations that will come due and add to the companys debt.

Rebates may make sense for a high-end consumer product that is trying to establish itself in the market place. It can generate extra cash flow and draw additional attention to the merchandise. However, the deceptive nature of rebate, and the ethical concerns it generates, may not be in the best interest of the company. For expensive items, such as vehicles, the competition in the marketplace puts the company at even greater financial risk.

References

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