



The Great Rebate Runaround

Ah, the holiday shopping season: Santa Claus, reindeer—and rebate hell. Those annoying mail-in offers are everywhere these days. Shoppers hate collecting all the paperwork, filling out the forms, and mailing it all in to claim their \$10 or \$100. But no matter how annoying rebates are for consumers, the country's retailers and manufacturers love them.

From PC powerhouse Dell to national chains Circuit City and OfficeMax to the Listerine mouthwash sold at Rite Aid drugstores, rebates are proliferating. Nearly one-third of all computer gear is now sold with some form of rebate, along with more than 20% of digital cameras, camcorders, and LCD TVs, says market researcher NPD Group.

Hal Stinchfield, a 30-year veteran of the rebate business, calculates that some 400 million rebates are offered each year. Their total face value: \$6 billion, he estimates. Office-products retailer Staples says it and its vendors alone pay \$3.5 million in rebates each week.

TAX ON THE DISORGANIZED

Why the rage for rebates? The industry's open secret is that fully 40% of all rebates never get redeemed because consumers fail to apply for them or their applications are rejected, estimates Peter S. Kastner, a director of consulting firm Vericours. That translates into more than \$2 billion of extra revenue for retailers and their suppliers each year. What rebates do is get consumers to focus on the discounted price of a product, then buy it at full price.

"The game is obviously that anything less than 100% redemption is free money," says Paula Rosenblum, director of retail research at consulting firm Aberdeen Group.

The impact on a company's bottom line can be startling. Consider TiVo. The company caught Wall Street off guard by sharply reducing its first-quarter loss to \$857,000, from \$9.1 million in the same period last year. One reason: About 50,000 of TiVo's 104,000 new subscribers failed to redeem mail-in rebate offers, reducing the company's expected rebate expense by \$5 million. TiVo says it generally

sees lower redemption rates during the Christmas shopping season, when consumers may be too distracted to file for rebates on time.

Credit this bonanza for retailers and suppliers partly to human nature. Many consumers are just too lazy, forgetful, or busy to apply for rebates: Call it a tax on the disorganized. Others think the 50 cents, \$50—or even \$200—is just not worth the hassle of collecting.

"I WAS FROSTED"

But many consumers—and state and federal authorities—suspect that companies design the rules to keep redemption rates down. They say companies count on complex rules, filing periods of as little as a week, repeated requests for copies of receipts, and long delays in sending out checks to discourage consumers from even attempting to retrieve their money. When the check does arrive, it sometimes gets tossed in the trash because it looks like junk mail.

These obstacles don't stop Chuck Gleason. A rebate junkie, he has redeemed dozens of rebates on the high-tech and electronics gizmos he buys. But getting his money, he says, sometimes drives him crazy.

On Nov. 7, 2004, for example, the 57-year-old director of operations for a Portland (Ore.) metal-recycling company bought a TiVo digital video recorder for \$300. TiVo promised that a \$100 rebate would arrive in six to eight weeks if Gleason mailed in his receipt and the universal product code on the box and kept his TiVo subscription for at least 30 days.

Gleason sent in the paperwork the very next day, and nothing happened. By February there was still no sign of his \$100, despite repeated follow-ups, so he threatened to file complaints with state and federal officials. But TiVo's rebate processor, Parago, left him even more exasperated: "Because your issue requires further research, your e-mail has been forwarded to a special team," said an e-mail from a customer-service agent named Sophie.

Finally, on Mar. 29, more than 14 weeks after he bought his DVR, his check arrived. "I was frosted," he says.

"BREAKAGE" AND "SLIPPAGE"

Citing privacy restrictions, TiVo officials declined to discuss the case. But the company says it regrets any inconvenience and recently changed its rebate process to include a printable sign-up form at tivo.com to cut down on handwriting errors. Parago also declined to discuss the incident but said errors are rare among the "tens of millions" of rebates it processes each year.

Indeed, processors and companies offering rebates insist that there is no intentional effort to deny them, a move that Stinchfield, who is the chief executive of Orono (Minn.) consulting firm Promotional Marketing Insights, says would be akin to "brand suicide." Rather, Rebate processors won't provide estimates for the amount of fraud they encounter, but Young America Corp., the nation's largest processor, says it now monitors 10,000 addresses suspected of submitting bogus rebates.

The quest for buyers who don't end up collecting a rebate has spawned special industry lingo. Purchases by consumers who never file for their rebates are called "breakage." Wireless companies that pay 100% rebates on some cell phones, for example, rely in part on "breakage" to make money. Rebate checks that are never cashed are called "slippage."

COMPLAINTS HAVE SOARED

One processor, TCA Fulfillment Services in New Rochelle, N.Y., published a "Rebate Redemption Guide" for its corporate customers several years ago. It cited the low redemption rates that companies could expect after hiring TCA: just 10% for a \$10 rebate on a \$100 product, and just 35% for a \$50 rebate on a \$200 product. "If you are using another fulfillment company, add 20% to these redemption rates," says the chart.

Lewisville (Tex.)-based Parago bought TCA's customer list last December and disavows that guide. It says it can't estimate current rates because clients don't provide the company with sales data. TCA founder Frank Giordano did not respond to several calls and a letter requesting comment.

Consumer-product makers such as Procter & Gamble pioneered rebates in the 1970s as a nifty way to advertise small discounts without actually marking the products down. In the '90s, their popularity soared as computer makers and consumer-electronics companies pitched them as a way to move piles of PCs,

cell phones, and televisions before they became obsolete. The value of rebates jumped, too, from a couple of bucks to \$100 or more.

With more companies plugging rebates—and more dollars at stake for consumers—complaints have soared. Gripec filed with the Council of Better Business Bureaus have tripled since 2001, from 964 to 3,641 last year. But processors say that number is still tiny compared with the vast number of claims they handle.

REGULATORY SCRUTINY

David S. Bookbinder files many of the complaints. Each year the 40-year-old computer technician claims more than 100 mail-in rebates. He figures those deals save him—and customers of his computer-repair business, Total PC Support, in Revere, Mass.—as much as \$2,500. After eight weeks of waiting, he usually calls customer-service numbers to hunt down his check. If the representative alleges that paperwork was wrong or asks for more time, he automatically files complaints with the Better Business Bureau, the Federal Trade Commission, and the state attorney general.

Regulators are intensifying their scrutiny of the industry. In October, New York Attorney General Eliot Spitzer settled a case with Samsung Electronics America. The company agreed to pay \$200,000 to 4,100 consumers who were denied rebates because they lived in apartment buildings. Samsung's rebate program, according to Spitzer's office, allowed only one rebate per address, and the form didn't have a space to list apartment numbers. Samsung did not respond to requests for comment.

Meanwhile, in Connecticut, officials are investigating ads that list prices only after rebates—a marketing scheme prohibited in the state. Attorney General Richard Blumenthal won't disclose the names of the retailers. "If consumers are compelled to jump through hoops to receive the rebate, or are denied rebates for illogical or arbitrary reasons, that adds fuel to our investigation," he says.

"NO INCENTIVE"

Some regulators are using novel tactics. On Nov. 7, Massachusetts officials filed suit against Young America to demand that it submit to an audit of \$43 million in uncashed rebate checks. The company, headquartered in Young America, Minn., kept that amount of money from 1995 to mid-2002 in return for charging its clients lower fees, it says.

Massachusetts officials believe that keeping uncashed checks could be an incentive to deny legitimate redemption claims. "It's almost like the old bait and switch," says Massachusetts State Treasurer Timothy P. Cahill.

Young America is fighting back. In written responses to questions from *BusinessWeek*, CEO Roger D. Andersen stands by the company's policy and says retailers and suppliers sometimes prefer that it keep uncashed checks. That keeps Young America from having to send them back and then turn around and collect its fee from clients.

"Young America receives the same fees whether a submission is valid or invalid," he says. "We have no incentive to increase invalid rates."

UNIFORM RULES

The backlash against mail-in rebates is pushing some companies to drop them. Best Buy plans to phase them out in two years. At Staples, mail-in rebates were the No.1 customer complaint for years, says Jim Sherlock, director of sales and merchandising. So a year ago, the Framingham (Mass.) company switched to an online system called EasyRebates that customers use to file for rebates and track their progress.

Staples says waiting times for payments have been cut from about 10 weeks to as little as four, and rebate complaints dropped by 25%. "Breakage" also dropped by as much as 10%, but that decline in unclaimed rebates is offset by better fraud prevention, it says.

The fulfillment houses are also overhauling their systems. While it won't disclose figures, Parago says it has invested "tens of millions" of dollars in computer technology. So now, computers, not customer-service agents, validate most of the claims. Then consumers receive e-mail updates and can check Web sites such as RebatesHQ.com to monitor claims. Before, says Parago Chief Financial Officer Juli C. Spottiswood, getting a rebate update was a "big black hole."

With billions of dollars at stake, bids to set uniform rules for rebates have met a ferocious response. Last year, California State Senator Liz Figueroa introduced a bill requiring companies to grant customers at least 30 days to apply for a rebate, mail checks within 60 days of receiving an application, and standardize the paperwork and personal data needed for a claim.

"REGULATION IS WARRANTED"

Telecom giants SBC Communications and T-Mobile and the California Manufacturers & Technology Assn. quickly mobilized. They argued that Figueroa's bill would drive up costs and increase fraud by cutting down on the proof required for a rebate. After passing the California House and Senate, the bill was vetoed by Governor Arnold Schwarzenegger.

Now, Figueroa, a Democrat, is evaluating whether to reintroduce the bill in January. "This is an area where regulation is warranted," she maintains.

Despite the crackdowns and efforts at reforms, redeeming rebates will probably never be much fun. "In a perfect world, consumers would love mail-in rebates to go away," says Stephen Baker, director of industry analysis at NPD. "However, they want the best price that they can get. Those two things are fundamentally going to be at odds."

CASE DISCUSSION QUESTIONS

1. This article describes one reason manufacturers might want to offer rebates rather than decrease wholesale price. Explain why this can be viewed as an example of customized pricing.
2. Even if all rebates were redeemed, why might manufacturers still want to offer rebates rather than decrease wholesale prices?
3. Why do you suppose that Best Buy, rather than one of Best Buy's big suppliers such as Sony or Panasonic, is considering eliminating rebates?