



Together, we win.

A photograph of a man in a light-colored suit jacket sitting in a black leather office chair at a desk. He is looking down at a document he is holding. On the desk, there is a desk lamp and some books. The image has a green tint.

DEMYSTIFYING THE 100% REBATE

True to its best-in-class reputation, AD is not only the largest contractor and industrial products wholesale buying group in North America—it's also the only group that targets to distribute a minimum of 100% of supplier rebates to its members.

But how is that possible, you ask? We sat down with AD's Chief Investment Officer, Scott Renninger, to demystify "the 100% rebate." Renninger, who has been on the AD leadership team since 1997, started his tenure as the CFO and Treasurer. Later, he launched the current AD treasury function, including the investment business model—the very strategy, in fact, that provides AD members the 100% distribution of the rebates negotiated with AD's supplier partners. "The 100% equation has several key elements, and cost control is certainly one of them," said Renninger.

He added that most buying groups have operating costs that are between 5%-10% of the actual rebates received from the supplier. "AD is an industry leader in managing operating costs while also providing marketing initiatives, innovative programs, and larger volume and incentive rebates that other groups simply can't match," he said. "And AD is very good at controlling its expenses. AD is very effective at the management of

Board-approved budgets. The AD Board has line-item transparency. Every quarter, the budget is reviewed by the Board in total and by Division."

DEEPER DATING GAINS

According to Renninger, while most other groups only negotiate with suppliers for larger rebates, AD also looks to its supplier partners for improved remittance dating. Members have payment terms that they negotiate with their suppliers. Members pay suppliers within terms. AD negotiates an additional remittance-dating period, from the time that they are due from the member until they are due to the supplier, while also looking for deeper supplier dating gains. These additional days do not significantly affect the supplier; yet provide significant support to AD members. This is because every day that AD gains in dating is an additional opportunity for AD to earn investment income. Suppliers agree to additional dating because they know that it can differentiate them from their competition and not significantly affect their costs.

At various times during the month, one- to five-day gains in dating may not be that impactful to the supplier. For instance, moving the dating from the 25th to the 30th of the month may not impact the parameters that a

supplier uses for internal evaluations such as Days Sales Outstanding (DSO) and End of Month (EOM) collections. However, for AD, a five-day gain makes a dramatic impact on distributions to members. For a progressive-thinking supplier partner, giving additional days dating leads to a greater distribution for AD members. AD's supplier partners know that 100% of rebates are paid to members, providing the best bang for the supplier's buck in the industry.

Addressing this point, Renninger said, "Members in most divisions have visibility to the dating that suppliers are offering AD. Understanding this leads members to recognize suppliers by increasing their purchases. This can lead to enhanced sales performance for that supplier." Members typically evaluate suppliers on product quality, service, delivery, price and rebate; however, when all else is equal, better dating may be what differentiates a supplier from its competition. "When it comes to members converting to a new supplier or simply shifting the lion's share of the business to a new supplier, better dating can significantly increase member rebates," said Renninger.

PRODUCING A GREATER DISTRIBUTION

AD's multi-industry structure and scale provide the ability to hire quality people with specialized talents, and invest in a higher level of technology, systems and quality control processes. This puts AD in a unique position to use member remittances and supplier dating to create float that is then invested to produce a distribution greater than AD's operating costs. This enables AD to distribute 100% of supplier partner rebates to members. Any investment amount greater than AD's industry-low operating costs is also paid to the member. "No buying group we compete with has the resources that AD has so they are unable to distribute 100% of the rebate," noted Renninger.

Suppliers are important players in this strategy, and they are recognized for their participation with greater sales and the comfort knowing that 100% of the rebate earmarked for an AD member actually ends up in the member's hands. Other groups can't offer suppliers that assurance.

BUSINESS MODEL PROCESS

Renninger leads the investment strategy charge as the Chief Investment Officer of AD; however, he relies on many individuals to help execute the strategy. It starts with the AD Board. The Board approves the overall investment policy, giving him the guidelines to make tactical and sector decisions that are congruent with the policy. "The AD Board gives me the latitude to make timely decisions based on market conditions within the investment policy," he said. He meets quarterly with the AD Board to evaluate and mold the future investment policy. AD ensures transparency and accountability with many checks and balances and it is audited annually by PricewaterhouseCoopers. Renninger recommends investment strategies to address the specific elements of the overall AD investment policy and, after a due diligence process, the appropriate managers are engaged by AD. Currently, there are about 25 investment managers with multiple investment strategies to achieve the portfolio's investment goals. "This helps to diversify the AD investment portfolio. If you think of this in terms of an engine, with 25 cylinders, if a few cylinders aren't running well, it doesn't negatively affect performance," Renninger said. "Additionally, we write an investment policy for every manager. I call what we are doing a 'Managers of Managers' strategy," he added.

"The 100% rebate is a win-win for our members and our suppliers," concludes Renninger.

Find out how AD can help your business grow.

