

Bonus and Rebate: Perception of Exclusive GSM Dealers and Their Salesmen in Turkey

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ABSTRACT: The aim of this paper is to study bonus and rebate for exclusive dealers in GSM sector in Turkey, for which operators and handset manufacturers provide special incentives to dealers for exceeding specific sales targets. They develop a theoretical model of dealers and manufacturer behavior based on observations about key aspects of the mobile phone market. The analysis provides important insights about sales bonus. For example, rebate is not preferred by the owners of dealers instead of bonuses. The authors find empirical support when they test the theoretical results.

Keywords: Bonus; Rebate; Dealer Incentive; GSM Sector; Channel Support

JEL Classifications: M39; E32; L1; L81

1. Introduction

In Turkey's GSM sector, there are two different types of dealer. One is an exclusive dealer and the other is a non-exclusive dealer. Operators manage exclusive dealers and owner is only an investor. Operators' products, mobile phones and accessories are sold, and there is a competition in stores to take a good positioning among those products. Operators are only companies, which have the right to sign the agreement with dealers, because of decisions of Turkish Competition Authority that only one company can be sign an exclusive agreement with other company. Operators give dealers bonus for target realization. The amounts of bonus are too much and becoming an exclusive dealer is the most important and profitable dealer type in Turkey.

Many industries use dual strategies to maximize total sales by pulling or encouraging consumers to buy a product while using retailer strategies to push or sell a product through a distribution channel. Consumer-based pull strategies include advertising, coupons, 2-for-1 sales, and gifts with purchase. Retailer-based push strategies include payments for prime shelf space, volume discounts, and in-store displays that are designed to motivate retailers to create in-store merchandising environments that maximize sales (Feighery et al.,1999).

Suppliers often propose incentive programs that fail to motivate resellers, resulting the incentive offered to be rejected outright. The rejection of an incentive is problematic because a supplier's potential to control its channel cannot be realized until the reseller accepts the offer and performs as specified (Gilliland, 2003).

The purpose of this paper is to understand what incentive programs a handset manufacturer can effectively implement to its dealers. Literature will be reviewed in three different areas. One is relationship between company and dealers. Second is reward programs and the last is bonus systems. Two hypotheses were developed from the literature and were tested with a select sample of dealers and their salesmen.

2. Literature Review

Consumers must think about and anticipate their future purchase behavior to evaluate delayed incentive offerings. Consumers must assess how likely it is that they will prefer and purchase the brand in the future and thus receive the incentive. So, consumers incur some risk when they choose and commit to an offering that requires multiple purchases over time to obtain the incentive reward (Bristol and Amyx 1997).

The manufacturer and the retailer have separate profit and cost considerations that lead to different inventory policies. Typically, the retailer's order quantity is smaller than the manufacturer's production lot size. In order to coordinate the channel, the manufacturer offers the retailer an incentive contract in terms of quantity discounts to induce the retailer to increase its order quantity (Tarakci et al., 2006).

We saw three different areas for applications of incentive programs, including relationship building, reward programs, and bonus systems. In relationship building, incentive programs are applied for unilateral and bilateral relationship between dealer and company to improve their relationship in order to get more benefits. Reward programs are generally used to support the motivation of employees. It is a tool of job satisfaction. Bonus systems are mostly used by manufacturers that they improve their performance.

Effective channel coordination is essential if an organization is to succeed in today's highly competitive business environment. As more and more products are distributed through independent channel resellers, suppliers find it increasingly difficult to develop highly motivational incentive packages. Instead, many suppliers' product lines are neglected by resellers in deference to more compatible incentive offers (Gilliland, 2003). Output incentives are intended to control reseller results, such as sales volume or market share. Rewarding specific outcomes allows the supplier to set, monitor, and objectively evaluate clear standards of performance (Jaworski, 1988). By linking an incentive's control characteristics to a reseller's performance requirements, the reseller rejection problem may be diminished (Gilliland, 2003).

Instrumental incentives are monetary-based payments made by a manufacturer in an unilateral channel arrangement to motivate distributor compliance, while equity incentives are bilateral expectations of fair treatment that motivate both parties to continue to cooperate with one another (Gilliland and Bello, 2001).

Results suggest that firms use incentive systems including multiple performance measures, incentive instruments, and implicit evaluation and rewards in response to weaknesses in available performance measures (Gibbs et al., 2009). Incentive systems allow for optimization of effort, facilitate worker autonomy and enhance self-determination they should increase job satisfaction (Pouliakas, 2010).

A channel rebate is a payment from a manufacturer to a retailer (reseller) based on retailer sales to end consumers. Channel rebates are important in the hardware, software, and auto industries. In the personal computer industry between mid-1996 and mid-1997, Compaq, Hewlett-Packard (HP), and IBM shifted the emphasis of their channel incentive formulas to rebates based on the volume of sales to end consumers. Channel rebates that, prior to mid-1997, were less than 3% jumped in some cases to more than 6% (Zarley, 1997). "Nearly all" printer vendors offer channel rebates (Terdoslavich, 1998), and rebates are "rampant" in the network hardware switching industry (Preston, 1999). Channel rebates are also significant in the software industry. Microsoft has used rebates of 3% and 5.5%, and Novell has employed rebates of 3.25% and 5% (Kanellos, 1996). A target rebate offers an advantage to the manufacturer. By setting the target properly, the manufacturer can induce the retailer to behave in a way that reflects the marginal revenue of the rebate while shielding the manufacturer from the full cost of doing so (Taylor, 2002).

On the other hand, bonus systems are important for firms and their employees. Drawing on the data from high-tech firms on Taiwan's Stock Exchange, results tend to substantiate the theoretical perspective that proposes positive effects of these group incentives on firm performance. The primary reason for these results is that the incentive effects of the bonus systems in Taiwan's high-tech sector are very strong, so that they generate many benefits for both the firms and their employees (Han and Shen, 2007)

3. Hypotheses and Methodology

We test two hypotheses that come from our assumptions. In our assumptions, rewarding programs can motivate employees, so we would like to find that how salesmen can be motivated by manufacturer. Second, we assume that monetary based payments affect relationship. Because of this we would like to search floor salesmen bonus systems in incentive programs.

H1: Giving floor salesmen more bonus affects sales in dealers of GSM operators

Our second hypothesis is related to owners of dealers that we understand their behaviour about sales bonus and rebate. Rebates or bonus applications can be used to pull dealers and end users to increase sales. In the GSM sector, each layer uses rebate to sell more products. We investigate what kinds of incentives are preferred by owners.

H2: Rebate affects dealers of GSM operators to sell more products instead of sales bonus

In order to further explore bonus and rebate, a questionnaire was developed. The sample consisted of 29 dealers and salesmen who previously used an incentive system. Those who answered the questionnaire selected from exclusive dealers in Istanbul from all operators based on their market share on the field. Before getting answers, the questionnaire was tested as a pretest. Pretest results indicated that the items used in the final test instrument were reliable. We use Wilcoxon Signed-Rank Test to prove hypotheses.

4. Results

The results of our analysis appear in Table 1 and Table 2. We find that bonuses to floor salesmen have a positively effect the sales (H1), and rebate isn't preferred like sales bonus to sell more products (H2).

Our primary interest is the effect of bonuses on sales. This finding provides us with more confidence about our hypotheses that a sales bonus is more important for salesmen and bonus is preferred instead of rebate by owners. This conclusion can be used by handset manufacturers to manage their sales in dealer stores. We suggest that the first finding is due to in store sales strategy issues. Manufacturers may use sales bonus for salesmen to capture first sold brand, but the rebate finding can be reflected the owners' concerns about the price problem. Perhaps this is more surprising that owners of dealers want to get bonus not rebate. End-user's price conflict is always happen in this market. Owners lose money because of this conflict. Our findings show that dealers prefer bonus that they want to keep their profit. We also find strong evidence that there is no any difference thinking between salesmen and owners. They both think firstly their profit. On the other hand, owners have power to guide salesmen which brand is sold or shown to the customer first, and normally, this can affect salesmen's opinion on the process of sales.

Table 1a. Ranks for floor salesmen

		N	Mean Rank	Sum of Ranks
bonusinc - prefbrand	Negative Ranks	2 ^a	5,00	10,00
	Positive Ranks	14 ^b	9,00	126,00
	Ties	13 ^c		
	Total	29		
a. bonusinc < prefbrand				
b. bonusinc > prefbrand				
c. bonusinc = prefbrand				

Table 1b. Test Statistics for floor salesmen

		bonusinc - prefbrand
Z		-3,072 ^a
Asymp. Sig. (2-tailed)		,002
a. Based on negative ranks.		
b. Wilcoxon Signed Ranks Test		

Table 2a. Ranks for owners

		N	Mean Rank	Sum of Ranks
rebate – prefbrand	Negative Ranks	10a	9,45	94,50
	Positive Ranks	7b	8,36	58,50
	Ties	12c		
	Total	29		
a. rebate < prefbrand				
b. rebate > prefbrand				
c. rebate = prefbrand				

Table 2b. Test Statistics for owners

	rebate - prefbrand
Z	-,912 ^a
Asymp. Sig. (2-tailed)	,362
a. Based on positive ranks.	
b. Wilcoxon Signed Ranks Test	

5. Conclusion

Beginning with observations about key aspects of the GSM market, we develop and analyze hypotheses that enable us to capture these aspects. Our results provide several notable insights. Perhaps the most general insight is that bonus can be used easily instead of rebate to become first brand in stores. When bonus is used, our hypothesis shows that the increase in current sales is done. We also find that retailers are negatively affected by rebate when manufacturers run rebate. Minimum profit is reduced when the manufacturer also run a rebate.

In addition, we have some limitations. First, this study was made in only Istanbul and only 29 dealers were chosen. We have also time limitation to finalize the study. So our main aim is to understand the perceptions of owners and salesmen. We acknowledge that there may be other possible explanations for why bonus affects sales. For example, bonus may help manufacturers motivate dealers or may reflect a reduction of the retail price. However, we believe that our model and empirical evidence provide a deeper understanding of why we observe manufacturers using sales bonus and the impact of these bonuses on dealer profits.

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Appendix

Questionnaire (Floor salesmen)

1	Gender								
	Female		Male						
2	For how many years have you worked in this sector?								
	0-3 months		1-1,5 years						
	4-6 months		1,5 - 2 years						
	6-1 year		more than 2 years						
3	How many diefferent brands are sold in your store?								
	1		5						
	2		6						
	3		more than 7						
	4								
4	Which brand is sold firstly by you?								
	Samsung		Apple						
	Nokia		Blackbery						
	LG		HTC						
	Others								
5	For which reason, do you sell first								
	price advantage								
	easy selling								
	Floor salesman bonus								
	request of the owner								
	others								
6	How many handsets are sold in monthly average?								
	0-50		201-250						
	51-100		251-300						
	101-150		more than 300 units						
	151-200								
7	How many handsets are sold by you in a month?								
	0-50		201-250						

	51-100		251-300						
	101-150		more than 300 units						
	151-200								
8	Have you got benefit from dealer incentive program of manufacturer for three months?								
	Yes		No						
9	In general, how satisfy is sales bonus in dealer incentive program of manufacturer?								
	Very bad								
	Bad								
	Normal								
	Good								
	Very good								
10	You would like to sell handsets of manufacturer because of floor salesman bonus in dealer incentive program.								
	strongly disagree								
	Disagree								
	Not sure								
	Agree								
	Strongly agree								
11	If manufacturer increased the bonus of floor salesman, you would sell more handsets of manufacturer								
	Strongly disagree								
	Disagree								
	Not sure								
	Agree								
	Strongly agree								
12	How much should percentage of the bonus of floor salesman be for selling more handsets								
	35%		%46- %50						
	%36 - %40		more than %50						
	%41-%45								

Questionnaire (Owners)

1	Gender								
	Female		Male						
2	How many years have you been the operator dealer?								
	less than 1 year		5-8 years						
	1-3 years		8-10 years						
	3-5 years		more than 10 years						
3	How many different brands are sold in your store?								
	1		5						
	2		6						
	3		more than 7						
	4								
4	Which brand is sold firstly?								

