GUARANTEES, DISCOUNTS & REBATES

Retrospective Rebates / Volume Discounts

A retrospective rebate is basically a reward for the Client for spending a certain amount of money with an individual agency. When a company asks for a retrospective rebate, it may provide you with a table showing different levels of potential spend, and asking you to advise of what % rebate you will offer for each. An example is provided below:

Example Annual Expenditure Level	% Discount
Up to £½ million	
£½ million - £1 million	
£1 million - £2 million	

Remember, if you agree to this, at the end of a certain period, you will be required to either provide a credit note, or write a cheque to the client for the amount of discount!

Considerations - when deciding whether to offer discount, or what the % discount should be, you may wish to consider the following:

- Is the rebate to be provided against the **turnover or margin element** of the contract? It is usually preferable to quote against the margin element rather than turnover when providing temporary workers, as much of the turnover figure is made up of pay rate, NI and WTR. As an example, a 1% rebate on turnover will reduce the margin by 9 pence per hour on a £6.50 hourly pay rate with a £1.00 per hour margin – that's nearly a 10% cut in margin!
- Over what period is the discount requested? Sometimes it will be annual as in the example above, but on other occasions, it will be over the life of the contract – this could be anything up to 5 years, so beware!
- Is the contract primarily temporary or permanent? There is more profit in permanent placement than in provision of temporary workers, so you may wish to consider the costs of providing the service before deciding on the level of retrospective rebate.
- Is the rebate to be made in cash or as a credit against future spend?
- It is sensible to establish with the Client that the rebate relates to 'paid' invoices only and if possible invoices paid within the agreed payment terms – so that you are not in the position of incurring additional interest charges and the Client still requesting the rebate?

- In some contracts, the Client demands additional activity or guarantees that add to the cost of providing staff. These may include, but are not limited to:
    - Enhanced holiday pay in line with AWR (e.g. in excess of 28 days per annum).
    - Enhanced referencing (e.g. 5 years references with no gaps in employment), credit checking, DBS (Disclosure Barring Service)/Disclosure Scotland checking or occupational health assessments.
    - Medicals.
    - Temporary workers with employed status (as against those on Contract for Services / Terms of Engagement).
    - Provision of uniform or PPE.
    - Penalty clauses, guarantees and other rebates in the terms of business.

You may also be asked to offer discounts in relation to the number of temporary workers on site or hours worked over a given period. An example of this is shown below:

Example Volume of Temporary Workers	**% Margin**
Up to 50	
51 – 100	
101 – 200	
201 +	

Considerations – in addition to the above, this can be a nightmare to keep track of and manage. Ensure that if you do agree to this type of discounted margin structure that you have the systems that will allow this to be managed automatically – a manual system will inevitably create invoicing errors and hold up invoice payment.

Reduced Rates for Sole Agency Status

This is similar to the preceding section in that the Client is seeking a discount against the potential volume of business. An example of the type of question is provided below.

Status	**% Discount**
Sole supplier	
1 of 2 suppliers	
1 of 3 suppliers	
1 of 4 suppliers	
1 of 5 suppliers	

Considerations - In addition to the considerations detailed under “Retrospective Rebate” detailed previously, you may also want to consider the following as a minimum:

- What is the anticipated volume of spend?
- Is this spend on temporary or permanent recruitment?
- Across how many and what locations is this spend spread?
- Are there any guarantees on the minimum spend?
- What happens if the client does not spend the agreed minimum?
- If there is more than 1 supplier, will the suppliers receive the bookings / vacancies at the same time?
- How long will the supplier have to work on the booking / vacancy before the Client will start considering involving other PSL / non-PSL suppliers?
- What processes are there in place to prevent "rogue spend", (e.g. what happens if User Managers use agencies outside of the approved PSL)?
- Will the Client provide "rogue spend" management information on a weekly or monthly basis, so that offending Managers can be targeted?

Prompt Payment Discounts

This type of discount can be applied to the total fees or in the case of temporary workers, the margin element of the charge rate. An example is provided below:

Payment Period	**% Discount**
PIA (Payment in Advance)	
Up to 7 Days	
Up to 14 Days	
Up to 21 Days	
Up to 28 Days	

Considerations - In addition to the considerations detailed in the previous 2 sections, you will also need to think about the following:

- Is the payment period from <u>date</u> of invoice or from <u>receipt</u> of invoice? This could make a considerable difference in how soon you are paid.
- There is quite a bit of paperwork and management information required in order to manage/operate this system. Do you have the capability to do this? Is there a cost to tracking/auditing the payment terms?
- It may sound silly but as detailed above it is sensible to ensure the Client understands that the rebate relates to invoices actually paid within the agreed terms.
- By reducing the Client payment terms, your cost of borrowing may also be reduced, so this saving may be taken in to account.

Payment in Advance

This is a situation when the client and supplier agree in advance what the anticipated spend will be over a fixed period. The client then pays this to the agency prior to the start of the period. On completion of the period, the agency will calculate the "actual" invoice value, and the difference will be paid / credited.

This can provide considerable savings for the supplier in terms of time for the credit control department, and also the cost of money. It should however, always be weighed against the size of the contract, volume of spend, the number of suppliers, and amount of work required to manage the process.

Temporary Transfer Margin Discount

If you are transferring in a number of temporary workers from an outgoing agency, you may want to consider offering the client a discount on the margin for temporary workers that are transferring to you from the outgoing supplier as an incentive to choose you as the new supplier. This discount would only apply to transferring temporary workers and not to workers that you source and place. It therefore takes into account the fact that you do not have to pay for candidate attraction for these workers.

Considerations – when deciding whether to offer this discount (or how much of a reduction in your margin to offer) you may want to consider:

- A considerable amount of time is required by the Account Manager to manage the whole transfer process including engagement with outgoing agencies, hiring managers on the client's site and the temporary workers themselves.
- You will still have to register transferees and take them through individual meetings, set them up on your payroll and manage them.
- The outgoing agency may be unwilling to pass you candidate information for your incoming workers, so you may have to undertake referencing and vetting from scratch.

Permanent Placement Guarantees

This usually applies to guaranteeing the success of the placement for a period of time after the placement start date. Permanent placement guarantees usually operate on a sliding scale as shown in the example overleaf:

Period of Employment	Rebate as % of Original Fee
Up to 2 weeks	
3 – 4 weeks	
5 – 8 weeks	
9 – 12 weeks	
After 12 weeks	

The guarantee needs to ensure that the supplier shows confidence in the quality of the service, however, it should be remembered that there may be circumstances where reasons that a placement fails are outside the supplier’s control (e.g. bereavement of the candidate, relocation of close family member, approached by another company with a better job opportunity, ill health, bad Client management, redundancy etc).

The period of guarantee and the % rebate will depend on the confidence of the individual supplier.

You may also wish to offer a “free replacement” rather than a financial rebate.

Please Note
Guarantee periods usually form part of your standard Terms & Conditions, so you may want to consult these prior to completing this section of a tender document. Also check to see if the client has specified minimum standard regarding to permanent placement guarantees in their standard conditions of business for suppliers.

Temporary Worker Guarantees

Again, guarantees for temporary workers are often covered in the supplier’s Standard Terms & Conditions of business, so it would be wise to consult these to ensure continuity.

Guarantees for temporary workers will often relate to the following:

- Performance of the temporary worker while on assignment.
- Behaviour of temporary worker while on assignment.
- Attendance of temporary worker during assignment period.
- Ability to provide a suitably qualified replacement if required within an agreed period of time.

You will often find that the Client has included clauses relating to Temporary Worker guarantees into the contract, so it is advisable to read through the contract prior to submitting the tender. In many cases, if you do not raise issues with the contract at tender stage, it can be assumed that you will comply. Equally raising such issues may cause your bid to be deselected.

Considerations - Ensure that you fully understand any penalty clauses. In addition to providing a replacement, there are some contracts that state that the supplier is responsible for covering the costs of having the work done again, or even any potential losses that the company may incur as a result of the temporary worker's performance/attendance etc.

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